OFFICIAL REPORT
AITHISG OIFIGEIL

Economy and Fair Work Committee

Wednesday 21 December 2022

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

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ECONOMY AND FAIR WORK COMMITTEE
31st 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:

Tom Arthur (Minister for Public Finance, Planning and Community Wealth)
Carolyn Currie (Women's Enterprise Scotland)
Stacey Dingwall (Federation of Small Businesses)
Fergus Mutch (Scottish Chambers of Commerce)
Alex Reid (Scottish Government)
Clare Reid (Scottish Council for Development and Industry)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy and Fair Work Committee

Wednesday 21 December 2022

[The Convener opened the meeting at 09:29]

Decision on Taking Business in Private

The Convener (Claire Baker): Good morning, and welcome to the 31st meeting in 2022 of the Economy and Fair Work Committee. Our first item of business is to make a decision on whether to take item 5 in private. Are members content to take that item in private?

Members *indicated agreement.*

Subordinate Legislation

Bankruptcy and Debt Arrangement Scheme (Miscellaneous Amendment) (Scotland) Regulations 2023 [Draft]

09:30

The Convener: The next item of business is evidence on the draft Bankruptcy and Debt Arrangement Scheme (Miscellaneous Amendment) Scotland Regulations 2023. I refer members to papers 1 and 2, and welcome to the meeting Tom Arthur, who is the Minister for Public Finance, Planning and Community Wealth. He is joined from the Scottish Government by Suzanne Houston, solicitor, and Alex Reid, who is head of policy development.

I invite the minister to make a short opening statement.

The Minister for Public Finance, Planning and Community Wealth (Tom Arthur): Good morning, convener and committee members. Thank you for taking the time to consider these draft regulations.

It is very important for us—and for portfolios across the Government—to consider policies in the context of the current extreme cost of living pressures. We want to act quickly where we can make a difference. There are four areas of particular focus in the regulations.

The first area is debt arrangement scheme payment breaks. Through the debt arrangement scheme, in the region of 16,000 individuals have taken control of their debt and maintain a debt payment plan. For at least some of those people, the increases in the cost of living will pose a threat to the sustainability of those plans. We want to ensure that the arrangements for securing a payment break are sufficiently flexible, bearing in mind the current volatility in living costs. The provisions in the regulations would allow for a break of up to six months where those wider pressures on household income apply. I consider that to be an important change that will help those payment programmes to succeed.

The next two issues relate to access to bankruptcy. Stakeholders working with us on a policy review have recommended the removal of the minimum debt level for minimal asset process bankruptcy, which is currently set at £1,500. The recent report of the Social Justice and Social Security Committee, following its inquiry into low income and debt, also made that recommendation. I understand the concern that the current threshold might prevent individuals from accessing debt relief that they desperately need. The regulations remove that minimum debt level.

We have made significant progress in reducing or removing the fees that are associated with self-nominated bankruptcy. The Social Justice and Social Security Committee has recommended further tweaking of the fee waiver criteria to encompass all the people who have been assessed as being unable to pay a contribution through the common financial tool. I am happy to take that forward, which will provide further benefit to the most financially vulnerable.

There is a further change that I consider necessary, which is linked to the entirely appropriate actions that have been taken on fee reduction. Wider pressures on the public purse mean that we need to look at all the options in the current system that can help it to recover costs and remove burdens on public finance. The regulations would increase the deposit that creditors must provide when the Accountant in Bankruptcy is nominated as trustee following court bankruptcy.

The need for that is twofold. First, there is the reduction in fee income, which I highlighted. Secondly, there is the fact that the administration of court petition bankruptcy when no funds can be collected comes at the significant cost to the public purse of almost £2,000 per case, on average. The initial deposit that is paid by creditors is repaid when a bankruptcy generates funds. When no funds are produced, it seems reasonable that the creditor bringing the action should bear more of the cost.

I will conclude there. I hope that the committee will agree to a motion to recommend approval of the regulations, and that it agrees that they are a sensible measure at this time.

The Convener: We move to questions for the minister and his officials.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I do not have a question on the particular issues that the minister has raised. However, in the previous parliamentary session, the Economy, Energy and Fair Work Committee looked at debt arrangement schemes and produced a report.

One of the key things that came out of the report was the question of independent advice before someone enters into one of those arrangements. The current arrangement does not allow for that; the financial advisers are all in-house to various interested parties.

The question of independent advice came up against a bit of a brick wall in relation to who would pay the cost. However, the committee found that many people were going into debt arrangement schemes that were possibly inappropriate and did not work for them. Will the Government therefore look at that again to see whether there is a solution to that issue?

Tom Arthur: The committee will be aware more broadly of statutory debt solutions such as providing individuals with the debt advice and information pack, but I will ask Alex Reid to come in on Mr Beattie’s specific points.

Alex Reid (Scottish Government): My understanding is that concerns might have been related to protected trust deeds. There was an inquiry into protected trust deeds, and there were concerns about situations in which they might not be the appropriate solution.

There is a requirement for debt advice in relation to access to the debt arrangement scheme. That is built into the programme. The issues around protected trust deeds that were raised as part of that inquiry are being considered as part of the wider review of debt solutions, which is on-going. We have consulted on recommendations that have been made by stakeholder working groups, which are working on the wider review of debt solutions.

Tom Arthur: As members will be aware, there are three parts to the review that we are undertaking on our statutory debt solutions. Part 1 was completed, and amendments were brought forward in 2021 in response to the pandemic. Some of what is emerging through the legislative commitment in the programme for government will reflect what has happened in part 2, but there is also a third part, which is a far more wide-ranging review that will we undertake in due course. I am happy to keep the committee abreast of developments on that and will be keen for members’ views and input.

Colin Beattie: Perhaps I can ask the minister to take into account the extensive work that was done by the Economy, Energy and Fair Work Committee in the previous parliamentary session, which threw up a number of key issues, including the question of independent financial advice.

Tom Arthur: I am happy to give that undertaking, and I assure the committee that its work has been very much valued and appreciated by the working group that is undertaking the stage 2 review.

The Convener: It has been suggested that the increase in the fee for creditors would have an impact on creditors’ willingness to take forward bankruptcy proceedings. Will the minister say a bit more about what the impact of that would be? Is he confident that AIB’s income will be supplemented to compensate for the anticipated reduction?

Tom Arthur: I refer the convener to the detail that is provided in the business and regulatory impact assessment, but, broadly, in the past three years that the AIB has been the trustee, around 56 per cent of bankruptcies have resulted in no fees being recovered to cover administration costs. The measures that we are taking are proportionate. I note that the increase from £300 to £750 stands in contrast to the situation in England and Wales, where the fee has moved from £990 to £1,500.

That is a proportionate response and, as set out in the BRIA, it will have an impact. It will not lead to full cost recovery, but it will make a significant contribution, which we would all recognise is important given the challenging public finance landscape that we face.

Jamie Halcro Johnston (Highlands and Islands) (Con): The fee going up from £300 to £750 is a 150 per cent increase, which is quite large. You talk about the impact, but, given that the thresholds for who can access minimal asset process bankruptcy are being reduced, that will put a considerable extra burden on creditors who are already likely to lose money—after all, as you rightly say, a large number of cases do not result in money coming back. How do you justify that, given that it will be a huge extra burden on creditors when there is potential for a large increase in the number of people going into MAP bankruptcy?

Tom Arthur: I will ask Alex Reid to come in shortly. The majority of organisations taking forward creditor petitions for bankruptcy are local authorities, and we have engaged with them on that. The MAP threshold, as I referred to in my opening statement, came out of the working group and was a very strong recommendation, particularly from the money advice sector.

It will not be a huge number of people who take advantage of the removal of the £1,500 threshold, but, for some people, it will be very significant. That was recognised in the deliberations of the review group and certainly in the discussions at the meetings that I convened. I ask Alex to come in if he wants to add anything.

Alex Reid: On the MAP threshold, stakeholders have acknowledged that the number of people who have unsustainable debt that is less than £1,500 might be relatively small, but that the measure will be important. If there is no surplus income to pay a contribution, there is a requirement for debt relief, but it is important that there is access to that. The number of people that it will affect is small, but the measure will be important for those whom it does affect, which is a point that has been made by stakeholders, as well as by the Social Justice and Social Security Committee.

The creditor petition fee is, in effect, a deposit. The fees are fully recoverable; when funds are available in a bankruptcy, creditors receive those funds back.

Jamie Halcro Johnston: Is it correct to say that, in a large number of cases, there are no funds and that they do not get paid back? In those cases, would the creditor need to pay?

Alex Reid: That is right.

Jamie Halcro Johnston: What will be the likely increase in the number of people who decide to go down the route of MAP bankruptcy as a result of the removal of the minimum debt threshold? Do you have any expectations as to how that number might increase and how that might impact debt arrangement scheme agreements and the choice between that and making an application for bankruptcy? Has there been any analysis of that?

Tom Arthur: As indicated, that came out of the engagement with stakeholders via the standing group. As Alex Reid has said, we are not anticipating that it would affect a huge number of people, because we are talking about debts of less than £1,500. However, the reality is that, for some people, debts of that level are unsustainable. As such, although the proposed changes will affect a small number of individuals, they will have a significant impact on those people.

More broadly, I will address the point about how the measure interacts with the wider suite of debt solutions that we have in Scotland. DAS is long-standing: it is unique to Scotland and an important part of the landscape. The range of solutions reflects the fact that we have measures available to suit individuals who are in a variety of circumstances. By its very nature, MAP is for the most vulnerable people who have unsustainable debt.

The Convener: I invite the minister to move motion S6M-06962.

Motion moved,

That the Economy and Fair Work Committee recommends that the Bankruptcy and Debt Arrangement Scheme (Miscellaneous Amendment) (Scotland) Regulations 2023 be approved.—[*Tom Arthur*]

Motion agreed to.

The Convener: The committee will produce a short report, which will be published. I thank the minister and his officials for joining us. I briefly suspend the meeting to allow the next panel of witnesses to join us online.

09:43

Meeting suspended.

09:45

On resuming—

Business Investment

The Convener: Our next item of business is an evidence session on the outlook for business investment. I welcome to the meeting Carolyn Currie, who is chief executive of Women's Enterprise Scotland; Stacey Dingwall, who is head of policy at the Federation of Small Businesses in Scotland; Fergus Mutch, who is a policy adviser at the Scottish Chambers of Commerce; and Clare Reid, who is director of policy and public affairs at the Scottish Council for Development and Industry.

I ask members and witnesses to keep their questions and answers concise so that we can get through as much as possible. To start, I am interested in hearing the witnesses' views on current economic circumstances and the impact of the budget in Scotland that was announced last week. I know that we have not had long to digest the announcement, but I would like to hear your broader views on the budget.

Other members will come to issues around non-domestic rates and other practical issues that were addressed in the budget, but I am interested to know whether you think that it sets a positive context for investment and growth.

I come to Carolyn Currie first. I will give every witness a chance to speak before I move to other questions.

Carolyn Currie (Women's Enterprise Scotland): It is important to understand the context and landscape in which the budget is being presented. We have had two years of a pandemic, and we are heading into a cost of living crisis. The businesses with which Women's Enterprise Scotland works are, on average, 44 per cent of the size of male-led businesses; they have been especially vulnerable to Covid-19 and are now even more vulnerable to the cost of living crisis and the associated uncertainty.

Against that background, we are looking for dedicated pieces of support that are ring fenced for women-owned businesses and which acknowledge the background and vulnerabilities of those businesses as well as the lack of support that reached them during the pandemic. I have previously given evidence about the lack of business relief funding being made available to women. Less than 11 per cent of Covid business relief funds were received by women-led companies, so those companies have not received their fair share of support to date. We are looking for specific commitments to support women, but it is important to say that that is not just about financial support. As the committee will be aware, in many cases, financial support is accompanied by non-financial support such as mentoring and signposting and by support with assessing a business's finances and the wider opportunities where it might find investment for growth.

Stacey Dingwall (Federation of Small Businesses): I thank the committee for having me along today. Much the same as Carolyn Currie has mentioned, our members are very much facing extremely challenging economic conditions at present. They obviously faced extremely challenging times during the pandemic, but there was support from Government to help to mitigate the impacts. Now, however, Scotland's small businesses are dealing with a host of things—rising inflation, rising energy costs, supply chain disruption and staff shortages—without the safety net of Government support that they had during the pandemic, so things are currently extremely challenging for them.

That is the backdrop against which they received the budget announcement last week. We were pleased to see, with regard to business rates, that the poundage rate was frozen. We very much believe that giving small businesses confidence in that respect offers them some breathing space and relief, although we would have liked there to have been specific reliefs for the most vulnerable sectors such as retail and hospitality, which have been given such reliefs in England and Wales.

We are slightly concerned about the reform of the small business bonus scheme. We had not anticipated that that would be announced in the budget last week, so we are working with our members to understand the impact of the removal of some of the reliefs for small businesses, given that the threshold has been reduced to £12,000. I think that the Scottish Government figures state that that will affect about 19,000 businesses. At a time when costs are increasing significantly, which is causing extreme concern for our members, we obviously find it concerning that some of our members might face increasing costs that they had not anticipated.

The Convener: Thank you, Stacey. Fergus Mutch, in the new year, the committee will take evidence from the Deputy First Minister on the budget and the 10-year economic strategy. I am interested in the chambers' views on how well the budget will support the 10-year strategy. Has enough been done to respond to that?

Fergus Mutch (Scottish Chambers of Commerce): That is one part of it, and the chambers' response to last week's budget was mixed. I agree with what has just been said on business rates and freezing the poundage rates. The past few years have been a particularly challenging time for so many businesses. Almost unanimously, Scotland's business organisations were calling for poundage rates to be frozen so as not to add an additional burden to businesses at a crucial time of recovery and when they are grappling with rising costs on a variety of other fronts, so that was certainly pleasing to see.

On taxation, the chambers have called for more detail on the economic modelling of divergence from the UK on certain areas of taxation and the impact that that could have on companies' proposed and future investment decisions. Aside from that, the biggest challenge for us all, and one of the Government's clear objectives in the 10-year strategy, is its delivery of net zero. I am not convinced—certainly the Scottish Chambers of Commerce is not convinced—that last week's budget will necessarily accelerate progress towards net zero or offer much new in that regard. There was an announcement of further allocation of just transition fund money for the coming year, which is all well and good, but that is £50 million in the grand scheme of things. Therefore, upping the ambition when it comes to delivering net zero for Scotland is something that the chambers would very much like to be tied into the 10-year strategy.

The Convener: Clare Reid, I have a similar question for you about the budget and the 10-year economic strategy. Is there enough in the budget to start to deliver on that strategy?

Clare Reid (Scottish Council for Development and Industry): Good morning. Thank you for having me. You asked about the circumstances that our businesses are facing, and that is relevant in the context of the budget and the delivery of the national strategy for economic transformation. I characterise the feedback that we have had from members on the economic circumstances as varying from challenging to very challenging to being in survival mode. That is the backdrop against which our members are working. Some larger organisations have managed to offset energy costs through contracts and so on, but operating profits and the ability to invest are really under pressure. The role of Government becomes even more important in those circumstances.

On the budget, I echo points that have been made by witnesses on the welcome elements in the budget; others touched on the freezing of business rates. Stacey Dingwall also touched on the potential lack of reliefs in areas where there are severe challenges. From talking to our members in rural areas and to our rural committees, we know that hospitality and tourism have been severely affected. It is not just hospitality and tourism—rural areas face some specific issues. Therefore, those elements are welcome, but more could be done.

On the income tax increases, we have heard a mix of views. Clearly, there is a public spending challenge, but employers are facing challenges with regard to recruiting staff across all the sectors that we work with. There is a bit of worry and concern that the potential further divergences in tax rates could affect employers' ability to attract staff to fill posts in Scotland. That is in tourism, but it is also in renewables and other sectors that are needed to achieve the just transition.

If I was to summarise the asks around that—[*Inaudible*.]—back to net zero specifically, but a lot of businesses adjust because of circumstances that they have been through and because they can see a difficult period ahead. Stability and certainty are their big asks in relation to addressing the issues that will unblock the projects that are there.

Having a Covid mindset is important, whether in local or national government, in relation to unblocking planning decisions and working together to find solutions to rural housing, which acts as a blocker to all sorts of projects in rural areas. We should look at supporting what works in net zero innovation. For example, we know that local authorities' funding is under pressure, and they deliver a lot of Business Gateway services. Similarly, the enterprise agencies will be critical in helping businesses to invest and innovate in the net zero context and in general in supporting resilience in future.

Jamie Halcro Johnston: Good morning, witnesses. I will come on to non-domestic rates in a moment. What one thing would you have liked to have seen in the budget that was not there? We have mentioned hospitality and tourism, which are two areas with particular pressures. In relation to upcoming Government regulations, projects or policies, whether that be short-term lets, the deposit return scheme or anything such as that, are there any areas of particular concern about new barriers or burdens that are coming up? I go to Stacey Dingwall first on that question.

Stacey Dingwall: We would have liked to have seen specific reliefs for the most vulnerable sectors—hospitality, retail and tourism—such as those that have been brought forward in England and Wales. During winter trading conditions, and with the impact that we know the current crisis is having on people's disposable incomes, that would have had an impact on those sectors in particular, so we would have liked to have seen that in the budget.

Jamie Halcro Johnston: Fergus Mutch, do you want to answer that question as well?

There is no sound from Fergus. We will move on to Caroline Currie.

Carolyn Currie: I agree with Stacey Dingwall. We definitely would have liked support for particular sectors, and I agree with her on the sectors that she highlights. However, from my perspective, women are a distinct sector of the economy. We know—from evidence that I have already given—that they have not received their fair share of support to date, so we would like specific ring-fenced relief for women. In particular, the £50 million Government commitment should be accelerated so that it is readily available now. It is tremendous to at last have that commitment of funds dedicated for women, but it needs to be activated now.

Women are a sector that has been specifically vulnerable to Covid and that is now vulnerable to the cost of living crisis and all the associated uncertainty. Traditionally, they have a lack of resources and struggle to access investment and funding. The statistics on women's access to funding are downright appalling in this day and age. A few years ago, British Business Bank research revealed that all-female founder teams receive only 1p in every £1 of venture capital that is invested in the United Kingdom. More recently, the Gender Index found that, shockingly, just 0.5 per cent of investment in women-owned businesses is from venture capital, and private equity investment is appalling at just 0.1 per cent.

10:00

Such investment helps businesses to get a solid foundation, grow and realise their ambitions, but we hear constantly that women cannot access that type of finance. Now, more than ever, we require a specific set of resources—£50 million, please—to be set aside and made available to women to help them through the pandemic. Without that, we will see inequality continuing to grow right in front of our noses in Scotland in 2023, which is simply unacceptable.

Jamie Halcro Johnston: Fergus Mutch, I understand that you are back with us. I would like to put that question to you. Did you hear it?

Fergus Mutch: I did—thank you. I am sorry about that. I would never ignore you.

Above all, the Scottish Chambers of Commerce would like to see a move to a more competitive business and personal tax regime that would attract investment in and talent to Scotland. I am not sure that the budget went particularly far on that front, other than with the freeze to business rates, which was very welcome, indeed.

Jamie Halcro Johnston: Clare Reid, do you want to come in?

Clare Reid: I reiterate the point about business rates relief for hospitality and tourism. Analysis has been done that suggests that several thousand medium-sized and larger premises in Scotland are still on a different poundage, relative to their counterparts in England. There might be further work to do to consider how that could be improved.

Our big ask is about funding for the national strategy for economic transformation. I have said in previous committee meetings that we have worked very closely with the Government to share our thoughts and those of our members about what is needed to support the ambition of that strategy. We very much support the strategy but reserve judgment at the moment as to whether it has been fully funded to achieve the level of ambition that is set out.

On regulation, some of our members have highlighted the deposit return scheme, not because of implementation itself but because of the pace at which it is happening and the potential for inconsistency with other parts of the UK.

Another area is some of the regulatory reviews that have been happening and the actions that follow on from those. There has been a review of Scottish aquaculture; recommendations have been made, but our members await some insight into what will happen next. I am sure that you and your colleagues are aware that that sector accounts for the UK's largest fresh food exports. We are at risk of losing our competitive advantage if we do not move on those recommendations.

Jamie Halcro Johnston: I turn to the re-evaluation of non-domestic rates. This question is for Fergus Mutch and then for Stacey Dingwall. What are your thoughts or concerns about that re-evaluation? Did the budget go far enough? Has it allayed any fears?

Fergus Mutch: The draft valuation roll was published the week before the budget, which was quite a nervous time, particularly for businesses in Aberdeen. I am here today to represent the Scottish Chambers of Commerce, but I work closely with Aberdeen & Grampian Chamber of Commerce.

Anomalies during the previous re-evaluation round left some parts of the country terribly overvalued, to the point at which it crippled business. Thankfully, the general trend in the north-east, which, historically, was overvalued, was downwards in the most recent round.

We have seen pretty big rises in rates re-evaluation for retail and some other sectors since the previous round. That is hard to comprehend in some circumstances, given the prevailing economic conditions in the past five years.

I took great interest in the committee's recent report on town centre retail. When it comes to business rates, we have not quite removed the imbalance between town and city centre businesses being hit very hard and out-of-town retail being let off fairly lightly. Until that imbalance is addressed properly—that will take more than a revaluation and a setting of the poundage rates—there will always be a structural imbalance that does not necessarily create the right conditions for businesses to flourish, particularly in the retail sector but also in hospitality and other sectors.

The Scottish Chambers of Commerce would like that to be followed up on, based on the committee's report, but we would also like it to be looked at seriously in future budgets.

Stacey Dingwall: Following the Barclay review, we have been supportive of measures such as the cycle being shortened to three years. That has been a positive move for our members. We have 15,000 members across Scotland, so the most recent revaluation has had different impacts for different members, even before the budget last week, when changes were made to the small business bonus scheme.

I cannot overstate how much of a lifeline the small business bonus scheme is for our members. We have lost significant numbers of members over the past few years and the survey that we do quarterly indicates that around one in six of our members believes that they might be at risk of shrinking, shutting or closing in the next year. I cannot overstate the extent to which that relief keeps a lot of businesses going.

Before the reforms in the budget last week, we had started to hear from people who were being lifted out of the relief offered by the small business bonus scheme. Following last week's budget, we are concerned that even more of our members will lose that relief. That will obviously have serious implications for them, given the challenges that they already face, and will mean that they might have to make some tough decisions.

The Convener: We move to questions from Colin Beattie.

Colin Beattie: My first question is a request for clarification from Carolyn Currie. You mentioned the difficulty that female-led businesses had in accessing venture capital and investment capital. How many applications did women-led businesses make and how many were turned down?

Carolyn Currie: I would love to say that we had access to that data but, sadly, it is just not available. The analysis that I mentioned—the 0.5 per cent and 0.1 per cent of venture capital and private equity respectively—was based on data feeds drawn from Companies House.

One of the enduring issues that we face in setting policy and investing wisely is a lack of gender-disaggregated data. That continues to be a serious issue. Back in 2017, when the women in enterprise strategic framework was last revised, data was added to it as a central focus. In the intervening five years, there has been no change in the availability of Government gender-disaggregated data. Therefore, I cannot tell you the answer.

Colin Beattie: My concern is to get to the bottom of whether female-led enterprises need to be better skilled at making applications or whether they get turned down or rebuffed when they try to apply. I am still not sure what the answer is on that.

Carolyn Currie: There is definitely a lack of data that would give us those strong insights. SimplyBiz ran a survey this year in which 91 per cent of business owners said that gender bias and inequality were prevalent in business. In a separate survey on women in technology, 10 per cent of women business owners in the tech sector said that they had been denied investment based on their gender. That is a strong statement.

Colin Beattie: How do they identify that they have been refused on the basis of their gender? I am interested in how that process works.

Carolyn Currie: I cannot comment on that particular survey, but I can say that the businesses that we work with are aware that if they are pitching to investors, for example, questions are often directed to the male members of the team who are pitching and not to the women, who are, in many cases, the chief executives or leaders of the companies. In addition, certain types of question are asked when women are pitching. A lot of research has found that women are often asked what are termed prevention questions, which are difficult questions about reasons why someone might not want to invest in a company, while men are asked promotion questions that enable them to talk about why it is a good idea for someone to invest.

There is certainly a lot of concern about equal treatment in that sort of equity investment.

Colin Beattie: Thank you for that clarification. Let me move on. We were talking about which sectors of the Scottish economy are vulnerable, and obvious ones such as hospitality were mentioned. We are in a cost of living crisis that is affecting businesses across Scotland. Which sectors in the Scottish economy are being affected most by the cost of living crisis itself, by which I mean the actual increase in prices?

Fergus Mutch might want to comment on that.

Fergus Mutch: I have a couple of pieces of research that I can commend to the committee for its inquiries, and the "Scottish Chambers of

Commerce Quarterly Economic Indicator" is not a bad one to start with. It is Scotland's longest-running economic survey of its kind. It tracks economic performance, business competence and costs by key industrial areas, such as manufacturing, construction, finance and business services, tourism and retail. It shows pretty distinctly that there is no sign of recovery to pre-pandemic levels for construction, financial services, retail or tourism. If any sectors are still finding conditions challenging because of rising costs, it will probably be those ones.

Colin Beattie: Stacey Dingwall, would you like to come in?

Stacey Dingwall: With the cost of living crisis, it is the consumer-facing businesses that are most affected by rising costs. Manufacturing costs are increasing steeply for our members who make products, but those businesses are doing as much as they can to not pass those costs on to consumers at the moment. They recognise that there is a cost of living crisis and that they cannot put the prices of their products up to an unrealistic point. They are absorbing those costs as much as they can, but there will obviously be a tipping point for them that will mean that they have to be able to pass on those costs.

Colin Beattie: Clare Reid, do you have anything to add?

Clare Reid: The short answer is that every business of every size in every location is experiencing an impact. Even larger businesses that have greater cash reserves to weather the storm are looking at the impact that the crisis is having on their ability to invest in the future.

I want to refer to a piece of research that was shared with us by Highlands and Islands Enterprise. The businesses that are looking ahead at their viability that are the least confident about their viability are those that have fewer than four staff. That means microbusinesses, businesses that operate in rural areas, particularly remote rural areas, and those that are still looking to recover from pre-pandemic impacts on their businesses. I thought that it would be useful to add that.

Colin Beattie: Let me move on logically from that and ask you to get your crystal ball out. What is your expectation with respect to consumer spending in 2023?

Our economy is consumer led to a greater extent than practically any other economy in Europe. We rely on people having disposable income to spend, which drives the economy. I will start by asking Carolyn Currie whether she has any thoughts on that. How much of a concern is that for businesses? How are they factoring in that risk on the consumer side? Alternatively, is there reasonable confidence that people will have that disposable income and that it will be spent as it has been in the past?

10:15

Carolyn Currie: No, there is definitely a lack of confidence. There is not a terribly bright outlook with regard to consumers. We still do not know whether mortgage rate rises have topped out or whether they will continue to rise. We do not know whether inflation has topped out or whether we will see further inflationary rises. All that creates a very uncertain landscape for businesses to plan against and for consumers deciding to put their hands in their pockets.

There is a lot of concern about debt—unsustainable debt, given the rises that we have seen, not just in mortgages but in personal debts, which is a cost that is not always factored in, because we tend to focus on the cost of living and the energy crisis. However, there is the cost of managing debt for businesses and for consumers, particularly when it comes to credit card debt. All that means that we are unlikely to see consumers increasing their spending in these times. There is far too much uncertainty at the moment. People need certainty in order to plan ahead and invest, and that applies to consumers as well as businesses.

Colin Beattie: Stacey Dingwall, do you have a view on that? How confident is the FSB?

Stacey Dingwall: As I mentioned, we do a quarterly survey of our membership on their confidence levels. In the past two quarters, there have been significant drops in that level. For quarter 3 in 2022, we are now back to the lowest level that we have seen on that confidence chart since 2020. Unfortunately, we do not expect confidence to increase in the next quarter. Overall, with regard to consumer spending, our members with consumer-facing businesses would say that the worst is probably yet to come. Things are pretty bad, but given the signs post-Christmas, they expect things to get worse in 2023.

We had hoped that the UK Government would make an announcement on the future of the energy bill relief scheme, instead of the cliff edge that, unfortunately, we have at the moment. We had expected that announcement to be made before Christmas, but we heard yesterday that it will now be in January. It would have been a welcome boost to have had some certainty offered this side of the new year but, unfortunately, we now know that we will not get that.

Colin Beattie: There is doom and gloom in your survey results. How are your members responding to that? How are they reacting?

Stacey Dingwall: I suppose that it is all doom and gloom, but, as they have been throughout the pandemic and in previous crises, our members are very resilient. They are looking at ways to absorb some of those costs with regard to input, as much as they can, and they are looking at ways to adapt their business practices. Unfortunately, for some, that has meant reducing their hours, and it means being a bit smarter about the way that they work. We have heard from businesses that offer food that they are looking at new ways of doing that. Air fryers have become popular for everyone, because they have reduced energy consumption.

Members are being resilient and innovative in looking at ways to cut those costs, but that will go only so far when things do not look as though they will improve in the near future.

Colin Beattie: Fergus Mutch, do you have a more cheery approach to this?

Fergus Mutch: I will try my best, Colin. It is fair to say that the situation is uncertain. Companies are deferring investment decisions because of costs and worries about consumer spending, but those cost pressures and consumer spending concerns are not isolated, and there might be places where Government can step in to help on that front when it comes to the skills gap. People are being deterred from investing in the growth of their business because they do not have the people. They would like a stable fiscal regime to allow them to do that, to give them certainty over the longer term.

Of course, there are other concerns, too, which are very political in nature. Last month, Aberdeen & Grampian Chamber of Commerce produced its 36th energy transition survey report, which showed that political instability has doubled in the past year as a risk factor for businesses diversifying and growing over the coming months, so that one is, I suppose, down to you.

Colin Beattie: Clare Reid, do you want to comment?

Clare Reid: I agree with your point about customer demand. Some of our member businesses are concerned about customer demand dropping next year. The actions that they are taking vary, depending on the organisation. While some are cutting costs, others are delaying new staff recruitment or investment. That is in the context of all the pressures that businesses are facing. As they look ahead to next year, they see higher inflation, higher costs for energy, raw materials and freight, and higher costs for borrowing or for servicing existing debt. Staff recruitment costs are going up and there is a lot of uncertainty, particularly for larger firms that export. Businesses are dealing with a variety of cost pressures.

I want to add a couple of more optimistic points to the doom and gloom. One of our members has highlighted that they think that freight costs are likely to start coming down and that some raw material prices may also come down. On net zero and the just transition, projects are starting to go ahead, particularly in the oil and gas sector. The risk there is not having enough staff to support those projects. Businesses that operate in global markets, particularly for luxury goods, are beginning to see global demand picking up, which is really positive.

As Stacey Dingwall highlighted, we are hearing from enterprise partners that businesses are responding to pressures and bringing forward investments in digital and automation, as well as in energy efficiency measures. For businesses that have grant support or cash to invest, it makes economic sense to bring forward those investments. There are some positives amid the gloom.

Fiona Hyslop (Linlithgow) (SNP): I thank the witnesses for joining us. My first question is for Clare Reid and is about energy price support. The UK Government has indicated that energy price support for households and businesses will be replaced by a more targeted policy in spring 2023, although there has been disappointment that we have not had an explanation of that before Christmas. If there is to be targeted energy price support for businesses from the UK Government, what will that look like? How could that best be co-ordinated with devolved areas that the Scottish Government works in?

Clare Reid: That is not something that we have specifically worked on, but the businesses that have expressed the greatest concern about business viability are those in rural areas and those working in tourism and hospitality. Some sectors are very large users of energy and have a critical impact on the Scottish economy because of the number of people that they employ. The picture will be nuanced.

There might be an argument for tapering off support. The main thing that our members are asking for is advance warning. They want to know, in good time, what is going to happen and when, so that they can start to plan and make investment decisions well ahead of any schemes being introduced.

Fiona Hyslop: Carolyn Currie, what would a targeted energy support scheme look like for women-led businesses?

Carolyn Currie: We would definitely like women to receive support with energy bills and a ring-fenced fund to be made available for women-led and women-owned businesses. Those businesses are really struggling, and it does not make economic sense for us to support people to start businesses only to see them fail and to fall back out of the economy and become inactive. We would call for ring-fenced support for women, so that we can have confidence that support is getting to where it is needed, because it is certainly not doing that for women at the moment.

I echo Clare Reid's comments about the importance of having the certainty to plan. Having notice of the support that is coming and details of how it will be implemented would mean that businesses would have much greater confidence to plan.

I want to make a quick comment about resilience, which we spoke about earlier. Businesses are resilient—there are no more resilient businesses than those that are owned and led by women—but that resilience comes at a real cost. As I said, the survey that we carried out in June found that 48 per cent of the women-led businesses that we work with say that Covid is still affecting physical health and 44 per cent say that it is still affecting mental health. That was before the cost of living crisis really hit, so things will get much worse. It is important to recognise that.

Fiona Hyslop: Stacey Dingwall, I understand that the FSB has said that a third of small firms expect to scale down or cancel their planned investment for business growth should energy support from the Government end. That would have an impact. You also refer to the Welsh Government looking at loans from the Development Bank of Wales for green investment in particular. Scotland already has loans and grants for green investment for businesses, which tend to come from Scottish Enterprise rather than the Scottish National Investment Bank. Is it that small businesses in Scotland are not applying for funds just now, or do those funds need to be expanded? What are your suggestions to ensure that there is either green investment for energy innovations or general investment for businesses?

Stacey Dingwall: As you might guess, we are calling for the scheme to be targeted based on the size of the business rather than by sector. The reserves that are available to our members are significantly lower than those that are available to large companies, so they are unable to absorb some of the astronomical price rises. Our call is to target support by size of business, recognising that the majority of small businesses are microbusinesses, are run by the self-employed and have bargaining power akin to that of a domestic consumer when it comes to energy. That needs to be recognised in the targeting of the scheme. As I said, it would have been nice to have heard about that before Christmas.

On investment, the key word is "loans". As you know, our members entered into a significant amount of debt during the pandemic, and we know that that includes businesses that have never taken on that level of debt before. Businesses are really reluctant to take on even more debt while they still have pandemic-related loans hanging over them. As those repayments kick in, there is reluctance to take on any more loans at this time.

Fiona Hyslop: Fergus Mutch, I am interested in your Aberdeen members and the different scale of the companies. First, what energy price support would you like to see from the UK Government, and how could that be co-ordinated with the Scottish Government? Secondly, what has been the impact of the UK Chancellor of the Exchequer's mini-budget on your membership and the decisions that they are taking about future investment? Is there anything in the Scottish budget that has implications for investment? I am thinking about energy-targeted policy, the impact on investment and what is required to encourage your members to invest.

Fergus Mutch: On your first question about what we hope the support for energy bills will look like beyond the spring, for starters, we agree that a relief scheme will be needed, whether that is targeted or otherwise. It is tough to say which sectors should be prioritised. The sectors that have been talked about in the initial airing of the idea have been hospitality and retail, which have had a very tough couple of years, and we do not want to see them struggle more or go to the wall. However, other sectors, such as large-scale manufacturing and high-energy-use food processing, are also very worried and have not really featured in discussions so far. Those kinds of firms will be finding it very tough right now.

We want to incentivise businesses to be more energy efficient, so some tapered relief on that front might be a good model for the UK Government to adopt. I appreciate that the Scottish Government is limited in what it can do. However, comprehensive engagement in advance with various sectors would be helpful, and we would like some sort of recommendation or agreement with the UK Government on where targeted support is most needed in Scotland.

10:30

On how the mini-budget is affecting investment decisions, I mentioned in passing Aberdeen & Grampian Chamber of Commerce's 36th energy transition survey report, which showed the huge jump in political instability as an obstacle to unlocking energy transition. That is having an impact on investment decisions. In fact, the energy sector sees that as the biggest obstacle to investment. That is quite striking because, just a couple of years ago, that was not really on risk registers. The market has reacted to the mini-budget and the change of leadership at the UK level; businesses take fright at that sort of instability, which has not been very helpful.

We were pleased to see the net zero elements to the Scottish budget. The continuing commitment to the just transition fund is good news. Everyone appreciates that the single most important issue relating to the future of Scotland's economy is moving to net zero in a way that is just and fair and that protects jobs and unlocks new jobs. Collectively, between business and Government, there is a lot still left to do.

Fiona Hyslop: Thank you.

Michelle Thomson (Falkirk East) (SNP): Before I ask Carolyn Currie a couple of questions, I have a standard question for the other witnesses. Do you routinely disaggregate all data in all surveys by gender?

Clare Reid: No, we do not.

Michelle Thomson: Why is that?

Clare Reid: That is a good question. We tend to focus on sector and size primarily, but there is no reason why we could not do that in the future. The challenge that we have in our surveys is that people can choose whether they want to share information. Although we can ask the question, we cannot oblige people to answer it.

Michelle Thomson: It is the last day before we all break up for Christmas and Santa has not arrived at my household yet, so could you give a public commitment on behalf of the SCDI that you will action that after this meeting, so that the next time that you come in front of the committee and I ask whether you routinely disaggregate all data by gender in all surveys, you can say, "Yes"?

Clare Reid: I am happy to make a commitment to look at all the surveys that we do and consider whether we could do that at the moment.

Michelle Thomson: Thank you very much. Fergus Mutch, I appreciate that you work in one area and are playing two roles here, but I put the same question to you.

Fergus Mutch: It is an entirely fair point. For the two surveys that I have cited this morning, the responses have come from business organisations rather than individuals. In those cases, I do not think that there would be a way to disaggregate who had submitted the response. However, I take the point and I will run it up the tree.

Michelle Thomson: Thank you. Stacey Dingwall, I put the same question to you.

Stacey Dingwall: Our experience is the same as that outlined by Clare Reid in relation to the SCDI. No, we do not currently disaggregate the data in that way. That is because it is optional whether respondents want to provide that information. I can commit to looking to do that for the surveys that I have control of in Scotland and to raising the issue with my UK colleagues in relation to the FSB's national survey work.

Michelle Thomson: The first thing is to put in place the data collectors, never mind moving on to interrogating the data. Of course, you can ask a question even if people do not answer it. I fully understand that. However, asking the question in the first place is at least a start.

Carolyn Currie, you have been in front of the committee before and we share some areas of interest around these matters. A lot of the pressures that are being faced now are international. Inflation is high everywhere, and everyone is being subjected to the same energy restrictions, but the UK has some special and unique challenges, which we have talked about.

What current international best practice in policy could you highlight? Are there creative ideas? It feels to me a bit like groundhog day. Could you give some insight into what is happening internationally?

Carolyn Currie: Yes, it is a bit like groundhog day. We had the same situation going into Covid. We are part of the UK policy group and, at the start of Covid, we warned that, if a gendered analysis was not undertaken, there would be unintended consequences. We have seen a heightening of inequality and are back in the same position now. Inequality has heightened and things are regressing. If we do not put a gender lens on our policy making urgently to get support to where it is needed most, equality will continue to regress, which is simply unacceptable in this day and age.

On international comparators, we particularly highlight models that have been successful in the US and Canada.

The US has a women's business centre model that enables support specifically for women to be ring fenced and delivered. It has led to the number of women-owned businesses doubling over the past few decades. From a starting point that was not dissimilar to the UK's—about 20 per cent—40 per cent of businesses in the US are now women owned. That phenomenal achievement is down to the dedicated support that has been ring fenced and made available to those businesses, not just through the women's business centres, which are physical places to go, but through US procurement policy, which mandates that 5 per cent of public procurement must go to certified women-owned companies. That might seem like a small amount, but it opens up procurement, changes mindsets and sets a clear policy that must be measured and maintained. That model has been tremendously successful.

The Government in Canada has, over successive years, made what have been termed genderful budgets, in which support for women has been specifically mandated and ring fenced. That includes, for example, access not just to lending in itself but to the non-financial support that goes with that lending and to equity investment funding so that, right from the get-go, businesses are able to access funds that have been dedicated to them. That is helping to break down some of the structural inequalities that are prevalent in the investment and lending landscapes. We have seen that to be highly successful.

It is no surprise that, in relation to the percentage of the population that run small businesses, the US and Canada have the highest percentages for women-owned businesses by a good deal.

Michelle Thomson: We know the failure rate for new businesses; most new businesses do not make it beyond the three-year point regardless of who runs them. What is your anecdotal sense of the failure rate for new businesses that have been set up by women over the past three years? I know that we do not have the data, which is why I am asking for a more anecdotal sense.

Carolyn Currie: Well, we have some data proxies. We know from data from Business Gateway that women-owned businesses represent 50 per cent or more of the support that it provides at start-up level. However, the measures for the business base itself remain way below that. We are tipping about 50 per cent into a start-up funnel, but the statistic for women-owned employer businesses, which can be used to measure the trend, is now down at 17 per cent. Fifty per cent is going in at the top of the funnel, but that is dribbling all the way down to 17 per cent, which is a declining trend from 20.6 per cent several years ago.

From the data that is available, we can see that we are haemorrhaging women-owned businesses. We see that ourselves, and it is for all the reasons that have been mentioned. There are many structural inequalities. Women start with less funding and less capital, they are vulnerable to crises such as the cost of living crisis, they do not have the structural stability that enables them to survive in the same way as other businesses, and they often do not have the choice to adapt. It is for those reasons that such businesses often fail.

Michelle Thomson: I have a final wee question. The women in enterprise review, led by Ana Stewart, was launched—I am guessing—in April this year. How actively have you been able to contribute to that?

Carolyn Currie: We contributed to the review early on, but we have not done so more recently. Like everyone else, we are waiting for it to be announced. We are delighted to see a review of women’s entrepreneurship, and we look forward to its recommendations. If we had any ask, it would be that those recommendations be made available quickly, because the Government has made it clear to all women enterprise support organisations such as ourselves that there will be no further investment until that review has been delivered.

In the midst of a pandemic and a cost of living crisis, those are serious concerns for businesses that have faced at least three years of sustained vulnerability and pressures, and those pressures have materialised through business closures and the poor physical and mental health of business owners, who are doing their best to be resilient and to adapt with the very small amount of resources and support that are being made available to them. They are certainly not getting their fair share.

Colin Smyth (South Scotland) (Lab): Good morning. I want to focus specifically on small businesses in rural areas. I was conscious of the point that Carolyn Currie made about the feedback from Highlands and Islands Enterprise about business confidence levels among rural and remote businesses.

This morning, I have just had a message from a business in my South Scotland region. A butcher is highlighting the fact that for, for obvious reasons, energy costs are crippling his business, and he makes the point that, if his business goes, there will be no other butcher in the main street of his small town.

I will start with Stacey Dingwall. To what extent are the current business pressures having a disproportionate impact on small businesses in rural areas? Should the Government be considering a particular policy intervention specifically for those rural businesses?

Stacey Dingwall: Yes. Broadly, such challenges are always intensified in rural and remote areas because of the broader challenges that have been highlighted by the panel, such as housing and transport, particularly in off-gas areas. Costs have historically always been higher in such areas so, when everyone else is feeling it, unfortunately they are going to feel it more acutely in rural and remote areas.

The Highlands and Islands in particular relies on tourism as a key sector of the economy. This summer, the region might have had that boost over last summer when no one could travel abroad, but this season might not have been what was hoped for, as people began to go abroad again and the industry did not see the trade that it might have expected. We heard about some small businesses that struggled to get staff last summer managing to recruit them this summer, but then the trade was unfortunately not there to allow them to keep the staff on.

As we look towards next year, and the impact of some of the things that the Scottish Government has coming down the line, the transient visitor levy is causing concern, as it might deter visitors. We have touched on the regulation of short-term lets and the impact that that might have; obviously, that would also have an impact in the Highlands and Islands. Overall, the challenges that our members are facing are sometimes felt more acutely in rural and remote areas.

10:45

Colin Smyth: Are you seeing a higher proportion of business failures—it is not a great phrase—among members in rural areas than among members in urban areas, or are they happening across the board?

Stacey Dingwall: We do not disaggregate the data in our quarterly index by gender or geographical area at the moment, so I could not comment on whether there is any geographical difference, unfortunately.

Colin Smyth: Similar to Michelle Thomson, I will make a pitch for disaggregating data on the basis of geography. That is helpful.

Stacey Dingwall: I am happy to take that away.

Colin Smyth: I will put the same question to Fergus Mutch about the disproportionate impact on rural businesses and about any policy initiatives specifically for rural areas.

Fergus Mutch: Rural businesses were already being hit disproportionately by costs. Before the inflation crisis and before the pandemic, they had huge practical and financial difficulties in doing business. For example, I live in Braemar, where there is no option other than oil heating for domestic and business premises. That is an expensive option, so businesses have had to cut their cloth to compete on a Scotland-wide level, a UK-wide level and European and global levels before the inflation crisis. They also struggled to recruit staff and with all these issues that we understand pretty well.

Some of the businesses that we represent operate in sectors that are particularly affected. Rural businesses are more heavily weighted towards food and drink, for example, and the costs have been acute for some of those sectors in particular. With regard to policy interventions, it is a bit of a jigsaw puzzle. In answer to Fiona Hyslop's question, I spoke about targeted energy cost reliefs. Perhaps it is worth further exploring whether there is a model that could provide relief to rural areas, because regionally targeted relief might benefit a lot of rural businesses.

Colin Smyth: That is helpful. Carolyn, you mentioned the feedback from members and, in particular, from Highlands and Islands Enterprise. I am conscious that, in Dumfries and Galloway, where I live, 90 per cent of businesses are small businesses that employ 10 people or fewer. Can you say any more about the feedback that you have had from your rural business members?

Carolyn Currie: Clare, I think that that question is for you.

Colin Smyth: I am sorry. I meant Clare, not Carolyn. I have a question for you in a second, Carolyn. You are not getting off lightly.

Clare Reid: We have committees in the south of Scotland and the Highlands and Islands, so quite a lot of the evidence that we take is from talking to them regularly. We have been undertaking a piece of work recently to update our earlier rural commission, which was carried out a number of years ago, to get an idea of the state of rural areas. We will be able to share that with the Government soon.

There is a range of issues. On your point about business failure, we should also be thinking about constraints on businesses with regard to transport infrastructure. We know that intermittent access to ferries, for example, is really having an impact on island communities. The lack of reliable road and rail services is having an impact on Highland communities, and that relates to practical things such as access to digital infrastructure. One of our members highlighted the fact that a lack of housing for workers who were delivering fast broadband was a constraint on a project. Therefore, it is also worth thinking about the issues for rural areas with regard to the constraint of opportunity.

On the other issues that are having an impact, it is not all about issues for businesses at an individual business level. Some of the big opportunities for Scotland happen to be in rural areas. An example of that is green ports. It might not be in the Scottish Government's gift to bring forward a decision on green ports, but we know that some investments have gone outside the UK because of the delay in that decision.

Some of the other issues that our members have raised are around planning. Offshore wind offers huge opportunity for rural Scotland, but there is a bit of a planning bottleneck in moving forward some of those projects.

I would highlight housing as the big issue. There is the issue of short-term housing for the workers who are required to deliver net zero, digital and all the major projects, and there is also the need for long-term housing solutions. Our partners in rural areas are looking to work much more closely together to find those solutions.

To reiterate one of my earlier points, I say that the aquaculture sector is another major sector that supports communities. As I highlighted, one of the challenges that it faces is the need for clarity around regulation in Scotland following on from the review of that sector.

Colin Smyth: South of Scotland Enterprise has highlighted that housing is the single biggest barrier to the growth of the economy in the south of Scotland, so your response is very helpful—thank you.

I turn to Carolyn Currie. You said that 40 per cent of businesses are owned by women. Is the percentage the same in rural areas? Do women in business in rural areas face specific barriers that women in other areas might not face?

Carolyn Currie: Sadly, 40 per cent is the figure for the US; 20 per cent is the figure for here.

You are absolutely spot-on. Women living and working in more remote and rural areas face significantly heightened challenges in accessing the economy and when starting up and growing their businesses. Many of the reasons for that have been raised here. However, those challenges are often heightened because they have fewer resources when they start, so they are much more vulnerable at the start-up stage. One of the key issues is navigating past the initial start-up and moving on to a solid and stable foundation from which they can grow their business ideas and aspirations.

We have worked with quite a number of women from remote and rural communities—Newcastleton is probably the closest example that I can give to where you are based—with a good deal of success. However, you must support and invest in those businesses to enable them to come through, and you must also join them up to on-going support.

A recent Organisation for Economic Co-operation and Development report has commented that far too much support for women's enterprise consists of small time-limited initiatives. Initiatives inevitably come to an end but businesses do not. If you are at the start-up stage, you need on-going joined-up strategic support.

I have a personal interest in Dumfries and Galloway, where I spend quite a proportion of my time in a very small hamlet. We need to look at things a little bit differently in the rural landscape. We in business often identify key people in a business and we cover them with insurance policies because they are key to that business. We need to take a similar approach to rural areas and identify key people and businesses that are vital to the future of some of those very small rural communities, some of which are fragile.

You gave an example of a butcher. Another example is people who have skills but whose businesses might not have succeeded or who are not able to get employment that fits with their skills. However, with targeted support and intervention, you can start to grow businesses in rural areas, and start to see that business mindset flourish and take hold in those areas. We need to look at things a little bit differently. We must identify those businesses and say that they are key not only because of their contribution to the local economy but because of the wider business mindset and opportunity that they engender, and the economic health and viability that could come from a small rural hamlet.

My other point is that, as you will know, in small rural places, the net migration is negative rather than positive. However, the people who have left often have positions that require great skill and innovation, and they are interested in contributing and giving back.

In the small hamlet where I stay, in a row of nine houses, there are two families who have inspiring and skilled individuals who would be interested in giving something back. One is working for Spotify, the other for another leading digital company. We need to get better at harnessing some of those skills and tempting those people back to rural hamlets and places to give them a future. We could take a slightly different approach to how we identify the assets that could give us a solid and resilient foundation to transform many parts of Scotland.

I have one final point about the space industry. Clare Reid mentioned a number of other industries. Scotland should really be capitalising on the space industry. I would like to see more women in space.

Gordon MacDonald (Edinburgh Pentlands) (SNP): I have a question about labour shortages. The UK is the only G7 country where economic growth is below pre-pandemic levels. Clare Reid and Fergus Mutch have both mentioned labour shortages and I am aware of a record 1.2 million vacancies across the UK.

I turn to Clare Reid first. Please explain in more detail the impact that labour shortages are having on the ability of businesses to deliver growth. Are there any sectors or occupations where that problem is particularly acute?

Clare Reid: That is an issue across the board. As I highlighted, it is a particular issue in rural areas and for tourism and hospitality, so much so that some businesses are looking at reducing their hours of operation as a way of adjusting to circumstances.

The information technology area has highlighted particular shortages and those are pushing up the price for IT consultants. We know from one of our members that there is a visa processing backlog or bottleneck at the Home Office. That is not within the gift of the Scottish Government, but any way in which we could work with the UK Government to unlock that blockage would be helpful. That is particularly true for businesses that operate in international talent pools.

On a broader point, the clarity, certainty and stability of future growth will impact on business's decisions about whether to employ more people, irrespective of labour shortages. That takes me back to the point about decisions that are made to support businesses. Clarity and certainty about opportunity and growth in Scotland will encourage businesses to take more people on.

I made the point that labour shortages are a challenge for many sectors. Enterprise agencies and Business Gateway are helping businesses that are facing those challenges to take a step back and think about how they can do the same with fewer people or how they can change the roles of the people who work for them. That is particularly vital for smaller businesses, which tend not to have the in-house capacity to think about that.

Gordon MacDonald: Fergus Mutch, do you want to add anything on behalf of your members?

Fergus Mutch: I have a couple of things to say. All sectors, at all levels, are facing recruitment challenges. We do not have the skills in this country to fulfil our current labour requirements. That is as indisputable a statement as you could make about the current very tight labour market.

I can speak specifically about the energy sector. There is a massive skills gap right across the UK. We need 400,000 people to create a net zero energy workforce. Without Government intervention, we will lack the skills to meet UK and Scottish decarbonisation targets. That is a massive challenge.

11:00

From the results of the Aberdeen & Grampian Chamber of Commerce energy transition survey, which I mentioned earlier, we see that there is difficulty recruiting at all levels in the energy sector. The striking rises that we have seen, even since earlier this year, are eye watering: 64 per cent of businesses have had difficult recruiting in technical roles, which is up 38 per cent this year; 50 per cent of businesses have faced barriers in recruiting people in key trades, which is also up 38 per cent; 44 per cent of businesses cannot easily hire managers, which is up 33 per cent; and it is the same trend for recruiting to administrative jobs and others. We should not be under any illusions about the gigantic scale of the problem.

Gordon MacDonald: You have mentioned a number of areas in which there are pressures due to a lack of skilled workers. What needs to happen to increase the pool of skilled workers? What can businesses do to tackle labour shortages?

Fergus Mutch: Businesses need to make themselves competitive. Scotland and the UK need to make themselves competitively positioned to attract talent. That said, those gaps will not be filled just by attracting people to Scotland from the rest of the UK. The workforce has to come through migration to some degree. There needs to be more of a focus on attracting and retaining skilled graduates through post-study work visas or graduate visas in other shapes or forms. How do we keep talented people here to ensure that our workforce and economy thrive over the decades ahead? That is the key piece of the jigsaw. The recent soundings from some quarters of Government that we should be restricting the number of international students coming to the UK could be very damaging at a time when businesses are crying out for skills and labour.

Gordon MacDonald: Stacey Dingwall, do you have any views on the impact of shortages on FSB members?

Stacey Dingwall: Yes, absolutely. In the confidence index that we do every quarter, we found a net balance in Q3 of -4.9 per cent of Scottish small businesses reporting an increased employee head count, which means that the number of firms reporting a contraction in their employee numbers outweighed the number reporting an expansion. That has now been the case for four consecutive quarters.

As was the case in Q2, the reported fall in employee numbers showed an opposing trend to what we see in the aggregate labour market data. The latest Office for National Statistics figures showed that Scotland's labour market improved in the three months to August, which covers most of Q3. The combination of those findings suggest that the employment gains are likely to have been concentrated among larger businesses, as they are able to benefit from economies of scale, meaning that they are less exposed to current economic headwinds.

Looking ahead to Q4, our members reported that they expect a further decline in employee numbers, with a net balance figure of about -1.8 per cent. Due to the anticipated recession, our members' ability to maintain staffing levels is certainly set to be tested. We will have to wait and see what comes in Q4, but the signs regarding employee head count have not been good for the previous few quarters.

Gordon MacDonald: Carolyn Currie, are there any particular issues for women's businesses in relation to labour shortages that have not already been highlighted?

Carolyn Currie: They have all been highlighted. The only additional comment to make is about a labour source. One of the quickest wins that we have is to put in better wraparound childcare; that is a consistent request from the businesses that we work with. The lack of access to affordable and accessible childcare holds back many businesses, and it also holds back women from entering the workforce in the first place. Some of our colleague organisations have run tremendous women-returner programmes, and being able to build closer relationships between such returner programmes and businesses with skills shortages could result in a strategic gain.

For example, we have talked about the numbers of staff that will be needed to achieve our net zero ambitions. There is a serious lack of women engaged in net zero, so strategic programmes that bring renewables businesses, or businesses with those ambitions, together with women returners and access to affordable and accessible wraparound childcare could give us, as a nation, a real quick win. We could tap into our talent while providing the diverse workforce that would see innovation thrive, because innovation is driven, in great part, by diversity, and by gender diversity in particular. We need innovative thinking if we are to crack the race to net zero.

Gordon MacDonald: For my last question, I come back to Clare Reid. You mentioned the issue of processing visas for skilled workers. Bearing in mind the picture that Fergus Mutch painted of the number of vacancies that probably cannot be filled from the UK population, can you highlight anything else that needs to change in the UK Government's shortage occupation list that would help to alleviate the issues in the labour statistics?

Clare Reid: I am afraid that I do not have any further detail on specific occupations that are currently in demand. I can certainly ask, and if we have such detail, I am happy to share it with the committee.

As I said, the one area that has been highlighted is simply that there is a bureaucratic bottleneck in processing existing visas, and IT has been highlighted as an area of shortage.

Gordon MacDonald: Fergus, is there anything that you would like to see for your members that could be achieved through changes to the UK skilled worker visa system, or further guidance?

Fergus Mutch: To answer broadly within those parameters, a critical mass of people and skills is required, and if the current system is not delivering that, it needs some close attention.

Maggie Chapman (North East Scotland) (Green): Good morning to everybody. Thank you for your comments so far and for being with us this morning.

To follow on from Gordon MacDonald's questions about the labour market and vacancies, I want to explore a couple of areas. I turn to Carolyn Currie first. The labour stats indicate that although there are significant gaps, we have very high employment rates, or very low unemployment rates. A lot of that is driven not only by people no longer being in the UK or in Scotland, but by people choosing to take themselves out of the employment market.

From your point of view, are there particular areas of women's enterprise that are more likely to attract back into work people who may have absented themselves from the labour market? That might be because of flexibility or the types of work that might be available. What are we not getting right to support that?

Carolyn Currie: What a great question—thank you. We have had a lot of experience of working with women who are not economically active to enable them to look at shaping up a business idea and consider starting up a business. Those programmes have been more successful than we might have envisaged. They involve working with women who are unable to hold down traditional employment because the flexibility in hours is simply not there for them, given their family circumstances. We have seen that around 70 per cent of those with whom we have worked end up starting a business at the end of what is a relatively short-lived 10-week programme.

With regard to the question of what is needed to sustain that, I have talked a lot about how many women-owned businesses are just not coming through and succeeding. What is currently missing in the system is joined-up strategic support, which is why we advocate for a women's business centre. We know, through our 10-week programme, that women who have never thought about starting a business will consider business start-up with dedicated support that works for them. That is about not just delivering standard business start-up support to a group of women, but delivering a programme that is designed specifically for women. It is full of gendered techniques that make women feel safe, comfortable and confident enough to articulate their aspirations and then to set a plan to achieve them.

However, when those programmes come to an end, the strategic support is no longer there and women fall through the cracks. That is even with us hosting introductions to local enterprise organisations and trying to bring that support in.

We need to do more. We need joined-up on-going support. That is the point that the OECD report that I mentioned earlier makes. Too much of women's enterprise support is for one-off projects, and they are not strategic and not joined up. Yes, they might deal with a particular issue at a particular time, but that is only really emergency support to get a business to a particular point. What is needed is a cohesive, end-to-end support model, or versions of the Canadian and the American support models that have been in place.

Earlier this year, we ran a consultation on the first women's business centre that we are working on setting up at Queen Margaret University on the outskirts of Edinburgh in East Lothian. Women were very clear in telling us that current support does not meet their needs, that it is absolutely critical to have a place to go to, and having business support that is designed for them that creates a physical environment in which they can succeed is absolutely key.

We have had a good deal of success with our digital support, which was a game changer for a lot of women-owned businesses during the pandemic, and I am incredibly proud of my team for setting up that digital portal. However, it does not provide every last piece of support. We need a mix, or a hybrid model, of a physical place where women can go in person, and wraparound digital support that feeds into all the other wider mixed-sex support that is available out there so that we can leverage in and put to best use all the resources that we have.

Those resources are having to work very hard for us at this time. We need to identify the areas in which gender-specific support is absolutely critical, patch in the resources that are available from current mixed-sex support or mainstream support, and use that to create and nurture a whole new generation of women-owned businesses. The desire and the ability are out there, the thinking and the mindset are there, but the support to enable it all is missing. Let us not forget that existing women-owned businesses contribute £8.8 billion to our economy every single year. That is more than most of the identified growth sectors of the economy.

Maggie Chapman: That is really helpful. The point you have made here before about strategic support is important for us to remember.

I will come to Stacey Dingwall with a similar question. We have looked at some of the small businesses that we have across Scotland, and we have spoken today about the challenges around resilience, energy costs and all of that. Are we missing elements that would make setting up or supporting small businesses more attractive to people? There have been conversations around the income tax changes that were in the budget and how they are going to affect things. If I understand you rightly, you are saying that some of the types of work in the sectors that you have identified as potentially needing support tend to come in at the lower end and would therefore benefit from lower income tax levels. Can you flesh that out for us a little bit?

Stacey Dingwall: Are you talking about what those sectors will need to boost their confidence?

Maggie Chapman: Yes.

11:15

Stacey Dingwall: Providing that stability would give businesses more confidence. Unfortunately, our members are probably downsizing their plans to recruit more staff in the new year, because of the current uncertainty. Giving businesses confidence will mitigate the impact of the challenges that they face at the moment. The value of the small business bonus scheme should be preserved so that as many small businesses as possible can continue benefiting from that relief. That is key in giving confidence to our members, so ensuring that that is protected is our number 1 priority.

We touched on the support that is available through NSET. We need to support future businesses, but we must also provide support for existing businesses and sectors in Scotland and give them confidence that the economic strategy focuses on them.

I began working at the FSB over the summer. When I read the NSET, it struck me that much of it focuses on encouraging more tech-based businesses to start up in Scotland. That is obviously a laudable ambition, but we should balance that by recognising the make-up of the current Scottish economy and ensuring that the strong businesses that we currently have feel confident that they will be supported. Those who want to go into those industries should be confident that support will be available to them, even if they are not tech-based businesses.

Maggie Chapman: Fergus Mutch, in answer to an earlier question from Jamie Halcro Johnston, you said that the chambers of commerce want a competitive personal and business tax regime. We have talked about the challenges that are caused by geography, sector, size and gender. How does that ask regarding the tax regime interact with the other challenges and issues that we have discussed?

Fergus Mutch: That is quite a complicated question. Quite a lot of the work that has been undertaken by chambers and other partners recently shows recruitment challenges at all levels, which are reflected in our demographic make-up. We need to ask how we can make Scotland competitive in comparison with the rest of the UK. There is a cost benefit to living here, which should attract people. We should be globally competitive.

This may not be the answer that you were looking for, because I cannot break it down, but I think that the evidence points to challenges in all sectors, at all levels and in all parts of the country. Those challenges are acutely felt in rural areas. The best policy to get more people into rural Scotland might be to build more affordable homes there, rather than to work through the tax regime.

Maggie Chapman: That is helpful. I think that we sometimes focus on our fiscal incentives, mechanisms and instruments, rather than looking at the whole picture. There is something for us to think about there.

I turn to Clare Reid. Carolyn Currie talked about the importance of financial incentives for people to stay in work and about non-financial incentives such as training and mentoring. Is the SCDI focusing on that? Could Government give more support? Could you ask more of your members, or of the business sector more generally, to ensure that we make employment itself as attractive as possible, rather than focusing only on the financial elements of work?

Clare Reid: That is an interesting point. It occurred to me that we have not really touched on skills and the support from the colleges and universities sector—particularly the colleges sector—for smaller businesses and businesses in rural areas, which is critical.

One area that was under pressure in the budget was employability support. For certain people who are excluded from the workforce, it is critical that we continue to invest in that employability support. Those are people who are perhaps further from the workforce and need what Carolyn Currie called wraparound support.

We have done quite a lot of work on skills. We look forward to the outcome of the skills reviews that are going on. One of the things that we have talked a lot about in the past in our skills work is support for lifelong learning and measures that can enable that. We have talked about a skills wallet, for example—a way of enabling learners to take more responsibility for, and have more flexibility on, investing in their own learning over the long term. That is an idea that could be explored and developed.

We need to invest in colleges and universities to ensure that they are properly funded. Net zero is a critical area, and Fergus Mutch touched on the job vacancies and the skills that will be required. We have been considering net zero a bit recently and thinking about where we start with that. We should start with science, technology, engineering and mathematics in schools but go right through to colleges.

The colleges sector recently highlighted to us a couple of practical points on that. One is that colleges would like a little bit more flexibility in how they reallocate funding so that they can be a bit more nimble in responding to opportunities. If part of the solution to getting more people into work and filling some of the labour shortages is to reskill and retrain people, colleges would like a bit more flexibility in how they allocate the funding rather than it being ring fenced for certain areas.

We also need to think about the net zero opportunity in relation to all the jobs and skills that we need to deliver our ambitions, such as new solar power and wind farms. A huge number of electricians and welders will be required to do that. We need to think about all the ways that we can support that through colleges and universities, not just in the north-east of Scotland. That region is critical and is obviously where a lot of the transition is happening. It has funding, which is fantastic, but we need to think about how that activity happens in other parts of Scotland and how it can be funded.

On Carolyn Currie’s point about childcare, there is something there about understanding the situation. We do not have a real understanding and more work needs to be carried out on that. The ONS has looked at who the people are who have left the workforce. We know that some of them have left with no intention of returning. They might have retired early or left due to ill health or something else, and we need to understand a bit more what the something else is to ensure that we have the right programmes to support those people to return to the workforce.

Maggie Chapman: Thank you very much. That is really helpful.

Graham Simpson (Central Scotland) (Con): I will be quick. I have a couple of questions for Fergus Mutch and Clare Reid, so the other two are off the hook.

Fergus, I will ask you about your comments on tax rates and the need for Scotland to have a more competitive regime in business and personal tax. Is it the view of the Scottish Chambers of Commerce—I am not asking for your personal view—that Scotland's having higher personal tax rates is a disincentive to people coming here?

Fergus Mutch: Yes. I am here not to give my personal views, but certainly to give the chambers' view.

Across the piece—that is, the balance across the whole suite of business and personal taxes—higher rates may well deter people from choosing to come to live and work here. That can be modelled on the rate at which that starts to have an impact, but it is clear that, at a certain level, it could make a difference. We would like to see more modelling on the rates that were set in the recent budget so that we can get a better understanding of that.

Graham Simpson: That modelling would be useful.

There is one other area that I would like to ask you both about. Clare Reid, you mentioned free ports and the delay in the announcement on Scottish green free ports. Fergus Mutch, I notice that you did a survey of your members in Aberdeen and they are asking for a free port in the north-east.

Clare, what do you think the impact of Scotland having two free ports would be on local economies and on the national economy?

Clare Reid: I should point out that there are several bids that are hoping to be successful. We know that there are opportunities in relation to support for green industries and renewables, as well as in linking supply chains and thinking about sustainability around construction. There is quite a lot of interest from the built environment in how green free ports could support its efforts to improve supply chains. We know that there is economic opportunity in free ports, and SCDI is supportive of green free ports. However, the issue from anecdotal evidence is the delay in the announcements. The bidders will be talking to potential investors about opportunities if they are successful. We know that some have had to turn investors away because of the delay.

I will also answer your earlier point. We are taking a cautious approach in relation to the tax issue. We have highlighted our concern about the divergence between Scotland and England. As Fergus Mutch said, there is an increased risk that people will view Scotland differently when bringing labour over here, which is relevant because we are operating with an international workforce. We will have to monitor that closely.

The other area from which we attract labour is the rest of the UK. Notwithstanding the fact that there are clearly some issues about how quickly people can come to work in the UK, tax may be a factor that people who are already in the UK workforce take into account when considering where to live and work.

Graham Simpson: Thank you, that is very useful. I will give the last word on free ports to Fergus Mutch. Obviously, we do not know where the free ports will be just yet, but we hope that we will get an announcement soon. I guess that you are desperate for one in the north-east.

Fergus Mutch: I am here today to represent the Scottish Chambers of Commerce network. Broadly speaking, green free ports have the potential to turbocharge our energy transition, unlock jobs and investment—which can only be a good thing—and give Scotland a competitive edge when it comes to achieving net zero. There are five strong bids that have been submitted. The current thinking is that two of those will be awarded, but the criteria set and agreed by both Governments allow more to be awarded if there are any particularly strong cases—that could mean three, four or even five free ports. Perhaps that is the model that would work best to unlock the greatest potential for Scotland.

There are obvious strengths to some of the bids and what they can do to unlock energy sector transition, particularly where there are already specific supply chain hubs in existence. There are others that are perhaps more suited to expanding trade in other areas. There are five strong bids.

The delay has been disappointing. If we truly want to get cracking with Scotland's energy transition and for free ports to be a key part of that, there should be no more delays to the decision. It was going to be announced in summer, then it was late summer, then it was autumn and then it was late autumn—the most recent letter on green free ports just this week said that the announcement would be "very soon". Does that mean before Christmas, early in January or well into the springtime? We do not know. The delays to the announcement are getting to the point of being very unreasonable. If the delay lasts any longer it will be harmful to investment in our green future.

Graham Simpson: Thank you.

The Convener: I thank all the witnesses this morning for their helpful contribution to the committee's work going into the new year.

11:30

Meeting continued in private until 11:40.

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