



OFFICIAL REPORT
AITHISG OIFIGEIL

DRAFT

Economy and Fair Work Committee

Wednesday 9 October 2024

Session 6



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ECONOMY AND FAIR WORK COMMITTEE

26th Meeting 2024, Session 6

CONVENER

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

DEPUTY CONVENER

*Michelle Thomson (Falkirk East) (SNP)

COMMITTEE MEMBERS

*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

*Murdo Fraser (Mid Scotland and Fife) (Con)

*Gordon MacDonald (Edinburgh Pentlands) (SNP)

*Lorna Slater (Lothian) (Green)

*Colin Smyth (South Scotland) (Lab)

*Kevin Stewart (Aberdeen Central) (SNP)

*Brian Whittle (South Scotland) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Kate Forbes (Deputy First Minister and Cabinet Secretary for Economy and Gaelic)

Aidan Grisewood (Scottish Government)

Ivan McKee (Minister for Public Finance)

Iain Moore (Scottish Government)

Richard Rollison (Scottish Government)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy and Fair Work Committee

Wednesday 9 October 2024

[The Convener opened the meeting at 09:31]

Decision on Taking Business in Private

The Convener (Claire Baker): Good morning, and welcome to the 26th meeting in 2024 of the Economy and Fair Work Committee. Our first item of business is to decide whether to take items 5 and 6 in private. Are members content to do so?

Members *indicated agreement.*

Subordinate Legislation

Public Procurement (International Trade Agreements) (Miscellaneous Amendments) (Scotland) Regulations 2024 [Draft]

09:31

The Convener: Item 2 is an evidence session on a Scottish statutory instrument. I welcome Ivan McKee, the Minister for Public Finance, who is joined by Ross Grimley, a solicitor, and Iain Moore, the head of procurement policy, from the Scottish Government. I invite the minister to make a short opening statement.

The Minister for Public Finance (Ivan McKee): Good morning, committee. Trade agreements often include provisions for providing for reciprocal access to public procurement. Although we know that trade is a reserved matter, implementation often occurs in devolved areas, such as public procurement. Accordingly, Scottish procurement regulations set out that bidders from countries where a relevant agreement applies are entitled to equal treatment when bidding for specified contracts in Scotland.

The instrument updates the list of relevant agreements, inserts a reference to a new agreement between the United Kingdom and Kazakhstan, and updates references to agreements with Ukraine, Moldova, Georgia, Kosovo, North Macedonia and Albania. Agreements with those countries, which were originally reached by the European Union and then rolled over by the UK, included contracts for some healthcare services in their scope. Although that did not compel public bodies to award contracts for those services rather than provide them in-house, it meant that, if contracts for those services were ever to be awarded, bidders from those countries would be entitled to equal treatment.

The agreements have been renegotiated to remove healthcare services from their scope. The instrument will ensure that Scottish regulations refer to the refreshed agreements.

The Scottish Government has consistently and successfully implemented international obligations on procurement since 2006, when it first transposed EU procurement directives, and is consistent in its commitment to upholding international law. The amendments to trade agreements that are contained in the SSI are necessary to reflect changes to international obligations, and there is no substantive discretion exercisable in their implementation.

The Convener: Thank you. Are there any questions from members?

Lorna Slater (Lothian) (Green): I want to understand this clearly. Are any healthcare services being provided in Scotland by the countries that are being removed—Georgia, Albania, Kosovo, Moldova, North Macedonia and Ukraine? The instrument says that it removes those countries' access to bidding for procurement of "certain health care services". What kind of healthcare services are those?

Ivan McKee: Those are both good questions. The SSI is to update the references to those countries, so they will still be in the agreement, but the agreement is being altered by UK legislation post-Brexit to exclude healthcare.

I ask officials to say whether they can be more specific about what healthcare provision has been excluded.

Iain Moore (Scottish Government): All that I can tell you is that it is about the removal of four categories of clinical healthcare services from the scope of the agreement. The removal was to ensure consistency between the UK Government's wider approach to trade agreements, to ensure alignment with the new legislation regime that has been introduced in the rest of the UK and to protect the UK Government's capacity to develop and deliver policy for domestic healthcare reform.

Lorna Slater: I get that it is to bring us in line with the UK. I am just curious as to whether there is any current provision by those countries that would therefore be terminated or not be able to be renewed. What is meant by "certain health care services"? Maybe you could write to me about that.

Ivan McKee: We will write back on that. I am not aware of whether those countries are providing any healthcare at the moment—I would be surprised if they were—but we will check that. We will find out what the position is—as far as we know—and get back to you.

The Convener: As there are no further questions, I will move to agenda item 3, which is formal consideration of the motion to approve the instrument. I invite the minister to speak to and move motion S6M-14474.

Motion moved,

That the Economy and Fair Work Committee recommends that the Public Procurement (International Trade Agreements) (Miscellaneous Amendments) (Scotland) Regulations 2024 [draft] be approved.—[Ivan McKee]

Motion agreed to.

The Convener: Thank you. A short factual report of the committee's decision will be prepared

and published. Are members content to delegate responsibility to me, as convener, for agreeing the committee's report?

Members indicated agreement.

The Convener: I thank the minister and his officials for joining us today, and I briefly suspend the meeting to allow for a changeover of witnesses.

09:36

Meeting suspended.

09:47

On resuming—

Programme for Government (Priorities)

The Convener: Our next item of business is an evidence session with the Deputy First Minister and Cabinet Secretary for Economy and Gaelic, Kate Forbes. She is accompanied by, from the Scottish Government, Aidan Grisewood, director of jobs and wellbeing economy; Keith McDonald, unit head, strategy division; and Richard Rollison, director for international trade and investment. Thank you for attending this morning's meeting.

I will start with an initial question about the national strategy for economic transformation, which a number of members have questions about. There has been confusion about the plans for NSET, which could be down to a change of cabinet secretary. Your predecessor said that a refresh of the strategy would be undertaken. You recently wrote to me to explain the position. I have also received a letter from Richard Leonard, convener of the Public Audit Committee, and I think that other members will want to pursue some of the issues that he raised. The Public Audit Committee has asked us to seek clarity on the issue of a refresh.

In the letter that you sent to me, you said that it was not the intention to have a reset or a refresh. Will you explain to us what the intention is?

The Deputy First Minister and Cabinet Secretary for Economy and Gaelic (Kate Forbes): Yes, I will. Thank you very much for having me back. If I recall correctly, the last time that we met was in May, when we were in the pre-election period, which might have constrained aspects of what I could say. Therefore, I am delighted to be back in front of the committee and able to speak slightly more freely in that regard.

When I returned to the Government in May, there had been plans for an NSET refresh, but I decided that that was not the direction that I wanted to go in. The first reason for that was that the First Minister made it clear in the first few days of his tenure that he wanted fewer documents written and more actions delivered, and the idea of refreshing a strategy and all the work that would go with that, only a couple of years into a 10-year strategy, did not seem like the best use of our time.

The second reason was that, to my mind, there was an opportunity with the programme for government to clarify the actions that we were going to focus on. All the actions are very much aligned with NSET, so the programme for

government allowed us to be really clear, with stakeholders and Parliament, about the priorities.

Thirdly, my sense of NSET has always been that some actions will be easier or more straightforward to deliver. My officials might correct me, but I think that 25 per cent of the actions are complete, while 54 per cent are in progress. Some of the completed actions include the roll-out of Techscaler, which I think still largely enjoys the support of all parties in Parliament. We have been able to make progress on those elements.

Other things require greater focus and attention from us. One example would be attracting investment, and there was a lot in the programme for government about how we are going to accelerate those actions in NSET.

Those are some of the reasons for our deciding that, in the spirit of the First Minister's commitment to write less and do more, we should write less and do more with the resources that we have.

The Convener: I want to move on to a different subject, as other members will come back to NSET.

As part of our pre-budget scrutiny, we took evidence from VisitScotland, which, as you will know, has received an in-year adjustment of its budget. It told us that, as a result, planned digital campaigns cannot go ahead this year, and it explained that, with the impact happening in-year, the timescales for its businesses mean that it is anticipating that there will be a direct impact on our tourism sector this year as a result of its scaling back some of its digital work.

You will be familiar with the package of support measures that the tourism sector believes that it needs. Some are reserved—it has mentioned VAT—but others are devolved. I am thinking of business rates, and some concerns have been expressed about divergence in income tax policies. What priority does tourism have within NSET? As a comparison, the investment that Ireland makes puts us in the shade; it is not on the same scale. How do we ensure that tourism is prioritised?

Kate Forbes: Tourism is prioritised both in my diary and in my engagement with stakeholders. Indeed, at the Thistle awards on Friday night, we recognised the brilliant work that tourism businesses do. VisitScotland plays an important role in that regard—its marketing spend delivered around £56.7 million of additional net economic benefit. We are aware of the great work that VisitScotland does; it is accountable in part to the industry, too, and I hope that the industry is confident in the work that it does. I certainly am.

You have talked about the challenging decisions that we have had to take. I do not think that any part of the Scottish Government's budget has been immune to some of those difficult decisions. I am quite relieved that, as far as my budget area is concerned, there has not been a huge impact since the summer. We have had an impact on VisitScotland. Obviously, that is a matter of concern, but there is work that VisitScotland can do. The impact was on the marketing budget, and I have discussed with VisitScotland how it can do more in-house work instead of outsourcing it. I have shared with VisitScotland my disappointment and concern, but those are the realities of the extremely challenging financial environment in which we are operating.

The Convener: I have a question about business rates reform and income tax, which might be more for the Cabinet Secretary for Finance and Local Government. On the latter issue, we have previously asked about work on whether divergence is having any positive or negative impact. Is the Scottish Government doing work to track the impact of divergence on income tax policy, and will we see progress on business rates reform?

Kate Forbes: It would be more appropriate to put that question to the Cabinet Secretary for Finance and Local Government, but I am very conscious of the impact on the businesses and organisations that I represent at the Cabinet table. His Majesty's Revenue and Customs has done work on the impact on behaviour, particularly on net migration to Scotland. I also believe that statistics on population were published yesterday, and it is important that we take them into account, too.

My answer is yes, the Scottish Government keeps behavioural impact under review. Indeed, it must do so, because the Scottish Fiscal Commission models the behavioural impact of every tax rate. It often bypasses people—though not this committee, I am sure—that the Scottish Fiscal Commission, when it puts together its figures for what it assumes the Scottish Government will raise through a particular income tax change, models the behavioural impact. As you will see, the SFC's tables model what the Scottish Government is set to gain if all things remain equal, and what it will actually receive, taking behavioural impact into account.

The Convener: Before we move to questions from Colin Smyth, I want to go back to NSET. Mark Logan, the chief entrepreneurial adviser to the Scottish Government, was initially serving a two-year term, which expired in September. What evaluation has been made of that role, is Mark Logan still in post, and what is the status of that post?

Kate Forbes: As you can imagine, when it comes to spending any penny at the moment, we must take a very robust approach to the impact that a policy or person has. I am hugely enthusiastic about the work that Mark Logan is doing. The work that he was originally tasked with concerned the network of Techscalers and increasing the pipeline of entrepreneurship and of business start-ups.

The track record of Techscalers has been really inspiring. That major piece of infrastructure has been delivered without much fanfare or noise, and it has not been subject to too many parliamentary questions, nor have too many concerns been raised by Opposition MSPs, because that work has been really successful, and it has exceeded the initial expectations that were set down for numbers of businesses and for the amount of additional funding that businesses have leveraged in. My hope is that that will continue to grow.

I have been very impressed with the metrics. Mark Logan is now working in another area: he is working closely with Neil Gray to deliver more innovation in the national health service. Within a matter of months, I have already seen a step change in some of the work that the NHS is doing in taking some of the most exciting innovations in the life sciences sector and ensuring that there is an open door in the NHS to embed that. From a health service perspective, some of the results are astonishing. One outcome, for example, is that the digital dermatology project can cut waiting lists significantly.

It might be helpful to the committee if I were to write more formally to outline what we think the successes have been of having someone in that adviser role who understands the private sector, who has the confidence of the public sector and who brings a different way of thinking to the work that we are doing on innovation in the public sector.

The Convener: That might be helpful. It would be interesting to know in what capacity Mark Logan is working with Neil Gray. Is that as a special adviser? Is it a paid post? Was he recruited to the post? What kind of post is it? Can you clarify that?

Kate Forbes: I can absolutely clarify that Mark Logan is definitely not a special adviser. It is very important to note that he has not in any way been recruited as a special adviser; he is not a political appointment. I have encouraged him in the past to engage with other parties in the Parliament—and I think he has taken that on board. That includes briefing people on what is being done, taking on board any views, thoughts and ideas. I have to say explicitly that he is not, and can never be, a political appointment.

The Convener: What kind of appointment is it? Do you know?

Kate Forbes: He is a civil servant.

The Convener: We will now move on to questions from Colin Smyth.

Colin Smyth (South Scotland) (Lab): Cabinet secretary, when you last appeared before the committee, I asked you about the level of investment that is needed to deliver NSET. That stemmed from concerns from Audit Scotland, which reported:

“The Scottish Government has not determined how much investment is needed to deliver the NSET. This creates a risk to financial management and public accountability.”

You have just confirmed that you do not intend to refresh NSET. The Government has had plenty of time to establish the level of investment that is needed across Government departments to deliver the strategy. Has that been done?

Kate Forbes: I am delighted to return to an area on which we had an exchange in the past and to repeat why I do not believe that it is appropriate to associate a single line of budget to the NSET programme. I very much respect the fact that Colin Smyth has a different view on that, and I very much respect the comments that Audit Scotland has made, but I am afraid that I am just not going to change my mind on the suggestion that we have one budget line associated with NSET, because that would completely undermine my view of NSET, which is that it should be for all Government to deliver.

I have just given an example about the work that is being done on innovation in the health service, and it is self-evident that that would not be included in a single budget line on NSET. The minute that we resort to the siloed approach on budgets, we will have completely eliminated the core purpose of NSET, which is to try to deliver economic prosperity across the Government.

10:00

Colin Smyth: To be fair to Audit Scotland, it is calling not for a single budget line but for shared NSET budgets across departments. In fact, Audit Scotland said:

“the Scottish Government needs to have financial processes that can easily identify and analyse relevant spending across government.”

It is clear that it is talking about “across government”, not a single budget line. Do you know how much each department allocates towards the delivery of NSET?

Kate Forbes: Audit Scotland has also talked about the complexity of delivering NSET. We have

taken on board its recommendations on the need for political leadership, on finance, on metrics and on evaluation more generally. Tracking the cumulative spend relating to a strategy as vast as NSET continues to be tricky, and I am still strongly of the view that it is counterproductive.

We take on board such things and are looking at ways of using new corporate systems to better track spend on prioritised actions. I hope that the committee hears my reluctance and concern about trying to boil NSET down to a particular budget rather than trying to embed the NSET aims, which are to encourage innovation, attract new finance and do things differently. Those are all laudable aims, and the Government becomes its own worst enemy when it tries to boil the strategy down into one siloed area or one pot of funding.

Colin Smyth: Again, it is important to stress that there is no suggestion that there should be a single budget line or any silo working. In fact, it is quite the opposite. Audit Scotland is clear in saying that

“There is a lack of transparency about directorate decisions on allocation of funding for NSET actions.”

It goes on to say that

“there is a risk that NSET objectives are not given the same priority by all directorates when it comes to funding decisions.”

It is important to stress that Audit Scotland is not talking about silo working—it is quite the opposite. All directorates are required to consider NSET, but the concern is that, because of the lack of clear budgets showing what each department allocates for NSET, it is not clear what priority each directorate gives to it. Why do you think Audit Scotland is calling for that, if it is not necessary?

Kate Forbes: I will ask Aidan Grisewood to come in. You talked about directorates, and he oversees the work from the officials’ side.

Aidan Grisewood (Scottish Government): On cross-Government prioritisation, there is a bit of reassurance in the programme for government, which has economic growth as one of its four key priorities. One of the important steps in providing assurance relates to the role that council officers in each area play in confirming that the commitments that are made in the programme for government are affordable and deliverable. There is a process for making sure that funding is available for the PFG commitments. The economic growth priorities in the PFG encapsulate the NSET plans that will be taken forward.

There is also the budget itself and, to make sure that we have a line of sight from the programme for government through to the budget, funding will need to be allocated to specific commitments in the PFG. However, as the Deputy First Minister

said, some of those commitments go across departments. In relation to the scale of the commitments, choices about how they are delivered could be made after the budget.

Colin Smyth: However, it is not clear how much each directorate is allocating towards the delivery of NSET, which is what Audit Scotland is concerned about.

Cabinet secretary, you mentioned the other recommendations from Audit Scotland. How many of the eight recommendations in its February report have now been implemented in full?

Kate Forbes: In June, we published our second annual progress report, which lists all the actions that have been delivered and sets out what stage we are at in the NSET programme. However, I assume that you are talking about the Audit Scotland report.

Colin Smyth: Yes, I am.

Kate Forbes: I will give an update on some of the main recommendations. One of Audit Scotland's recommendations was about political leadership. We did a quick review of governance to look at how we could further strengthen political leadership. On 24 September, the First Minister formally agreed to the creation of a Cabinet sub-committee on investment and the economy, which provides political oversight, with membership across the Cabinet table.

With regard to other recommendations, we have identified additional metrics that can be used to better track outputs and medium-term delivery. Some of that work was already happening—for example, Techscaler data on the spread and impact of member businesses is gathered regularly. The majority of our metrics show positive change, and that was highlighted in the second annual report on NSET. The measures that have been selected for the strategy help us to track progress towards the long-term transformational changes that we seek for our economy. We have monthly metrics that look at things such as gross domestic product growth and job creation, although they are not owned by the NSET team. I do not know whether the committee has seen them yet, but I was heartened to see that the figures that the Royal Bank of Scotland released today show an acceleration in job creation. There are some real positives in that regard.

That also covers evaluation. Audit Scotland recognised that it was too early to assess the impact of NSET, but a section was added to the most recent NSET annual report to discuss the results of early evaluation work.

That covers quite a number of the high-level recommendations that Audit Scotland made.

Colin Smyth: You have touched on a couple of the eight recommendations, but how many have been delivered in full?

Kate Forbes: We have had a debate about the best way to monitor spend. We have taken the recommendations on board and have delivered quite a number of them. We might just have a difference of opinion on how to do some of them, such as the finance recommendation, as effectively as possible. If you want to put any others to me directly, I can respond to them.

Colin Smyth: Audit Scotland's main concern clearly relates to the finance recommendation. Do you think that the argument that you are making would hold water in the private sector? Imagine a project manager or an engineer with responsibility for a major strategy of his company saying to his bosses, two years after the strategy was written, "There is going to be a ruthless focus on delivery, but I can't tell you how much investment is needed to deliver it and I don't know how much is being spent."

Kate Forbes: In the private sector, a business whose entire focus was on a particular end and aim would think it quite strange to be asked to provide the budget for that end and aim. The whole point of the national strategy for economic transformation is that the entire Government needs to focus on it.

I would like every penny that the Government spends to be spent on ways to innovate. For example, the entire health budget is spent on improving people's health and wellbeing. We can do that effectively through NSET by attracting as much investment as possible into the country, so that we can increase the revenue that is available to reinvest in the health service. We can also do that through innovation and finding better ways of doing things.

I understand where you are coming from, but I knowing how these things go—the minute that I publish a figure, it will immediately exclude areas that I really want to be more about innovation and the NSET aims. Also, in parliamentary debates, people get hung up on particular figures, which completely undermines the whole point that the NSET way of thinking should be embedded in every portfolio.

The Convener: We will make some progress and turn to questions from Willie Coffey.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Good morning, cabinet secretary. I will pick up on the NSET issue that Colin Smyth led on. When I was a member of the Public Audit Committee, one of the issues that we focused on was how the national strategy for economic transformation supports and interacts with our regional economic development partnerships. As a

member from Ayrshire, I am particularly interested in how that develops. I would not say that particular problems were raised, but we were interested in how the Government will evidence how NSET has benefited communities such as Ayrshire.

If we look at population trends that have been released in the past few days, we see that Scotland's population is increasing, but the increase is far greater in particular areas in Scotland than it is in others. To generalise, it would be fair to say that the populations in the south, the west and the islands are diminishing, while the populations in the north and the east are increasing. Is the Government aware of that? Does it see that as an issue with regard to delivery of NSET in those particular parts of Scotland? How do we plan to rebalance the situation, if at all?

Kate Forbes: That is another reason, which I did not give to Colin Smyth, for my strong reluctance to put figures on the finance, because we recognise other partners in the aims of the national strategy for economic transformation, including local authorities and parts of the private sector.

That is where regional economic partnerships come in, because they are partnerships, and I have had extensive engagement with them over the past few months. Just on Monday, I was in Shetland—I was concerned that I might not get back in time for this committee meeting, because I was in Shetland until yesterday afternoon. On Monday, there was the convention of the Highlands and Islands, which is a grouping including all the local authorities that represent coastal areas, stretching from North Ayrshire up to Shetland. Half of the agenda was dedicated to the work of the Highlands and Islands regional economic partnership, which is engaged in attracting new businesses and delivering housing. On a much more nimble, flexible and local level, that group is able to look at similar issues across those areas and work together to find solutions.

I was very clear with the group that I would love NSET to be a very localised strategy, so that the Government at the higher level is an enabler of what goes on locally. At a local level, I would like those partnerships to identify their big priorities and get on with the job, with the confidence of their communities and with the support of national agencies—in that case, Highlands and Islands Enterprise—and, ultimately, with my support. I would like them to do that along the lines of the NSET pillars, because the overarching NSET aims are just as relevant as they were a couple of years ago.

It might be worth saying that, when the strategy was published, there was real pushback about the

fact that we had not name checked every sector under the sun, but my view was always that the aims should be sector-neutral. Again, on the point about innovation, the aims should be applicable equally to any sector. If a local regional economic partnership says that its priorities relate to energy—as is the case in the Highlands and Islands, because that is quite obvious—those aims should apply to that industry.

Willie Coffey: Would you say that a positive change in population should be an indicator of change in economic transformation? Despite the very small increase that was reported yesterday, the trend for Ayrshire is still down. Constituents will say to me that we have a lovely national strategy for economic transformation but that the overall population of Ayrshire is still going down. If, overall, people are leaving the county, how can the Government say to constituents such as mine that our transformation strategy has been successful?

10:15

Kate Forbes: I have touched on that issue in the past. It is a matter of concern, particularly in rural coastal areas, where, in some cases, there are double-digit percentage forecasts of decline for the next 40 years. Perhaps that picture masks the ageing demographics, because the impact on the working-age population is more stark.

The figures that we discussed in Shetland on Monday were quite concerning with regard to the expected growth in the over-50 population and the significant shrinking of the working-age population, given the strain that that will cause. That is why it is imperative that we take a cross-Government and cross-nation approach to economic prosperity. Too often, we assume that economic activity happens only in the private sector. However, we have third sector organisations and good work can be done in collaboration with the public sector, and that needs to be distributed around the country as much as possible.

Lorna Slater: The cabinet secretary will know that I think that a good green industrial strategy is very important in setting out Scotland as a place for investment in key sectors as we move forward in the just transition. However, I have noticed an area of incoherence between the national strategy for economic transformation and the green industrial strategy. I hope that the cabinet secretary can elaborate and tell us how she is going to align those strategies.

The NSET includes a list of 14 opportunities, which is quite a long bullet list, and many of those have a sub-list. That does not come across as very strategic but as a massive shopping list. It is wonderful that Scotland has so many

opportunities, but that is not a strategic approach. It makes sense that the green industrial strategy is a shorter list, but that shorter list is not a subset of what is in the NSET. Two things that are in the green industrial strategy do not appear in the NSET at all. One is carbon capture, utilisation and storage, and the other is energy-intensive industry stuff, which includes chemicals, paper and steel. Those are all great industries, but neither CCUS nor those energy-intensive industries were identified in the NSET as opportunities. How come they have suddenly appeared out of nowhere, as it were, in the green industrial strategy as key opportunities? What evidence was used to generate the opportunities in the green industrial strategy versus those in the NSET? How are we supposed to know what our strategic priorities are when we have two disparate lists?

Kate Forbes: Thank you very much—that is a brilliant question. When the NSET was published, I made the comment that, with a 10-year strategy, there were elements of risk, because none of us knew what the next year would hold. When we reflect on the past two years, we can see that there has been quite a lot of turbulence and change. There is an element of risk attached to anything that you put down in the NSET as fact. That is why it was so important, in this year's programme for government, to refocus on what we will do in the coming year that is in the spirit of NSET.

I will ask whether any of my officials want to come in on the green industrial strategy. By the time that I came into office, the strategy was drafted and ready to go. My main changes to it were about focusing as much as possible on action. That meant taking what the green industrial strategy contained and asking, "So what?" and "What does that mean?"

My understanding of the green industrial strategy was very much that it was a prospectus approach, so its audience is those who are interested in or open to doing business in Scotland and considering making investments. It needs to sit alongside other documents. I see the NSET document as being owned by everyone, whoever you are—whether you are a local councillor, the First Minister or somebody who employs people in Scotland. It is a national document that gives us a northern light for the next 10 years.

Within that approach, we then publish more focused documents or strategies. The green industrial strategy was punchy and pointed. It was written for a potential investor audience rather than for all our other audiences, and it must sit alongside other documents.

I wonder whether somebody else wants to speak to the process or how the strategy evolved, because I was not involved.

Richard Rollison (Scottish Government): I can speak to that and provide a bit of background on the green industrial strategy. A wide range of analytical work, evidence gathering and engagement with industry and other stakeholders took place in order to get to the key opportunities for Scotland: where we have strengths and where there are domestic and international opportunities for growth, with regard to growing the economy in Scotland and export opportunities.

On the connection with NSET, one of the opportunity areas in NSET is new market opportunities. The five areas in the GIS—wind, hydrogen, carbon capture, professional services and the clean industries that Lorna Slater spoke about—put a bit more meat on the bones with regard to the area of new market opportunities. The enablers within the GIS—skills, investment and supply chains—are also covered in NSET. If you did a Venn diagram of NSET and the green industrial strategy, you would see that there is quite a lot of overlap.

Lorna Slater: With regard to the evidence that was used to determine those five things for the green industrial strategy, why did those things go in the prospectus, especially as two of them were not even part of the national strategy for economic transformation?

Richard Rollison: We might need to come back on some of the detail of that, but the analytical work looked at a wide range of different opportunities. We perhaps did more work on the specifics than we had done on NSET, and we added those two areas that you referred to to the original ones in NSET.

Lorna Slater: I am really interested in learning more about how the green industrial strategy was developed and the evidence for that, if that is possible.

Richard Rollison: Sure.

Lorna Slater: Thank you. We have touched slightly on my next question, but I will elaborate on it. The second PFG priority is growing our economy. I have a question about what that means, because economic growth can be associated with increased inequality—letting the rich get richer—and it can be associated with trashing the environment. Both of those things will give you great GDP figures, but they do not lead to the wellbeing economy that we claim to want.

The update to the national performance framework and the new proposed national outcomes was a good bit of work—I support that. It included community engagement and it talked about public transport—the things that we need to do. How do you square the full charge for economic growth, which can cause environmental havoc and inequality, with measuring our success

on the proposed national outcomes, which are based very much on a wellbeing economy? Those feel like two different things. You are measuring one thing while trying to achieve another.

Kate Forbes: I gave a lot of evidence yesterday to the Finance and Public Administration Committee on our national performance framework changes. That was interesting, because there was a general criticism about there not being enough focus on economic growth in that. I think of the national performance framework as a way of painting a picture of the Scotland that we want to be, and I do not think that there is much disagreement with any of the objectives—there is a general consensus. You have to build a consensus with something like that, when you are talking about people's health and wellbeing, economic prosperity and so on. The objectives are aligned with the United Nations sustainable development goals, which is a very laudable aim. Keith McDonald is welcome to come in on that.

Again, those objectives set out the picture of the country that we want to be. The First Minister has taken that and distilled it down into four objectives—I am a big fan of distilling things down to fewer objectives. One of those objectives is economic growth. You spoke about what economic growth can lead to, but it does not have to lead to those things. That will depend on what you see as the aim.

The reason why I argued yesterday that economic growth should not be an end in and of itself in the national performance framework is that it is not an end in and of itself. It is a means to an end. If you view it as an end in and of itself, you will absolutely bake in inequality, destroy the environment and so on. You should see it as prosperity with a purpose. In other words, we cannot reinvest revenue into our public services unless we have a growing economy that raises the standard of living for everybody and thus raises the revenue that can be reinvested. We cannot meet our net zero goals unless private investment is made, because the cost of meeting our net zero goals far exceeds the public sector resources of any Government under the sun. We have to be an attractive place to do business so that we get that investment.

My view on economic growth is that it is not an end in and of itself but a means to an end. However, we cannot achieve that end without economic growth—which is perhaps where there would be a minor disagreement between us. I am open to answering any further questions on that.

Lorna Slater: The difficulty is, when the goal is growth, as it is in the PFG, that gives no reassurance that growth will not be just the pursuit of maximising GDP while causing negative outcomes elsewhere.

It is misleading to say that our goal is growth, given that, as the cabinet secretary has set out, our goal is a wellbeing economy, in which people's lives are improved, communities are strengthened and businesses are safe to invest. That might mean that GDP comes down a couple of notches, because we need to redistribute wealth or to invest more in public services. It is important to be clear on whether we are going after a wellbeing economy rather than maximising a single metric no matter what the cost to society.

Kate Forbes: My difficulty with that is that, although, obviously, we are delighted when we see an increase in it, economic growth has been incredibly stagnant across the UK for a long time. Child poverty figures have increased and we have had huge pressures on our public services.

I see no conflict between the four aims that the programme for government sets out. I see no way of tackling child poverty, meeting our climate change objectives—which is also an aim in the programme for government—or protecting and supporting our public services without an increase in economic growth. The four aims in the programme for government are mutually dependent. If we were to take out economic growth as one of those four legs, the stool would topple over. It just could not stand.

I am not suggesting that we would necessarily mirror every decision that the Irish Government has taken, but who can look at the most recent Irish Government budget's support for people in fuel poverty, families with kids, and infrastructure, without being envious of what it has been able to achieve with considerably higher economic growth?

There is an argument as to how Scotland can achieve its aims and ambitions. I just do not think that there is a route to that without economic growth.

The Convener: I would like to make some progress. I call Gordon MacDonald.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Good morning, cabinet secretary. I have questions on a couple of areas, and the first is Ferguson Marine. Recently, the committee visited Ferguson's and saw that the yard faces a lot of challenges in its prospects for new orders and so on. I want to ask about the £14 million funding that the Government announced. What specific outcomes do you want that investment to deliver?

Kate Forbes: Because of the role that Ferguson Marine plays, we have always wanted it to have a long and sustainable future. Clearly, the short-term objective—which, I hope, will soon come to a conclusion—was to deliver both vessels. Over and above that, however, I believe that Ferguson Marine's future is in competing internationally for

new orders. Over the past few years, it has been totally focused on delivering the two vessels. Now that some of that work is coming to a conclusion, there is an opportunity to reinvest in the yard in order to make it fit for purpose and able to compete. For example, some of the funding could be invested in facilities that are more in line with all other successful yards of that size and type.

There has been a lot of due diligence work. You will know that the original bid was rejected. The new bid is undergoing due diligence to make sure that we can make that investment.

10:30

Gordon MacDonald: I have another question about Ferguson Marine. The Scottish Government also owns CalMac Ferries, which is the biggest ferry company in the UK but does not have a repair yard, and Caledonian Maritime Assets Ltd, which owns the ferries. The vessels are repaired predominantly at Cammell Laird on Merseyside. There is surely an argument that, if we want a long and sustainable future for the Ferguson Marine yard, we should amalgamate all three companies, to give economies of scale, remove the duplication of overheads and give the yard the future that it requires. The vessels were part of CalMac Ferries before 2006. The yard could be guaranteed a future if the biggest ferry company in the UK had its own repair yard.

Kate Forbes: That has been considered in the past, with quite extensive work to look at the opportunities that you identify for efficiencies and so on. There are significant legal issues with any amalgamation of the three organisations that you mentioned. The Cabinet Secretary for Transport is probably better suited to answering the technical elements of why they have different forms of governance and ownership.

Certainly, the aim for Ferguson Marine has been to get the boats built then return the company to a private sector buyer who believes in continuing to build boats on the Clyde.

There have been extensive reviews of what might be possible through amalgamation. However, some options have been dismissed because they are not possible under the current governance arrangements of each of the three parts.

If the committee is interested, I am sure that the transport secretary could write with an update on the progress on that question, because it is a very fair one and the Government has been very interested in it in the past. No official wishes to add to what I have said, but the Government will be happy to respond.

Gordon MacDonald: Thanks very much.

The other area that I wanted to look at was the green industrial strategy and the Government's commitment to modernise compulsory purchase legislation. Will you say a wee bit about what is happening on that?

Kate Forbes: The aim in the green industrial strategy is to make things as simple and straightforward as possible in order to deliver on our objectives. Below the strategy's five opportunity areas are a number of targeted actions that the Government will do to create a successful enabling environment for investment and growth. Those targeted actions include things such as skills, research investment, supply chains, planning and consenting, and housing.

Clearly, a lot of that relies on access to land and facilities. Every week, I have conversations with potential investors who are looking for scale and size. In and around the Cromarty green freeport area, there is talk of a need for 25,000 new homes. By extension, that will require land.

I do not know whether my officials have anything to add on the specifics on compulsory purchase, but I imagine that it is part of the toolbox to enable us to meet the growing requirements for land access and to deliver thousands of homes.

Gordon MacDonald: The committee has had an interest in that. When we carried out our town centre and retail inquiry in November 2022, one of the issues that we looked at was compulsory purchase legislation. The feedback that we got from local authorities was that they could not use the legislation, because of a lack of funding. One of the aspects that was considered at the time was compulsory sale orders, on which, I know, the Government did a bit of work through the Scottish Land Commission in 2018. Where are we with compulsory sales orders?

Kate Forbes: I am not in a position to speak to that in any great detail, so could I come back to the committee with an update on compulsory sales orders? That would perhaps be in the context of the green industrial strategy and some of the reform work that is going on in planning right now, because it is not independent of the aims in the programme for government around masterplan consent areas and so on. It is all kind of part of the same world, so it might be useful to come back with more substantive information.

Gordon MacDonald: Okay. I will leave it at that.

Murdo Fraser (Mid Scotland and Fife) (Con): Good morning, Deputy First Minister and colleagues. I will ask a couple of budget-related questions. I enjoyed your exchange with Lorna Slater on economic growth. It is fair to say that, since you came back into Government, there has been something of a shift in the language in

Government, and more of a focus on growth than was previously the case.

However, in recent years, we have seen negative impacts on the Scottish Government's enterprise budgets—I remember asking your predecessor Neil Gray about that issue last year. The budgets of the enterprise agencies, of VisitScotland and of employability programmes suffered quite severe cuts in this year's budget but also in those of previous years. I do not expect you to tell us what will be in the budget, but would you accept that, if there is a new focus on economic growth, further cuts in the very areas of the budget that would help to drive that growth will not be helpful?

Kate Forbes: My portfolio—perhaps uniquely in Government—is one of the few that can generate revenue. I agree that investing through the enterprise agencies and the Scottish National Investment Bank is a means of, first, generating more medium-term immediate returns and, secondly, supporting a growing and prosperous economy more generally.

I agree with the premise that there is a difference between supporting the enterprise agencies in their current form and giving them the capital for them to be able to invest in other organisations. In recent years, Scottish Enterprise, Highlands and Islands Enterprise and the Scottish National Investment Bank have made a number of extremely good investments that have delivered returns for them. Those returns are immediate but, more generally, they are a means of delivering overall prosperity.

Murdo Fraser: Thank you. I dare say that we will see what is in the budget in due course.

Again, on budget-related issues—the convener touched on this in her questioning—the committee has received a lot of evidence on the tax differential. We heard about that when we went to Prestwick airport in the spring, and witnesses have talked to the committee about a Scottish premium that they must pay to workers to offset the higher taxes that are paid here. If what is in the newspapers is to be believed, the policy chairman of the City of London Corporation will speak to the First Minister today and will raise some of those issues. Would you accept that a further widening of the income tax differential would be counterproductive when it comes to the pursuit of economic growth?

Kate Forbes: I strongly believe in listening to stakeholders but also in basing policy decisions on evidence. The First Minister has said, and I repeat, that we cannot continually raise tax.

You have raised the issue of the differential, which is key in a devolved context. I point to the evidence. We know from the HMRC figures that

there has been net immigration to Scotland of, on average, more than 4,000 every year since tax was devolved. The member will say that the figures do not cover this year, and he will be absolutely right—although, to be fair, he has been saying that the differential will have an impact for all the years for which we have evidence. The evidence matters.

I also point to the data that was released just yesterday on Scotland's population: it is a matter of great encouragement that it rose faster in the year up to mid-2023 than at any time since the 1940s. National Records of Scotland said that the main driver of population growth over the period was people moving to Scotland from other parts of the UK and abroad, which, again, illustrates the fact that we have net inward migration.

We must balance all the many reasons why someone would choose to live in Scotland. Although tax clearly plays a role, people take much broader decisions in the round about the general cost of living, the resilience of our public services, the support from Government and other parts of the public sector, and the economic activity that is happening here. All those are reasons to celebrate the fact that people are choosing to move to the country.

Murdo Fraser: I am glad that you mentioned the migration figures, because I had a detailed look at them this morning. You are absolutely right: in the year to the middle of 2023, the Scottish population increased by 0.8 per cent, based entirely on inward migration. For the same period, the population of the UK as a whole increased by 1 per cent, so Scotland lags behind the overall UK growth by 20 per cent. In your view, why is the Scottish population growing less fast than that of the UK as a whole?

Kate Forbes: That is quite a remarkable way of turning a positive that we can all get behind into a negative.

We need to drill down into those numbers, and I have asked for more robust granular data, for example on where people are settling. Willie Coffey raised the point about our rural communities; I mentioned in my answer to him that we have been talking about National Records of Scotland's forecasts, which, in essence, plateau over the next 40 years, with significant drops in rural areas and significant increases in urban areas. Those figures disrupt that general trend.

Looking at Scotland's public services right now, my greatest worry is that it is the very people whom we need who are the most excluded by our current immigration and visa systems. That is the bottom line. Last week, Russell Findlay raised the issue of delayed discharge, which a number of people have concerns about. The big problem with

delayed discharge is the workforce: right now, we know that far more people could be in the country who are excluded from it on the basis that they do not earn enough or are not considered to be skilled enough by the UK Government. That is quite an affront to them. I know that many of us entrust loved elderly relatives to such people.

On Monday, we heard that there are massive housing sites in Shetland that are ready to go, but the big problem is workforce. Quite a number of Europeans used to work in Shetland, in the construction industry in particular, but private sector construction businesses have told me that they have all now left to go home.

10:45

I agree that we have to drill down into the figures. The population figures that were published yesterday are a cause for celebration, but I would like to see higher levels of inward migration, and I think that visas have a role to play in that. I am assuming that those figures would have been collated prior to the most recent clampdown on visas and immigration.

Murdo Fraser: We could debate that issue all morning. As an addition to those figures, it would be interesting to see a breakdown of the demography of the people who are leaving Scotland and those who are coming in. If it is the case that people in their 20s and 30s are leaving and that those who are coming in are in their 40s and 50s, that would also tell us something interesting. [*Interruption.*]

The Convener: Excuse me—can we have some order in the committee, please? Only one person should speak at a time. Carry on, Mr Fraser.

Murdo Fraser: Thank you, convener. I do not know whether we have access to that data.

I am conscious of time, but I would like to ask another question. When you gave evidence to the committee in May, I asked you about the new deal for business and how it was progressing. At that point, you said that you were constrained in what you could say about it, because of the purdah rules. Can you give us an update on the status of the implementation of the 78 recommendations in the new deal for business?

Kate Forbes: Since coming into post, I have had two meetings with the new deal for business group, and I have been very enthusiastic about the progress that has been made. There was equal enthusiasm at the most recent meeting, because we worked closely with the group in shaping the programme for government. The organisations that are represented on the new deal for business group were very encouraged by the extent to

which their asks were reflected in the programme for government, and some of them said that publicly. We have made substantial progress.

The next area of focus will be the budget. The Cabinet Secretary for Finance and Local Government has met some stakeholders, including stakeholders in hospitality businesses, to talk about what they want to see being reflected in the budget. I want there to be tangible evidence that the new deal for business is shaping Government policy, because that promise was made to the group when it was convened.

An obvious example of where that is having an impact is through the regulatory review group, which is headed up by Russel Griggs. He and his team review policy commitments that have been made by the Scottish Government across all parts of Government, including the health service and the environmental brief, and the impact that those will have on our economy. That evidence is then fed into the new deal for business group.

In a number of the conversations that we had in the lead-up to the announcement of the programme for government, evidence from that process was actively taken into consideration. Members of the Parliament will never know what did not make it into the programme, but they will see the final version. I know that, throughout the twists and turns of all the conversations, a lot of feedback was given by the new deal for business group and the regulatory review group, which, if I remember correctly, was reconvened as a result of the new deal for business.

The Convener: Brian Whittle has a brief supplementary.

Brian Whittle (South Scotland) (Con): I am interested in the issue of population. The last time that I looked at it, the average working age in Scotland was 41, but the average age of people who were coming to Scotland from south of the border was 55. This relates to Murdo Fraser's point: we do not want our graduates to leave to go south of the border, which always used to be classed as a brain drain. I am trying to understand who is coming into Scotland. How much has the Government drilled down into the population figures to find out what the economic impact of that age disparity is?

Kate Forbes: We do not see the data in advance of it being published. It was published yesterday, I believe, and we have discussed it internally in Government. The ask has been for there to be a more granular drill-down so that that detail can be shared across cabinet secretaries and across portfolios to allow us to better understand the implications of it. I imagine that Angus Robertson would be able to return to the Parliament with more data. It is helpful to

understand what is motivating people to move to Scotland and how we can build on that so that we can motivate more people to do that.

I also think that the rhetoric is important, for two reasons. First, I confess to being really disheartened when there is a constant drumbeat of negativity in our political discourse about why people should not move to Scotland. In general, what we hear from the Opposition is that everything is rubbish; points are made about tax and so on. I think that we forget that that has a negative impact on whether people want to move to the country. I have often heard it said that the negative rhetoric about tax is more off-putting than the tax itself. That has certainly been the case over the past few years. The NRS figures are interesting because they represent positive rhetoric about Scotland that we can all get behind, which, I would hope, would encourage other people to move to Scotland.

Secondly, how we respond is important. The Government is proud and delighted that there has been an increase in migration to Scotland. We want Scotland to be a welcoming place for migrants and immigrants. Given what other parties are saying about their concerns about immigration, it is so important that we stand together in Scotland and say to immigrants, “We welcome you—we want you to come here.” We recognise that there is a moral imperative for us to welcome people to Scotland; more than that, we recognise that it is an unashamed economic imperative that we do so.

If our problem has long been emigration, I hope that the way that we respond to the recent figures will reverberate across our political discourse and, perhaps, further afield, to illustrate the fact that we want people to make their home here.

Brian Whittle: We could have a full session on that, but I will leave it there.

Michelle Thomson (Falkirk East) (SNP): Good morning, and thank you for joining us. We have been nestling around the sides of the budget through the course of the evidence session. We know that the Scottish budget will be particularly tight, and I think that we all understand that without having to go into the detail of it.

Given the cabinet secretary’s relentless focus on economic growth—although I note that she has talked about prosperity for a purpose, which I agree with—against the backdrop of a historical long-term trend of UK productivity being very low relative to that of comparable economies, can she set out her understanding of the macroeconomic environment in the UK? How will the restricted investment in capital, in particular, have a follow-on impact on what she is trying to achieve with economic growth so that we can get vital funding

to pay for public services and, of course, increase our productivity?

Kate Forbes: Michelle Thomson is absolutely right to say that the wider UK environment is a big determinant of what happens in Scotland. We know that there are challenges with productivity, which are linked to private reinvestment and investment in innovation. We want to encourage as much of that investment as possible. That is a UK-wide challenge and a UK-wide trend. How we are perceived internationally has a massive bearing on that.

I know of a number of major corporations that have previously been active in the UK but which left a couple of years ago for various reasons. When we have engaged with those corporations, they have said that they are sympathetic to what the Scottish Government is trying to do, but, at the end of the day, we sit within the wider United Kingdom, which will have a bearing on what they can and cannot do.

What Rachel Reeves does with the budget in October will matter massively in terms of incentivising the reinvestment piece. How she will use the tax system to incentivise reinvestment and how she will ensure that the UK as a whole is considered to be open for business will matter. That will work either in favour of or against what we are trying to achieve.

The other big issue is labour shortages. Today, RBS said that hiring activity has surged and that job creation has reached its highest level since May 2023. That is positive if the workforce is there, but if there are constraints on the labour market, which we know there are, employers will continue to face staff shortages. In September, 24.7 per cent of firms reported experiencing a shortage of workers, although that is lower than the average rate over 2023, which was 33 per cent.

Those macro trends and issues clearly have an impact. There has been a lot of speculation about how Rachel Reeves might adjust debt and accounting rules to allow greater capital and infrastructure investment. I would welcome such a change and the flexibility that it would bring.

Michelle Thomson: Following on from that, capital has been extraordinarily important for our enterprise agencies and the Scottish National Investment Bank. Will the cabinet secretary reflect on what she hopes to see for capital going forward? How critical will the 20 per cent cuts on capital over the next five years that the Scottish Fiscal Commission predicts be? What are the implications for the Scottish National Investment Bank and Scottish Enterprise? There have been recent articles in the *Financial Times* about Rachel

Reeves asking for a 10 per cent relative cut in departments.

Before you answer that, I note that my understanding is that financial transactions, which have also been cut, have been used as a loan mechanism because of the absence of capital. That is a potential double drop that limits economic growth and productivity.

Kate Forbes: Financial transactions grew considerably under the previous Conservative Government. They were a very helpful resource for us in housing, as your neighbour on the committee, Willie Coffey, will know, and they were a means for us to significantly capitalise the Scottish National Investment Bank rapidly.

Financial transactions are a loan mechanism, as you say, so they are not capital; they must be returned to the Treasury at the right point, but they allowed us to extend the reach of our capital. Last year, they were cut—if memory serves—by over 60 per cent, which was a huge hit in one year. Taking on board that hit in one year was a mammoth task for all the housing programmes and the Scottish National Investment Bank programmes that were explicitly reliant on financial transactions. That required us to divert capital from elsewhere to continue to support those programmes.

We do not know what Labour will do with financial transactions, and we do not know how it feels about financial transactions. It is clear that there will be more consequentials if the UK Government increases what it is doing on housing. At the end of the day, in order to capitalise the Scottish National Investment Bank we want to use capital, but there is a concern about diverting capital from new schools, hospitals and roads to the Scottish National Investment Bank, so we will have to weigh that up.

Michelle Thomson: There is sometimes talk of diverting revenue to capital. Can you outline the implications in other areas of the budget if that is done?

Kate Forbes: In some circumstances, we can switch. However, revenue is basically spent on people: it is spent on the wages bill for our nurses, doctors and front-line workers. The Government has clearly set out its prioritisation of our people because they serve the public. Therefore, to switch is really challenging.

Now that we are coming through the cost of living crisis, high costs and the erosion of our spending power, although we are not quite out of that situation it is the time to inject capital into major infrastructure projects, to get the economy growing and to create the hive of activity that we know is attractive to other international

organisations and enterprises that might want to be part of what we are doing in Scotland.

11:00

Michelle Thomson: A couple of weeks ago, we had the Scottish National Investment Bank and Scottish Enterprise in front of the committee, and Michael Robertson from SNIB—I will just get the *Official Report* up—commented on the bank's "perpetual status". My colleague Murdo Fraser picked up on a question that I had asked the year before about how profit was dealt with under the UK Government budgeting manual. What is the cabinet secretary's understanding of how the UK budgeting rules align specifically with the UK Government rather than the Scottish Government? The reason why I ask is that Michael Robertson said:

"Where we see potential for advancement within the Scottish rules is on flexibility, and potentially on multiyear investments"—[*Official Report, Economy and Fair Work Committee*, 25 September 2024; c 28.]

That question is slightly technical, but I wanted clarification of what the UK budget rules are and, therefore, of whether there is any flexibility.

Kate Forbes: Let me make a stab at that and then hand over to Richard Rollison.

Michelle Thomson: I realise that it is a bit technical—sorry.

Kate Forbes: That has been a very pressing issue since the Scottish National Investment Bank was established. Prior to the bank's being established, there were extensive conversations with the UK Government and the Treasury about whether there could be any unique flexibilities for the bank within the fiscal framework. A lot of work was done to build cross-party support so that the UK Government could have the confidence that it was not a political play but was about supporting the bank on those flexibilities.

One of the big flexibilities that the bank would like to have is the ability to carry over budget across financial years. Any investment house will make decisions irrespective of where they fall in the financial year, but the lack of flexibility to carry over that is built into the fiscal framework means that, if we are nearing the end of March, there is a really difficult decision to make as to whether to accelerate an investment decision and, in the process, to carry a lot more risk, or to wait until the next financial year and carry even more risk because you do not know what the budget will be.

We have been working with the bank to consider what further flexibilities might be afforded from within the Scottish Government budget, but it is extremely difficult to see how we can do that

without additional flexibility from the UK Government.

Richard—I will hand over to you for the better answer.

Richard Rollison: The cabinet secretary has left me with a slightly technical question. I picked up on some of Michael Robertson's evidence to the committee, and I think that the question relates to how the Treasury's consolidated budget guidance creates asymmetry in the way in which the bank treats income and losses. If the bank makes a loss, it takes a 100 per cent resource departmental expenditure limit hit. If it makes a gain, it gets to keep 5 per cent of that as RDEL but 95 per cent of it comes back as FTs, which need to be paid back. There is asymmetry in that.

Michelle Thomson: That is very clear.

I will pick up a point that some of my colleagues have made. I appreciate, cabinet secretary, that you are responsible for the economy, but the ability to promote growth has to be linked to what happens with finances. The Scottish Fiscal Commission recently produced a report on getting to net zero. To what extent are the key elements of the just transition and getting to net zero understood from an economic perspective? I am thinking primarily about the point that the UK cannot get to net zero without Scotland and, secondly, that under the fiscal framework as it is structured at the moment, Scotland cannot, by law, invest at the sort of scale that is required to trigger a just transition or get to net zero.

Kate Forbes: I do not disagree with that. The UK clearly cannot get to net zero without what is happening in Scotland. Of course, I would cheekily argue that it cannot get to net zero without the north and the north-east, including the Highlands and Islands. That means that a lot of the focus is on Scotland.

Some of the figures for the economic activity, the export potential of our energy and the investments that are being made are astonishing. The opportunity is huge, but it requires an equally huge response from the Government. We cannot do that within the fiscal framework, in part because of the sums of funding that are involved. We have a capital budget of about £5 billion a year and you know our limits on borrowing. Take ScotWind as one example. Those who have won the leases have, between them all, pledged £25 billion of investment in the supply chain. We have an annual capital budget of £5 billion that is designed to go on hospitals, roads and everything else.

The opportunity is huge. Any other country will respond to that huge opportunity with an equally huge offer. If we want, for example, to take stakes in businesses in the supply chain and ensure that the supply chain is able to respond, the level of

demand on a capital level far outstrips the small budget that we have with our enterprise agencies and the Scottish National Investment Bank. The remarkable thing is that GB energy will not do anything over and above what is already happening with the Scottish National Investment Bank and other players: it will not provide any significant additional capacity. I am delighted that it is to be based in Scotland. It has a role to play. That is great and it is creating a hive of activity around it. However, to meet the scale of need, we all need to get real and get with what people are pledging to invest.

We have a £55 billion overall budget. Just one ScotWind leasing round—it is not even innovation and targeted oil and gas, and it is not onshore, but just offshore—represents £25 billion, which is half the Scottish Government's budget. That illustrates the scale of what we are talking about.

Michelle Thomson: Thank you for putting that on the record.

The Convener: We need to make some progress. A couple of members wish to ask questions. If questions and answers were shorter, that would be helpful.

Kevin Stewart (Aberdeen Central) (SNP): Good morning, Deputy First Minister. Lorna Slater mentioned the green industrial strategy and its consistency of purpose with NSET. I want to take that a little bit further and ask how it melds with the hydrogen action plan and the forthcoming energy strategy.

Beyond that, I would like your opinions on how all that fits or does not fit with UK strategies. You said that you are focused on actions. Are certain elements that are not within our control holding up actions?

Kate Forbes: Yes. I could take each of the five opportunity areas, including hydrogen, and tell you about where I think we need far greater and closer collaboration with the UK Government. Carbon capture, utilisation and storage is quite an obvious area in which we ultimately need the UK Government to make an investment in Scotland's opportunity. When it comes to some of the other areas, the big issue that people raise with me, and which they will raise with members consistently, is grid connection. More generally on where we need close collaboration, we ultimately cannot deliver the full scale of our ambition for the five opportunity areas without close alignment with UK Government strategies on them all. I suppose that that is the general gist of my response to the question.

Kevin Stewart: What is your opinion on whether the co-operation that we require is as good as it should be? Let us take the example of hydrogen and the hydrogen action plan. There

have been lots of discussions around this table and elsewhere about the possibilities for hydrogen. We see some of the possibilities in my neck of the woods, with the Aberdeen hydrogen project, which has been on the go for quite a long time now. We are told that some of the difficulties with that come from UK regulation on transportation and storage of hydrogen. How much are you doing to persuade the UK Government to make the moves to get this right, in order to allow the investment that our future requires?

Kate Forbes: We set out in our hydrogen action plan the decisions that we would take on hydrogen. As you said, there have been a number of pilots and pockets of activity in hydrogen. I know about the level of activity of interested investors, developers and energy companies that want to explore and develop it, so there is a lot of optimism about the potential.

The key in all the energy industries is to turn potential into reality. We need to work at pace to turn potential interest from investors and developers into activity on the ground. For example, the need to develop the infrastructure for export and build will require close alignment with the UK Government. The big sticking point with generation of renewable energy, particularly offshore wind, is access to the grid.

At the moment, our engagement is positive. We have had a lot of face-to-face engagement. I know that the Secretary of State for Energy Security and Net Zero, Ed Miliband, and Gillian Martin have had a number of face-to-face discussions about what each side needs to be doing, but the industry cannot wait for us to keep talking. It needs to see some shared partnership working in getting things done.

Some things have been done around two recent investments. The investment in Ardersier, which we talk about extensively, is about infrastructure and upgrading the facilities there, thereby creating opportunities for other developers to come in. That investment was joint UK Government and Scottish Government funding. The other example is the UK Infrastructure Bank's investment in Hunterston and XLCC, which complements some funding that the Scottish Government has committed. Those are two examples. We can point to those and see active investment in infrastructure.

Kevin Stewart: Earlier, you talked about the importance of the supply chain. In the oil and gas supply chain, the knowledge is immense. People within that supply chain recognise that there needs to be change and that they will have to transition but, as things currently stand, they see that as being difficult because they do not have the comfort that they need about some of the

regulatory changes that are required, which we have touched on.

How can we get the UK Government to work with us and listen to industry to ensure that we secure jobs for the future and that we do not end up in a situation where jobs dry up and people go elsewhere, when we will need them in order to move forward with the green economy that we want?

11:15

Kate Forbes: The message that I have been sharing is that if the UK Government wants to achieve its aims around energy, it should let us take the lead in Scotland. We, jointly with industry, can give a clear steer on the changes that we need to see in short order. The UK Government, in its early weeks and months, has had a big focus on getting GB energy set up, but when it comes to those questions, we know what needs to be done. It is a clear list, and it is about making the changes and speaking with one voice to give reassurance to those who are minded to invest and are looking at whether they should stay here or go to our European neighbours. A lot of the investors who come to Scotland go on to Scandinavian or European countries. They have options, so we need to ensure that they are here.

I realise that I have been talking at length about investment. Richard Rollison is leading a lot of the work on attracting investment.

Kevin Stewart: Inward investment is absolutely important, but we already have companies here with a huge amount of knowledge and companies that are developing new products to make the change. Are we ensuring that we are backing them to the hilt as well as relying on inward investment? If Richard Rollison wants to pick up on that, I would be grateful.

Richard Rollison: It is not either/or. We perform really well on inward investment. For the ninth year in a row, we have been the best place in the UK for that, outside London and the south-east. You heard some of that in evidence from Adrian Gillespie. Scottish Enterprise and the other enterprise agencies are supporting domestic companies to innovate and export. Wearing the trade bit of my trade and investment hat, I point out that we have supported something like 100 trade missions over the past few years. Most of those support domestic Scottish companies to export overseas and increase their international sales.

Kevin Stewart: That is grand and a very good thing. It is not just about exporting knowledge overseas; it is about the possibility of manufacturing new products, which is extremely important for our green industrial future. As we

move forward, I would be grateful if the committee could be updated on how we are dealing with domestic investment and ensuring that we make the very most of the knowledge and the products that people are coming up with here.

Kate Forbes: I agree with your point about the supply chain. There is a sequence to that. We need to get some of the major developments, particularly offshore, through consenting and planning and into a phase where they are about to build and have pledged funding. In advance of that point, they will look to the Scottish domestic supply chain, and it will be the services and products that are at the most advanced stage that will be able to support the wind or hydrogen opportunities. If they do not exist, investors will look overseas.

Brian Whittle: In the 2024-25 budget, there is a significant increase—some 38 per cent in real terms—in the digital budget, which is very welcome. I will unashamedly ask about the potential outcome that you see for the NHS. The whole of the UK is behind the curve on digital infrastructure and information technology adoption. I note that the previous UK Government looked at investing £3.5 billion in that specifically. What outcomes do you expect in the NHS from the significant increase in digital investment?

Kate Forbes: I draw a distinction between funding that is spent on digital infrastructure and funding that is spent on technological advancement or digital innovation. We are spending considerable sums of money on the reaching 100 per cent programme. We expect R100 contracts to connect more than 112,000 premises across Scotland before 2028.

The bit that I am more interested in, and that I think you are more interested in, if I am reading you correctly, is innovation. There has been a huge amount of work on that, and one of my priorities is to try to support innovation in the NHS. Neil Gray and I are both leading on that. In a matter of weeks after I came into the Government, we established a round table with a lot of the NHS boards, including the key procurement people in the NHS boards, and some of the most exciting businesses that are working in life sciences, supported by university research and development centres and so on.

The issue that came through from those in life sciences was that their biggest challenge is access to the NHS, and the NHS said that its biggest challenge is that it has to do things in a way that enjoys the public's support and confidence, so it needs to interact with research and development in a sensitive and careful way. However, some significant progress on innovation in the NHS has come from those conversations.

I talked briefly about the digital dermatology programme, which has been months in the making. It was launched this month and is due to be embedded in 90 per cent of Scotland during the next few months. Use of that technology will massively reduce waiting times for dermatology appointments. The point about that story is that I am not talking about something really exciting in the life sciences sector that is still years away from implementation; that programme is being implemented now.

Technology is one of the most compelling answers to the challenges faced by our NHS. Similar technological advancement is going on for treatment for cancer and diabetes, and we are at the stage of that being implemented in one health board with a view to its being rolled out across all health boards. Mark Logan is supporting that work, and he is bringing his style of thinking to the work of the NHS.

Brian Whittle: I have an interest in that area, because it is the one that I came out of before I came to Parliament. As you said, a basic platform that allows for innovation and technology will help to tackle waiting lists, staff shortages, general health and economic inactivity. I am pleased to hear that that is the direction of travel that the Government is going in.

We are short on time, so I will move on to talk about Prestwick airport. We discussed that when the cabinet secretary was here previously. The committee went down to Prestwick airport and had a very good visit. I want to tie off something that we talked about the last time. I mentioned that there was concern about the previous chair fronting a bid for the airport to the Government while he was still the chair. That is obviously a conflict of interests, which you acknowledged at the time. Can you give us an update on where we are with that?

Kate Forbes: I will give you an update. It might be helpful to remind the committee of the background of that expression of interest linked to Forsyth Black. He was the chairman of the board and resigned from it to ensure an independent and fair assessment. He stepped back from his duties immediately upon disclosing that he was linked to an expression of interest, and the Scottish Government and Prestwick airport subsequently agreed that he would have to resign rather than be temporarily removed from his post. He does not have inside knowledge of competing bids to purchase the airport, as no formal bids have been received.

I do not feel that it would be appropriate for me to share further details, including the number or identity of any other organisations behind an expression of interest, at this time. That is not to say that we cannot come back to Parliament when

there is something on which to update you in due course.

Brian Whittle: Can you give us an indication of the timeline to complete due diligence and announce whether a bid has been successful?

Kate Forbes: I do not know whether any of my officials want to respond to that. It remains our intention to return the business to the private sector. We will update Parliament at the appropriate time if a proposal is received that represents good value for the taxpayer and continues to deliver benefits to Scotland and the local economy in Ayrshire. I am conscious, in these quite sensitive periods, of the need not to say anything that jeopardises either the commercial element or overspeaks in a political context.

Brian Whittle: Likewise.

Kate Forbes: Great.

Brian Whittle: I will leave it there.

The Convener: Some members wish to ask a couple of supplementaries, if the cabinet secretary has time.

Michelle Thomson: I will be very quick, cabinet secretary. I would not be doing my job properly if I did not ask a little question about the refinery in Grangemouth, which is in my constituency. There has been a lot of talk thus far about opportunities and the work around project willow and so on. However, the cabinet secretary's interest is in the economy, given her role. A report by Scottish Enterprise noted that the refinery contributed an estimated £403.6 million to the Scottish economy. PWC estimates that, rather than 400 related jobs that could go, there are nearly 3,000. The First Minister has stated that the closure will create a "significant economic shock". Are we still focusing enough on the economic loss and shock, or is the balance skewed too far at this stage towards what the future might bring?

Kate Forbes: We are still examining all options to bring forward new projects and employment opportunities at Grangemouth, entirely because of the economic impact that Michelle Thomson has just outlined. That is where the joint working between the Governments to consider viable options for the future of the site, including the feasibility of transforming it into a low-carbon fuels hub, comes in.

Along with support from Petroineos, the Scottish Government and the UK Government are very much willing to support options that will achieve the aim of trying to maintain, or almost increase, the economic activity that goes on at Grangemouth. We want Grangemouth to retain its position as Scotland's foremost industrial site well into the next decade and beyond, and the UK

Government is committed to exploring routes to supporting the next stages of all those options via the national wealth fund.

I appreciate that that is not a substantive answer on what happens next, but I absolutely share Michelle Thomson's view that we cannot take our eye off the economic impact around labour and the support for our energy mix.

11:30

Willie Coffey: I will take you back to the issue of Prestwick airport, cabinet secretary. The Scottish Government has been, and still is, a great supporter of the airport, which we own. Does the Government think that there is room for improvement in the number of passengers going in and out of Prestwick? The airport is so close to Glasgow and is named Glasgow Prestwick, which I think is a strange term to use these days. However, given that closeness, do you think that there could be an increase in the volume of passengers coming through Prestwick? We see about half a million passengers going through Prestwick but about 7 million going through Glasgow. They are geographically close and we own Prestwick, so does the Government see any potential to improve passenger volumes?

Kate Forbes: I keep a close eye on the accounts for Prestwick airport. The most recent ones were published on 16 November 2023 and show a continued positive picture, with the airport posting a profit in 2022-23. I do not know whether we have a specific date, but the next year's accounts are due for publication some time in late autumn.

Glasgow Prestwick has developed as a specialist airport and has carved out a niche in a competitive aviation market. I do not think that it should necessarily be competing with Glasgow; it should continue carving out that niche. We would not intervene in commercial decisions that are taken by the airport, but I would want the management to consider all potential business opportunities in order to maximise use of the airport's assets.

The Convener: I have some final questions about Ana Stewart's review, which was published just over a year ago. Although recent figures for the number of women starting businesses have been quite positive, showing that women start businesses at pretty much the same rate as men, we know that that is only part of the story. Women-owned businesses do not have the same longevity or lifespan as male-owned businesses and face difficulties in accessing finance, which is not such a barrier for male-owned businesses.

Can you say more about how you intend to implement Ana Stewart's review and provide support? Where will that go next?

Kate Forbes: You have gone through the statistics, convener, so I will not repeat them, but the pathways review happened in the first place because of those concerning statistics. The other statistic that I would use is that 2p of every £1 of investment goes to female founders. That, in itself, is quite stark and also means that the statistics that you have outlined come as no surprise given the state of investment in businesses with female founders.

I remain extremely committed to implementing the recommendations of the pathways report. The pathways fund opened on 19 July this year, making up to £1.1 million of funding available to widen access for entrepreneurs. The fund was very successful: by the time that it closed on 30 August, it had received 130 applications and officials are now working to confirm grant awards.

A lot comes back to the issue of data. We have taken on board the need to improve data collection, which is a work in progress. We are working with delivery agencies and academic partners to improve our understanding, monitoring and reporting of data relating to participation in entrepreneurship. I am sure that the committee will be interested if and when we can give an update on what we have done as a result of that work.

The Convener: At the start of this session of Parliament, there was a commitment to £50 million for a women's business centre. That policy changed towards the idea of having pop-up centres and you outlined a fund of just under £2 million. Is there no longer a commitment to a figure of £50 million to support women in business?

Kate Forbes: We certainly moved away from the idea of the business hub, because we wanted to integrate that in the general ecosystem instead of having one site. That decision was based on feedback from women working in that sector.

On the issue of budget decisions, we will continue investing as much as we can in our overall work on digital technology. We have announced a number of funds since 2021 and are investing in female entrepreneurship through every budget, so there is no £50 million pot waiting to be drawn from.

The Convener: I thank the cabinet secretary for joining us. That brings us to the end of our evidence session, and the committee will now move into private session.

11:35

Meeting continued in private until 12:11.

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