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Economy and Fair Work Committee

Wednesday 8 January 2025

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

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ECONOMY AND FAIR WORK COMMITTEE
1st Meeting 2025, Session 6

CONVENER

*Colin Smyth (South Scotland) (Lab)

DEPUTY CONVENER

*Michelle Thomson (Falkirk East) (SNP)

COMMITTEE MEMBERS

*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
*Murdo Fraser (Mid Scotland and Fife) (Con)
*Jamie Halcro Johnston (Highlands and Islands) (Con)
*Daniel Johnson (Edinburgh Southern) (Lab)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Lorna Slater (Lothian) (Green)
*Kevin Stewart (Aberdeen Central) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Colin Cook (Scottish Government)
Kate Forbes (Deputy First Minister and Cabinet Secretary for Economy and Gaelic)
Marcus McPhillips (Scottish Government)
Kathleen Swift (Scottish Government)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy and Fair Work Committee

Wednesday 8 January 2025

[The Convener opened the meeting at 09:34]

Decision on Taking Business in Private

The Convener (Colin Smyth): Good morning, everyone, and happy new year. Welcome to the first meeting in 2025 of the Economy and Fair Work Committee. Our first agenda item is a decision on taking items 3, 4 and 5 in private. Are members content to take those items in private?

Members *indicated agreement.*

Budget Scrutiny 2025-26

09:34

The Convener: Our next item of business is an evidence session on the Scottish Government's 2025-26 budget, which was published on 4 December, along with the Government's response to the committee's pre-budget letter. I am pleased to welcome, from the Scottish Government, Kate Forbes, Deputy First Minister and Cabinet Secretary for Economy and Gaelic; Colin Cook, director of economic development; Marcus McPhillips, deputy director of the economic strategy and delivery unit; and Kathleen Swift, head of the DG economy finance unit.

As always, members and witnesses should keep questions and answers as concise as possible. I invite the Deputy First Minister to make a short opening statement.

The Deputy First Minister and Cabinet Secretary for Economy and Gaelic (Kate Forbes): Thank you very much, convener. It is good to be back at the committee. Happy new year.

We are very proud of what the Scottish budget will do to support one of the First Minister's four key aims, which is growing the economy and investing in our people, places and businesses. We need to lay the economic foundations for lasting improvements to our country, our economy and our society, and the budget will contribute to that.

We are targeting funding in the areas that will set us on course for long-term economic success. In recognition of its key role in our plans for growth, the Scottish National Investment Bank has been allocated £200 million. Our enterprise agencies will receive £321 million of investment to unlock thousands of new jobs and global investment opportunities. There is additional money to support the expansion of our offshore wind capacity and to enable the creation of a Scotland-based manufacturing supply chain.

There is investment in technologies of the future, from robotics to artificial intelligence, as well as funding for Scotland's world-leading Techscaler initiative, which helps small innovative companies to grow and thrive. Through the expanded £15 million enterprise package, we are supporting promising innovators and entrepreneurs, and I am particularly pleased that £4 million of funding will be allocated specifically to create more opportunities for women in entrepreneurship. I know that that area has been of interest to the committee.

Alongside that, there is funding to meet the First Minister's other objectives. For example, eradicating child poverty is his Government's top priority, and the budget includes £768 million to boost delivery of the affordable housing supply programme, which is a key element of tackling child poverty as well as investing in the economy. Significant investment of £90 million will be made in employability services, because, as we heard in yesterday's debate in the chamber, alongside things such as the Scottish child payment, we need to invest in employability and skills.

I am hugely proud of what the budget, taken as a whole, will do for the economy, and I am happy to take the committee's questions.

The Convener: Thank you very much. I will begin with questions on non-domestic rates. The United Kingdom Government's budget provided 40 per cent business rates relief to retail, hospitality and leisure businesses across the rest of the UK. As a result of that policy, the Scottish Government will receive £147 million in consequentials in 2025-26. In recent years, the Scottish Government has chosen not to pass on similar allocations of consequentials for rates relief for retail, hospitality and leisure businesses. At this committee and others, the sector has argued that that has left it at a competitive disadvantage compared with its counterparts in the rest of the UK.

The Scottish Government has proposed 40 per cent business rates relief for next year, but it has restricted that relief to hospitality businesses with a rateable value of up to £51,000, and retail businesses will not be covered. Why has the Scottish Government chosen not to replicate the UK Government's business rates relief proposals or, at the very least, made a proposal that would use the full £147 million of consequentials?

Kate Forbes: We continue to have one of the most generous and competitive non-domestic rates relief regimes in the UK. I will make a couple of points. First, as a general principle, I believe that the Scottish Parliament and the Scottish Government should take decisions that are in the best interests of the Scottish people, and that is not a case of just copying and pasting UK Government policies.

We know that businesses, particularly hospitality businesses, are struggling with the prospect of the hike in employer national insurance contributions, the hike in fuel prices and the on-going erosion as a result of inflation. It is a really difficult time. The decisions that we have taken on non-domestic rates reflect our commitment to support businesses. For example, we have frozen the basic property rate rather than raising it in line with inflation. We have protected the generous small business bonus scheme, which supports a lot of the businesses in the sectors that the convener has just referenced. We are offering a 40 per cent relief to hospitality premises that are liable for the basic property rate in mainland Scotland. The 100 per cent rates relief for those on our islands is on-going.

That sits alongside a number of investments and opportunities in Scotland that are not available elsewhere in the UK. That is the nature of devolution: it allows us to take distinctive decisions, not least, for example, the decision to fund a universal winter fuel payment next year.

The Convener: Many in the sector have highlighted the fact that support in the rest of the UK is more generous for many businesses. For example, UKHospitality pointed out that, because of the cliff edge of the £51,000 rateable value—which is quite small for a hospitality business, given how we calculate rateable value in that sector—around 2,600 hospitality businesses in Scotland will miss out on support that is available in the rest of the UK. Why was the £51,000 cut-off point chosen? Why was not that extended to retail?

In recent weeks, we have heard that around 10,000 jobs have been lost in retail in the past year. The sector is under significant pressure. Indeed, this committee carried out an inquiry into the impact on town centres in particular.

Kate Forbes: The £51,000 cut-off is, of course, the basic property rate threshold. It is not an arbitrary figure; it is recognised by assessors and it is recognised as a threshold. For example, that threshold was used regularly during Covid when it came to business support.

On retail businesses, I would take my lead from comments that the Scottish Retail Consortium made on Monday. I accept that the SRC characterised it as an "imperfect" budget, but it is also one that it encourages MSPs to support and to get behind. It has referenced sources of support specifically for retail businesses in the budget. For example, it referenced that we are not progressing with an additional large property surtax and the support to fight retail crime. As I mentioned, there is a freeze to the basic property rate, which will benefit retail businesses.

On hospitality, you will have heard the finance secretary say that—it is worth repeating—up to 32,000, or 93 per cent, of hospitality businesses in Scotland might be eligible for rates relief under the budget.

I have been open in accepting that the budget does not go as far as some businesses would like. With the settlement that we have, and taking the different choices that we have in Scotland, we have sought to protect businesses; support them; stand up for them when it comes to things that they are particularly concerned about, such as the jobs tax—the increase in employer national insurance contributions; and protect them from any inflationary hike in non-domestic rates poundage.

The Convener: I come back to the £51,000 figure. It was certainly recognised during the pandemic that many businesses were losing out as a result of that figure and additional support—discretionary funding—was put in place as a result of that.

In last year's budget, the Government promised the hospitality sector that it would review how we calculate business rates for it. We use turnover at the moment, and many believe that that is grossly unfair, as turnover has increased because costs have increased, but profit margins have gone down. Is it still the Government's view that turnover is the most effective way to calculate business rates for the hospitality sector? If not, when will we see the outcome of that promised review?

09:45

Kate Forbes: That is an important question, and it is one that I am happy to continue to come back to at committee because, if we are to see any change in the methodology, a number of issues need to be understood first.

The Government is still committed to reviewing the methodology for non-domestic rates assessments for hospitality businesses. The Cabinet Secretary for Finance and Local Government set that out in last year's budget and it has long been an issue that I have been keen to see progress on.

Over the past year, there have been extensive meetings and conversations between representatives of hospitality businesses, ministers and the assessors. It is not as simple as saying that hospitality is measured and evaluated on the basis of turnover. The challenge that assessors identify is the lack of data.

Non-domestic rates are based, theoretically, on what a property might get in terms of its rental value on the open market. Assessors generally have a lot more data to go on for retail than for hospitality. That is why they look for other sources of evidence and data for hospitality and therefore they look to turnover. If we could ensure that assessors had alternative sources of data that they were satisfied gave them the material that they needed to make an assessment of the value of a property, nobody would be averse to moving to that approach.

The distinction between how non-domestic rates operate in Scotland versus how they operate in England and Wales is that, in Scotland, it is still largely based on case law, and assessors are completely independent of Government. Although we set policies, the manner and methodology in which assessors make their assessments is based on case law, and they do so independent of Government. This has long been an issue on which people have appealed for direct Government intervention. Historically, it operates in a different way in Scotland.

There is absolutely no argument from ministers about the appetite to ensure that the methodology is as fair as possible, but there are a number of questions on which we would need to be satisfied before we could make progress.

One of the sticking points in the past has been on getting consensus among hospitality businesses. I have raised that issue with them a number of times in the past few months. If we could get to a position where there is agreement on the methodology across hospitality businesses—from small cafes through to large hotels—we could also make progress. I know that assessors are open to considering alternative sources of data so that they do not have to depend on turnover.

The Convener: Do we have a timescale for when the work will be completed? Many hospitality businesses are struggling significantly. You referred to the SRC's response to the budget. The SRC was also quite critical of the lack of additional business rates relief. It said that there was disappointment among smaller shopkeepers at the omission of any rates relief comparable to that which counterparts in Wales and England are entitled to for the coming year, especially as Barnett consequentials were forthcoming from the UK Government. Are there any proposals for a wider reform of business rates and, again, is there a timescale for that?

Kate Forbes: I accept the points that the Scottish Retail Consortium has made. In my characterisation of the SRC's comments, I addressed the criticisms that the SRC has made as well as its positive comments.

The budget has not yet been voted on, so we still have the two full chamber votes—at stage 1 and stage 3—as well as the committee stage. Those conversations are continuing with all parties, so there is still an opportunity to engage with Government on areas where people are keen to see change.

On small businesses, I have engaged regularly with the SRC and SRC members, who have raised a number of points with us. For example, they have been extremely concerned about an additional supplementary rate, which we have said we will not progress in this budget. I know that they breathed a sigh of relief at that.

The second point was about retail crime. A lot of those same small businesses will tell you that the biggest issues that they are grappling with are shoplifting and antisocial behaviour. We see that in the press regularly. The fact that we have committed a £3 million fund specifically for retail to work with the police to tackle retail crime is of huge interest to the small businesses that you have just referenced.

Your final point was about general reform to non-domestic rates. It is not that long since we did a wholesale review of non-domestic rates—the Barclay review—and I was responsible for implementing the recommendations that came from that. It is therefore only a matter of years since there was an independent, full-scale review of non-domestic rates, after which the Government moved at pace to implement the recommendations.

The Convener: Thank you for that. I will bring in Daniel Johnson with a supplementary question.

Daniel Johnson (Edinburgh Southern) (Lab): Thank you. We risk going down the rabbit hole of non-domestic rates reform, but it is one of my trigger issues. I remind the committee of my entry in the register of members' interests and my background in retail.

I have a couple of points on the methodology. I question the hard distinction that you are making between retail and hospitality premises. The way in which commercial premises are marketed on the open market is always about the best opportunity, and we are seeing quite a lot of interchange between premises, certainly with retail going into hospitality. I acknowledge that the classifications are different, but, if I were in your position, cabinet secretary—dare I say it—I would push back on the assessors a little bit and say that I just wonder where there is that hard distinction.

My second point is not so much about the methodology for different classifications. That would assume that the methodology for retail is clear and transparent, but I contend that it is not. There is a great deal of frustration in the sector about how rateable value is calculated for retail and how the different assessors come up with it.

I am not necessarily asking for a detailed response but, if we are looking at reform, those are some of the things that I would certainly appreciate being looked at, and I think that those in the sector would certainly appreciate it, too.

Kate Forbes: I would be more than delighted either to come back to the committee for an oral evidence session or to provide more detail in writing, because we are getting into very technical issues. When I was the finance secretary, I spent two years immersed in non-domestic rates, so I am happy to get as technical as you would like on the issue.

You talked about pushing back on assessors. Although I recognise their independence, I have been keen to push as hard as possible on the methodology. Their argument is that there is a number of distinctions between the nature of the properties and that it is about the availability of evidence. We should not get hung up on those arguments. Assessors have no vested interest in distinguishing between properties. They just want the data on which to make the valuation, and that is it. They have no political axe to grind on the distinction between properties. They just need the data on which to determine the valuation.

The point that I have made to hospitality businesses and the point that I will make to the committee—we could perhaps come back to this area—is that there is an openness to ensuring the adequacy of the data. If assessors are saying that that will not work for them, let us find something that does. It is as simple as that, to my mind. If hospitality businesses wish to move away from turnover, it is just about finding another data set. There are lots of ways of doing that. For example, there could be an agreement among hospitality businesses to provide data voluntarily to assessors so that they can make that judgment. A number of different things could be done.

That brings me to the point about consensus. In the past, the biggest issue with making progress on methodology has always been finding consensus on the data set that is used, because there will inevitably be a perceived distinction between large hotels and small cafes. If we can satisfy the need for data and the need for consensus, I think that there will be progress.

I do not know how geeky and technical the committee wishes to get, but if it wants to go down this route on methodology, there might be an appetite for speaking directly to assessors. I am very happy to come back to the committee, although I should add that the issue is within the finance secretary's remit.

I know that I have spoken for a long time, but I would like to make one last comment on reform. There is something very interesting about the Labour Government's proposals on reform. They are largely based on the notion that larger businesses will be able to fund reliefs for small businesses in perpetuity, but we have a completely different business base in Scotland. We do not have the same number of large businesses as England does. Therefore, if there is a self-sustaining model in England, it will not generate consequentials for Scotland, and we will be unable to replicate the approach that is taken in England by virtue of the fact that there are a lot of much larger businesses in London and in the south-east.

As England goes down the route of reform, the committee should be conscious of what that will mean for Scotland. We all require to be well informed about the different natures of Scotland and England. Scotland predominantly has small and medium-sized businesses—that is our strength, but it means that, if reform involves big businesses funding small businesses, we will be unable to replicate that.

The Convener: I fear that we might have strayed into a debate on data, because Michelle Thomson would like to raise something.

Michelle Thomson (Falkirk East) (SNP): Yes, sorry—I, too, was triggered by the attraction of getting into geek mode.

I would be interested in the cabinet secretary's reflections on this issue. She started to explore the concept of turnover as vanity and net profit as sanity. It strikes me as interesting that the majority of employees in both hospitality and retail businesses are women. Therefore, in looking at what data is gathered and used to make assessments, we also need to consider the role of women, because the majority of those employees are women. In that respect, and in the light of my earlier comment about turnover being vanity, looking at net profit and salaries, given that the employees are mostly women, would also yield some data.

My other reflection on what the cabinet secretary is suggesting is that, although consent is imperative, it will probably be very problematic, because a different pathway will be cleaved for businesses that are, in effect, paying their women employees less than they would if they were men.

Kate Forbes: Michelle Thomson has long been an advocate for collecting better data on female employment as a means of understanding what is going on in society. We have made some steps in that regard, but we have a long way to go. I thought immediately of Michelle when I talked about the £4 million for supporting female entrepreneurs and founders to a greater extent.

Michelle Thomson: I will be asking about that.

Kate Forbes: Great, because the data on that reveals something extremely problematic: right now, women attract only 2p per £1 of investment. That is dreadful, so the point about data is well made.

Connecting the issue to non-domestic rates is difficult because non-domestic rates are a property tax. Many people would say that elements of the tax system are not keeping up with the changing nature of our economy. For example, a mega-large tech company could be operating from a cupboard and paying very little in non-domestic rates, whereas a huge warehouse could pay high non-domestic rates despite not having anything like the income of the other business.

Non-domestic rates are a property tax, which means that they are based on rental values. That is where we often get hung up. Assessors require data that enables them to identify a rental value on the open market in order to make their valuations. However, the point on the nature of the workforce is well made.

10:00

The Convener: I will bring in Murdo Fraser. I am sure that you have a lot of questions about data, Murdo.

Murdo Fraser (Mid Scotland and Fife) (Con): We have had quite enough data already this morning, convener.

Good morning to you, cabinet secretary, and your colleagues. You said at the outset that the economy was a top priority for the Government and that this was a budget to help grow the economy. In fact, I heard the First Minister on the radio this morning making the same point, so I will test that claim against some of the choices that were made in the budget.

The committee took evidence a few weeks ago from the enterprise agencies, which told us about the success that they have, the multiplier effect of money that is invested in the enterprise agencies and the impact that that has on economic growth, which was compelling evidence. Of course, all the enterprise agencies have experienced substantial budget cuts over the past decade. Scottish Enterprise, for example, had a budget of £350.9 million in the past financial year. For the budget that you have set, the figure is £236.10 million, which is a 33 per cent cut. Highlands and Islands Enterprise had a budget of £69.4 million last year. In the budget that you have set, it is £56.3 million, which is a 19 per cent cut. South of Scotland Enterprise had a budget of £31.2 million in the past year and, in the budget that you have set, it is £29.1 million.

Those are very substantial cuts on the past financial year in the budget. How does that budget support growing the economy if you are continuing baked-in cuts to the enterprise networks?

Kate Forbes: The budget is good for the enterprise agencies. There was extensive discussion with them in the run-up to setting it and it is an excellent budget for them. I know that the Cabinet Secretary for Finance and Local Government has written to you, Murdo, outlining why those comparisons do not make sense. Perhaps I could go into some detail about that.

The first reason is the movements that have happened in-year. If you compare the budget that was set last year with the one that has been set this year and take out some of the adjustments that are required for things such as the implementation of international financial reporting standard 16, then it is a fair budget for the enterprise agencies.

I will start with Scottish Enterprise. The number that you quoted—£351 million—reflects Scottish Enterprise's final position in 2023-24 after in-year transfers. That includes additional funds that were provided to Scottish Enterprise to deliver specific activities or to address financial adjustments. Its opening position for that year after adjustments for IFRS 16 was £265.8 million. That is the figure to use as a comparison for this year.

The same goes for Highlands and Islands Enterprise. The figure that you quoted includes funds to address financial adjustments or deliver specific activities. After you adjust for IFRS 16, the figure for Highlands and Islands Enterprise is £62.8 million. I could do that for South of Scotland Enterprise as well.

We need to compare like with like to understand what is going on.

Murdo Fraser: If I can interrupt, cabinet secretary, even on the basis of those figures that you gave me, there are still reductions in the budget that you have set for the coming year.

Kate Forbes: Additional capital has been available to all the enterprise agencies to invest. When it comes to all parts of the public sector, the member and others have pushed my Government to ensure that the funding that is made available is distributable. In other words, what is key is not the number of staff that the enterprise agencies have but whether they have funding that can be invested in businesses and activities. The key is not whether the public sector is getting bigger but whether the enterprise agencies have the money to invest. Every one of the enterprise agencies has additional funding to invest in activity, which I think is what I am most interested in.

If it would be of interest, I could go through the data and highlight where there have been significant uplifts in funding. I confess that I am a lot more interested in increasing capital funding that is distributable to business than in increasing the number of staff in our enterprise agencies.

Murdo Fraser: I absolutely agree, as I am sure the committee would. Clearly, if the enterprise agencies are spending that money on more staff, that should concern you and your colleagues in the Government.

Kate Forbes: But they cannot do that, because it is capital funding.

Murdo Fraser: Well, the reality is that their overall funding is down.

Let us look at another funding line—tourism. In the last financial year, the figure for tourism was £83.7 million. In your budget for the coming year, the budget is £52.2 million, which is a 38 per cent cut. Again, we took evidence from VisitScotland about the impact of that cut on it and its ability to invest in, for example, overseas advertising, which has the direct benefit of bringing international visitors here. So it is not just the enterprise agencies—there has been a cut to tourism, too.

Kate Forbes: With regard to tourism, we have brought back the rural tourism infrastructure fund, which amounts to £4 million. We have also specifically addressed the two issues that we were asked to address, with an additional £2 million for specific activity to attract greater footfall and for targeting the international market. We are continuing to support VisitScotland as it delivers key activities.

I actually think that, as far as tourism is concerned, this budget has seen a significant increase as well as the reinstatement of specific budget lines that disappeared last year. Again, if you are looking just at the public sector body—that is, VisitScotland—I repeat my strong view, which I am quite unashamed of, that I want distributable funding in the economy portfolio. I do not want just to create public service jobs.

Murdo Fraser: You have talked about public service jobs. Should the public sector still have a policy of no compulsory redundancies?

Kate Forbes: As far as our position is concerned, the fact is that a public sector organisation might need to change and adapt. Indeed, VisitScotland is a good example. The visitor economy has drastically changed, particularly post-Covid. When was the last time you were on holiday and went to a tourism centre to get information, a map or whatever? You probably found all of that on your phone.

That is how visitors are planning ahead, which is why the additional £1 million for marketing and the £1 million for targeting the international market are so key. People make decisions on and plan their itinerary in their home nation before they come, and that is why that investment is critical.

Murdo Fraser: You have talked about enterprise agencies and VisitScotland not putting money into staff but putting it out the front door, which I am sure is an approach that many of us would agree with. However, is that not handicapped by a policy of no compulsory redundancies in the public sector? It means that those organisations cannot downsize their staff to accommodate the different approach.

Kate Forbes: There are ways of changing the shape of an organisation even if there is a no compulsory redundancy policy; you can have, for example, hiring freezes. You can change the nature of an organisation organically. Where an organisation has to change fundamentally, we work very closely with unions to support that. I do not see the policy hampering the work of any of the enterprise agencies, and I do not see it hampering the work of VisitScotland either.

Indeed, I think that both are leading the way across the public sector. In the past few years, the enterprise agencies and VisitScotland have been the leading lights when it comes to changing the shape of their organisations to make them more focused and targeted. If you want the evidence—after all, we like outcomes and outputs—you need only look at Scottish Enterprise's most recent accounts. Just shy of £2 billion of investment has been attracted into the country and 16,700 jobs have been safeguarded and secured as a result of its work. I think that the agencies have never been in a stronger position, and I hope that Murdo Fraser will agree with me on that, which is why parties should not make closing them down one of their signature policies.

Murdo Fraser: I do not think that we were proposing to close them down, convener, for the avoidance of doubt.

Kate Forbes: You were not, which is why I hope that you agree with me.

Murdo Fraser: I go back to my original question on the budget choices. We have established that there are reductions in funding to the enterprise agencies—

Kate Forbes: We have not established that, I am afraid.

Murdo Fraser: Well, you quoted me figures that show that there has been a—

Kate Forbes: Scottish Enterprise's overall budget is going up by 5 per cent.

Murdo Fraser: Yes, compared with the current year, but it is a substantial reduction from where it was two years ago.

Kate Forbes: I accept that last year was a difficult year.

Murdo Fraser: The tourism budget is down. The convener raised the question of hospitality, which is in crisis and is not getting support that is equivalent to the support south of the border.

I am sure that you are familiar with Sir Tom Hunter. I read a very interesting comment from him just a couple of weeks ago, when he was quoted in *The Times* as saying that Scotland's economy has been mismanaged for more than a decade under the Scottish National Party. Is there anything in this budget that is going to persuade Sir Tom Hunter that you are on a different track?

Kate Forbes: Tom Hunter has probably done more for entrepreneurialism than anyone else. Again, the £15 million enterprise package is not about people in the public sector; it is about directly supporting the same businesses that Tom Hunter has spent his career supporting—the start-ups, the high-growth businesses, the innovators, and the female founders who have not been able to attract private investment, because of inherent inequalities.

That £15 million package essentially funds the blueprint left by Mark Logan, who alongside Sir Tom Hunter is one of the country's most successful entrepreneurs. Both have done more for entrepreneurialism than anybody else, and we have fully funded the blueprint that Mark Logan left. That money will be invested in robotics and AI, and it will be invested in the high-growth businesses that are most likely to be the job and wealth creators and drive prosperity in the future.

Murdo Fraser: Okay, but you have some way to go to persuade Sir Tom.

Kate Forbes: My officials are desperate to come in. Is it okay to bring them in, convener? Kathleen Swift wanted to give us a geeky answer on IFRS 16, and Marcus McPhillips—

Marcus McPhillips (Scottish Government): It is probably on the same thing.

Kate Forbes: They are itching to come in, if that is okay.

Kathleen Swift (Scottish Government): The 2023-24 comparative figures include the IFRS adjustments, which are non-cash. If you compare the capital figures and resource figures, you will be comparing like with like. The non-cash figure for 2023-24 is significantly higher and includes impairments, because that was the first year that we capitalised leases; before that, they were operational. In other words, it was the first time that they came on to the Scottish Government balance sheet. It is all quite technical, but when you look at the level 4 figures, comparing the capital and resource elements will give you a more comparable picture.

It is also worth flagging that, in 2024-25, there was a significant autumn budget revision adjustment. As part of that change, offshore wind funding was moved into the lines where the enterprise agencies sit. The expectation is that that will amount to about £58 million, which is quite a lot when it comes to these sorts of figures. Ultimately, that funding will move to the Scottish National Investment Bank and the enterprise agencies as part of the spring budget revision, which will be published in early February.

Kate Forbes: If you do not mind, convener, I will bring in Marcus McPhillips, too.

Marcus McPhillips: I will not take us down a data rabbit hole, but perhaps I can summarise it by saying that, as the DFM has said, there has been an increase in capital spending compared to 2023-24. There has been a reduction of £6.9 million in Scottish Enterprise resource spending, but that represents the efficiencies that we are talking about in terms of public service reform, voluntary redundancy schemes and enterprise agencies leading the way. Once the IFRS effect is taken out of it, it is a small reduction relative to that of 2023-24, but it is explained by the resource side.

Kate Forbes: I am sorry—I have clearly been hogging the meeting. [*Laughter*.] Colin Cook has indicated that he is desperate to come in.

10:15

Colin Cook (Scottish Government): I thought that I might try to rescue us from geekdom and address the point about Sir Tom and other private sector entrepreneurs who drive new businesses and support so many things. The details of the enterprise package and the precise allocations are still to be determined and approved, but it includes provision for Ana Stewart's Pathways Forward work to support women into entrepreneurship and enterprise. That is a private sector-led initiative to drive that and to address the points that Ms Thomson raised.

It will also enable us to support activities such as Scottish EDGE, which is Sir Tom Hunter's successful and long-standing programme for promoting entrepreneurship. That injection of funding will work to support the private sector and its contribution to supporting entrepreneurship.

Kate Forbes: That is the official way of saying that it is a great budget.

The Convener: I will bring in Lorna Slater on enterprise agencies.

Lorna Slater (Lothian) (Green): I have a supplementary to Murdo Fraser's question. Large parts of the budgets that go to the enterprise agencies are for direct handouts such as grants and loans. I asked the agencies how they evaluate the effectiveness of outcomes from doing that versus giving other sorts of support. It is giving a man a fish as opposed to teaching a man how to fish. When budgets are challenged, how do the agencies measure the effectiveness of interventions versus just handing out money?

Kate Forbes: That is an excellent question. I hope that the agencies gave you a compelling answer.

Lorna Slater: They were unable to. Only South of Scotland Enterprise said that it is starting to collect that data. I am not sure how you evaluate the budgets that you give the enterprise agencies if we are not able to understand the impact of their different types of working.

I hear you saying that you want to get money out of the door. Everyone loves a handout and being given money, but maybe it is more effective to have a few more public sector workers teaching people how to get their own funding than it is to hand public money to private enterprises. We do not appear to have the data to establish that.

Kate Forbes: I will see whether any of my officials wants to come in, but I have a couple of my own thoughts on that. For some time, I have pushed to see a greater shift to what you are outlining. Back in the day, there would have been a lot more dependence on grants and loans as the primary means of support. Now, if we look at the work that Scottish Enterprise and Highlands and Islands Enterprise have done, their top-line figures are astonishing. I have already referenced that they have attracted just shy of £2 billion of additional investment, so they are leveraging in additional investment. Their strapline is not that they have distributed £100 million but that they have leveraged in just shy of £2 billion, which is money that has been invested in Scotland, either by domestic investors or internationally, directly in jobs or in building.

It is the same with HIE. The two big, high-level investments that HIE has been instrumental in securing in the past year have been a foundation stone for the supply chain for offshore wind—Sumitomo's cable factory—and investment in ports and harbours such as Ardersier, with Haventus and the Scottish National Investment Bank co-funding that.

Even the way in which we measure success has changed completely. I am no longer celebrating £10 million of Scottish Government money being invested in Scottish business. I am saying that just shy of £2 billion of additional investment would not have been made if those relationships had not been developed.

The big work that the enterprise agencies do is in relationships and relationship building. It is coming alongside and understanding what a business needs in order to grow, in line with our fair work principles. Oftentimes, it is not grant funding. Sometimes, some Government money helps to de-risk the money that businesses are seeking from the private sector, so there is an element there of money making a difference, but the high-level figures that we celebrate are not, to use Lorna Slater's words, the handouts. That is why I get nervous about conversations in which we talk about budgets. I am interested in the distributable capital that sits alongside the resource, as well as the resource that goes to people.

Colin, do you want to say anything about measurement?

Colin Cook: I agree with and support everything that has just been said. We are working with the agencies to get greater commonality across the landscape about how impact is measured, because it is important that we compare the individual performance both of the agencies and of the different types of activity.

As the cabinet secretary said, a lot of the value that enterprise agencies add is in the depth of the relationships that they develop over many years with, for example, potential investors.

It is also worth saying that the application of AI and technology to the process of supporting early business growth is a real focus for the agencies, and they are working together on that. We will be able to do a lot of things that were once delivered in person by people like me in different forms and ways. By using that technology, we will be able to reach more people and, for example, attract more people to entrepreneurship.

Lorna Slater: The next question is around housing. The committee has taken much evidence from different sectors, and we heard over and over again about how housing is a blocker, from scaling up renewables to the regeneration of rural areas. We even have a housing emergency in Edinburgh, as we saw with the crisis before Christmas.

What are the DFM's thoughts on housing issues being a blocker to economic success and green sector growth? How much can the budget do to tackle that?

Kate Forbes: I think that the budget can do a lot, and, yes, housing issues can be a blocker if they are not addressed. More than that, housing is magic, because investment in housing achieves many different objectives.

First, investment in housing does the obvious in that it delivers secure, warm and affordable homes for people who desperately need them. Secondly, every time the gross domestic product stats come out, I immediately look to what is happening around construction, because, often in Scotland, construction determines what happens in the wider economy. When construction starts to diminish, there are ripple effects across the economy.

Thirdly, the obvious point that was made is that, time and again, it is not the lack of opportunities that hinders, for example, small business growth, and it is not the lack of ideas, ambitions or anything else. What hinders growth is the lack of people, because we are a small country of 5 million people. When we look at the level of growth, we see that we desperately need as many engineers and people with manufacturing skills as possible. However, in the areas where we need growth, if people cannot find somewhere to live, it is difficult.

The substantial investment in housing—£768 million of capital in the budget for next year—is an increase of 38 per cent, or £211 million, when compared with the original published budget of £555.8 million last year. That is huge, and it will sit alongside the work that is happening around bringing properties back into use, dealing with voids and trying to give local authorities as much flexibility as possible to tackle homelessness and issues around temporary accommodation. Housing is often thought of as a homogeneous thing, but there are many layers to it, such as affordable housing, housing for workers and key worker housing.

The fourth point that I did not mention is around public services. I will use the example of the Isle of Skye, because I know it. People who want to move there for a job will look at the quality of public services in the area. Those public services might be under strain because they cannot recruit people because they cannot house them.

If there was ever a policy that sits as a foundation stone to each of the Government's four objectives, it is housing. I do not know whether I have been enthusiastic enough about how much I love the investment in housing, but I think that it is magic.

I am taking on responsibility for attracting investment. There is the £768 million of public sector money, but one of the three key investment opportunities that we are going after is private sector investment in housing, and that has been one of the big focuses in engaging with investors, builders and developers and in identifying areas where we can supplement public sector funding with private sector investment.

Lorna Slater: My final question is about the coherence of the budget with other Government strategy. There are a lot of economic strategies on the table, including the national strategy for economic transformation and the green industrial strategy—and we are still waiting for the energy strategy. Then there is going to be a climate plan. It is often difficult to see a coherent picture of how the budget is helping to deliver those—for example, how road-building funding in the budget is helping us to work towards net zero or the Scottish Government's target on traffic reduction. If the Government decides to go forward with road building, how is it investing elsewhere to reduce the consequential carbon emissions and traffic in order to meet its goals?

The question is: how is the Scottish Government evidencing that its budget decisions are coherent with its stated objectives?

Kate Forbes: First of all, the acceptance that the budget needs to be coherent is pretty fundamental. You talked about a number of different strategies, and I have been at committee before saying that I was not keen on a reset of NSET. I did not want us just to be writing more stuff about what we were going to do; I wanted us to be clear about what we were going to do and to go do it. The approach that I have taken to the economy brief in the programme for government is to streamline it, acknowledging that we cannot do everything and setting out the priorities and the things that we are really going to invest in. You can see that the budget underpins the funding of that.

We then need to come back and identify to you how and whether we have met the objectives. Considering the NSET approach, there is the offshore stuff, with a massive increase in investment for next year's budget in the offshore supply chain. Everyone is telling us that it does not matter that we have big objectives around the transition; if we do not invest in the supply chain now, it is not going to happen. Hence, there is that massive tripling of investment in the supply chain.

There are always areas where we could probably do better, which is the nature of a large Government with lots of different objectives, and there are some things that we cannot shoehorn in easily. There is a debate in the Parliament this afternoon, which I am leading, on the national performance framework, which, technically, should be our northern light: it should guide all the decisions that we make, and it should provide a way of streamlining measurement. I am telling you about how we have made the inputs, and the way I have made the inputs is by streamlining and focusing on a few objectives where we are going to do really well. Then the budget came along, and the budget has given effect to that. I suppose that what we need, working with Parliament scrutinising us, is to be asked next year: "Well, did you do it?" For instance, did that £150 million in the supply chain actually unlock the opportunities that we were expecting it to? That is one of the roots to it.

Daniel Johnson: I am tempted to ask you about what was a slightly throwaway comment, that the national performance framework "should be" the lodestar for all the policy, which perhaps suggests that it is not quite that yet.

Kate Forbes: Come this afternoon.

Daniel Johnson: Yes—perhaps that is something for debate this afternoon.

I want to follow on from points that have been raised by Murdo Fraser and Lorna Slater. The most important thing, as you have been seeking to stress, is that it is important to compare apples with apples and to look at things over the longer term. It is interesting that the Scottish Government is presenting the budget in a different way this year, using outturn figures for 2023-24.

The total budget lines under your responsibility show a fall from £1.9 billion to £1.3 billion, but that is largely because of the UK-funded annually managed expenditure of £519 million that occurred in 2023-24. I ask this on the basis of clarification, so that we have this right. AME is not directly at the Scottish Government's discretion; as I understand it, it is largely spending on behalf of the UK Government. Is there an explanation of what that change was—just so that we are clear about how to compare the figures?

Kate Forbes: I ask Kathleen Swift to answer that question. We may need to come back to you on the specifics. It is non-cash. Kathleen has an Excel spreadsheet in front of her.

10:30

Daniel Johnson: If we can get it in writing—

Kathleen Swift: Yes. I think I will need to come back—

Daniel Johnson: I am interested in doing a comparison over a number of years. In 2022-23, the spending on all the enterprise agencies, including on innovation, was £467 million in nominal terms. If we plug that into the Scottish Parliament information centre's real-terms calculator, using the GDP deflator, the figure comes to £507 million, which would show there has been a 24 per cent cut since 2022-23. More interesting, if we go back to 2016-2017, the real-terms figure, at 2024-25 prices, would be around £520 million. Let us call it a cut of a quarter.

It strikes me that—without going into the ins and outs of year-to-year comparisons—over the longer term, that budget line has been raided, for want of a better description, by Governments when they have found the numbers difficult to balance. How are you going to stop that from happening in subsequent years? Do you accept that there has been a real-terms decrease of around a quarter over that decade?

Kate Forbes: I do not accept that characterisation of its having been raided. I genuinely am really pleased with the settlement for the economy. There is a lot here to defend and a lot that will shift the dial on our priorities.

The Cabinet Secretary for Finance and Local Government wrote to Murdo Fraser on those specific questions on 23 December. With Mr

Fraser's agreement, we could write to the committee in a similar fashion, drilling into the comparisons. We could add the paragraphs that Kathleen Swift will get more detail on. It really matters, because there have been quite a few accounting changes in the way that we present stuff, as is required by the IFRS and others. I think that it would help. Then, of course, you can scrutinise and hold me to account for those direct comparisons.

Daniel Johnson: Let us forget about the accounting changes that have been implemented. If we compare the financial footprint of the enterprise agencies with a decade ago, it is significantly less, is it not? It is more than 10 per cent less.

Kate Forbes: Let me talk about this year, then I will make one further comment that I think will be of interest to Daniel Johnson. We have increased Scottish Enterprise's total budget by 5 per cent for next year, to facilitate the work that it does. We have maintained Highlands and Islands Enterprise's resource budget—so, no cuts—and have increased its capital budget by 9 per cent, to facilitate the work that it does. We have maintained South of Scotland Enterprise's resource budget—so, people—and have increased its capital budget by 8 per cent, to facilitate the work that it does. This is a really dial-shifting budget if you care about what the enterprise agencies are actually doing—what they are investing—and the funding that they have available to them with which to make stuff happen.

A couple of years ago, Daniel Johnson was rightly scrutinising me on the resource spending review. The point was made that there has been a large increase in the size of the public sector. When NSET was published, I gave a very clear steer to the enterprise agencies that they would have to align all their efforts alongside our priorities. They have led the way in changing the shape of their workforce, and that has had a resource implication. I am very proud of the fact that they have done that. We talk about these things with an element of trepidation, but, at the end of the day, I want as much as possible of every £1 that is spent by the Scottish Government to lead to economic growth and prosperity, not just to keep public sector workers in jobs—much as we value them.

Daniel Johnson: I will come on to that point, which I think is really important. All that I would say on the previous point is that it is absolutely the case that we should look at the composition of the funding. I completely agree that the issue is the money that is available to invest and be distributed by the enterprise agencies. However, we cannot simply look at the situation year on year; we need to look at the longer term. It is undoubtedly a fact that the enterprise agencies have a smaller proportion of the Scottish budget than they had a decade ago. If you are saying that this is the reset point and that we expect that to change in the future, I welcome that.

I turn to the point about the agencies' effectiveness. Scottish Enterprise employs about 1,050 people. That number is broadly unchanged, though it might have gone down a little. More important—this is the interesting point—if we look at the numbers of people employed by HIE, SOSE and Scottish Enterprise relative to their budgets, we see that they are quite different. Likewise, the amounts of money that they are able to get out the door, whether we are talking about grants, loans or whatever—I asked a question in the same ballpark just the other week—are quite different. Are you looking at how much, as a proportion of your budget, you are getting out the door? Are you asking that question of each of the agencies?

Kate Forbes: They all operate in fundamentally different ways, with very good reason. Your question is a fascinating one because, in 2016, as part of the skills review, there was a debate about whether the enterprise agencies should be more homogeneous. As you might recall, there was a backlash against that notion from the Highlands. There is a strong labour tradition in that. For example, HIE has a strong track record of funding community development workers, who are absolutely brilliant. I can say from a constituency perspective that the work that economic development workers have done in communities has been transformational. SE does not operate in that way to the same extent, but HIE and South of Scotland Enterprise can do different things because they are, to a greater extent, regional and have the autonomy to make those decisions.

There will inevitably be a difference in the priorities. I will exercise my prerogative to talk about a specific constituency example. HIE has helped the community on the Isle of Raasay to develop a distillery and a pier. The same approach would not be taken in the middle of Edinburgh, but that approach has changed Raasay's economic prospects. There is a difference of approach.

When it comes to evaluating success, SE's activity this year has been nothing short of extraordinary. SE's most recent accounts show that it has delivered some record-breaking figures. I talked about the level of planned capital investment, which is just shy of £2 billion. That is the highest level that has ever been achieved. As a result of SE's work, £449 million of innovation investment is planned, and more than £350 million of growth funding has been raised by businesses, in a year in which it has generally been very difficult to raise investment. On top of that, we are looking at £2.15 billion of planned international sales. That is what businesses have unlocked as a result of SE's activities. The fact that 16,700 jobs have been created or safeguarded is the strongest performance since the measure was introduced.

That is why I think that the enterprise agencies have never been as strong as they are now. It is largely because of excellent leadership at chief exec and chair level—I hugely welcome the fact that Professor Sir Jim McDonald is joining us as chair of Scottish Enterprise—but it is also because they have prioritised to a greater extent. They have been given a clear steer from us through the national strategy for economic transformation, which sets out what we really care about and what experts tell us is important. The agencies have got behind that. I think that that has had some implications for, if not the size, certainly the shape of the workforce. That has been difficult, but it is important that the agencies are geared up to prioritise what really matters.

Daniel Johnson: On that point about the right size and prioritising the right things, it is interesting to observe that you identified that Scotland's economy is largely made up of small and medium-sized enterprises. For SMEs in the central belt, whose door of those three agencies should they knock on? The reality is that Scottish Enterprise will often turn away SMEs on the basis of their sector and age. If growing the economy and increasing investment is a priority, we need SMEs to be doing those very things. Is it right that Scottish Enterprise continues to turn away SMEs or older privately owned businesses because they are the wrong age or in the wrong sector?

Kate Forbes: Those businesses are fundamental to our economy—in many cases, they are the backbone of communities. SE is not the only source of support, and we need our enterprise agencies to be really clear about their objectives. For example, one answer that I could have given to earlier questions is that the Scottish National Investment Bank was not around 10 years ago. In the intervening period, we have invested £1 billion as part of our commitment to invest £2 billion. That is, on average, about £200 million a year. SNIB's job is really clear, so a lot of people get turned away, and they often then write to me to complain; however, SNIB is independent.

The enterprise agencies need to be really focused in relation to what they do, but they are not the only source of support for businesses. There are other sources of support that a business can approach for help, and it needs to be a bit of a tapestry—although not a confused tapestry.

Daniel Johnson: That might well be the case, but the problem is that, in the current landscape, you need to understand what shape of peg you are and find the right shape of hole. Sometimes, businesses find that they are a square peg but they can find only the triangle, the circle and the star on the pegboard.

I will ask my last question, which is about the longer-term shape and size of the budget. I am about to ask you about budget lines for which you are not necessarily directly responsible. It is one thing to look at the enterprise budget, but we should also look at employability and skills, which are significant levers that we have to impact on economic growth. For 2025-26, the employability line is set at £104 million; in 2022-23, it was £124 million, which was more than £130 million in real terms. You do not even need to get out your calculator to work out that that is a 30 per cent drop over that period. There was also an underspend of £10 million last year.

Likewise, with skills, we see that the proposed budget is £255 million; in 2022-23, it was £287 million, which was £312 million in real terms. That is an 18 per cent fall. I admire your personal commitment to and enthusiasm for the economy, but is that really being translated across the budget and across all of the Scottish Government's levers to deliver real growth, which, when it comes to the skills budget, is about helping people to get better work and better wages? Do those budget changes really reflect the prioritisation that you have articulated?

Kate Forbes: I do have responsibility for employability. The outturn figure for 2023-24 was £92.3 million, the revised budget for 2024-25 was £100.2 million and our budget for next year is £104.5 million.

I think that you and I would agree that the budgets of the past few years have been impossibly difficult. We have had the double whammy of inflation eating into the real-term increases in—the meaningful spendability of—our budget and an extremely difficult period with the Conservatives in Government. After Rachel Reeves presented her budget, if you recall, we were not our usual critical selves; we recognised that it was a step change in budgets that allows us to do things differently and to go further than we would otherwise have been expecting to do.

The past few years have been really difficult, and there are probably no parts of the public sector or the private sector that have been immune to that. Even with budgets that were significantly increased, such as the national health service budget, we got less for our pound, because inflation was so high.

When it comes to defending budgets, there is no point in shying away from the fact that the past few years have been really difficult. Obviously, inflation has led to higher pay deals as well. The pay bill is basically half of the overall budget; indeed, it is such a critical part of it that it is really important that we have the right people for the right jobs, doing the right things.

10:45

Daniel Johnson: Surely, inflation would mean that you would max out budgets, not underspend them, as you did with the employability budget.

Kate Forbes: We do not underspend, generally. Obviously, we try to get as close as possible to spending the available budget.

Marcus, you looked like you were trying to say something.

Marcus McPhillips: On employability specifically—this joins up a couple of your points about evaluation and adaptation, Deputy First Minister—there was an evaluation of fair start Scotland against its original business case and the scheme was replaced by the no one left behind approach.

As the Deputy First Minister said, there has been an increase in the budget this year, which allows the inclusion of specialist employability support for disabled people in the funding, in response to evidence and analysis over the previous couple of years.

To join up your points about evolution, evaluation and appraisal, employability is a very good example of having gone from potential underspends or inability to allocate in previous years to now being able to fully allocate the budget, because funding is better targeted towards need.

Daniel Johnson: For the avoidance of doubt, the budget for employability in 2024-25, as passed, was £102.9 million and, according to the budget document that was published, you spent £92.3 million. Is that correct?

Kate Forbes: I do not have those figures—

Daniel Johnson: Oh, no—sorry. Apologies. I am comparing 2023-24 with the budget for 2024-25.

Kate Forbes: Shall we add that as a line in our letter?

Daniel Johnson: I would be interested to know whether that budget was spent.

Kate Forbes: Kathleen has her spreadsheet out again, so—[*Laughter.*] We will add that to our letter.

Daniel Johnson: Perfect.

The Convener: It is also worth flagging up the concerns that organisations have raised to the committee over delays in making those employability payments. Organisations have been handing out redundancy notices purely because they are waiting for decisions by the Scottish Government. Obviously, that is deeply regrettable.

Kate Forbes: That absolutely needs to change—and it will change this year, with a very clear budget, to ensure that there are no in-year changes. The First Minister has ruled out any emergency budgets, which are often the cause of that issue.

The Convener: Okay. Thanks for that. I bring in the deputy convener.

Michelle Thomson: It will not be a surprise that I want to continue the discussion about women-led businesses. We touched on the issue earlier and the cabinet secretary commented about £4 million being made available and so on, but I want to get a general sense of the activity that is under way to support women-led businesses. It would be useful to have the latest status on the pathways fund, which we have talked about, before I ask my other questions.

Kate Forbes: To date, the biggest outcome of the Ana Stewart approach has been the record levels of funding to support women's enterprise. In 2023, our pathways fund was £1.3 million. This year, it is £2.6 million, which includes the pre-start regional pilot that is supporting women entrepreneurs.

However, we would like to really ramp that up next year and, as I said, take the funding to £4 million. We want to continue to support the regional pathways pre-start pilot programme, which the South of Scotland Enterprise has run, and to work with enterprise agencies, the Scottish National Investment Bank and other private sector investors to open up more investment avenues for women-led businesses. That will be our focus. There is still a little bit of opportunity to tailor that £4 million.

This year, we have the pilot and the pathways fund, and we are doing all the engagement work, all of which Ana Stewart has a key role in advising on. Next year, we want to really ramp it up.

Michelle Thomson: I know that that is a long-held interest of yours, cabinet secretary—in fact, you instigated the work with Ana Stewart. I will be frank. To what extent do you think that that effort is enough, even including the ambition for next year?

In the manifesto that we signed up to at the start of this parliamentary term, there was a promise of a women's business centre and a £50 million contribution to the cost of it. Clearly, we are some way from the actuality of that ambition.

I make the point because I think that you have been very clear that public sector pounds spent must grow or add value to the wider economy. It is abundantly clear that fewer women-led businesses reach the critical five-year mark. Critically, this is about their contribution to the economy. Do you think that that effort is enough, cabinet secretary? If not, what approaches will you deploy to increase the funding for next year, even above that £4 million?

Kate Forbes: It is never enough. That is the bottom line. Although we have great scope to do a lot next year, we could always invest more and do more.

For me, the approach is about partnership with the private sector. By and large, somebody who seeks to start or to grow a business will seek private sector investment first. A number of banks are doing good work to ensure that more female entrepreneurs and founders benefit from private investment. I see the issue as one of shifting the culture, over and above access to funding.

We need to do a lot more, but public funding alone will not be enough. There needs to be a seismic culture shift in the private sector. If more funding became available this year and we could deploy that towards meeting as many of Ana Stewart's recommendations as possible, I would do that.

Michelle Thomson: You make some important points about a culture shift, with which I completely agree. There is a business support element, even before people get to the point of going for funding.

A report published by Women's Enterprise Scotland at the tail end of last year said that business support that is on offer still does not take a gendered lens. In other words—this is an issue that we have seen with banks—the operational nature of women-led businesses, which are often referred to as kitchen table businesses, is not understood. In that context, what consideration have you—or the Government—given to how enterprise agencies, or any public sector support, can take a truly gendered lens to women-led businesses?

Kate Forbes: I will check later whether anyone else wants to talk about progress with regard to the data that is collected.

All the enterprise agencies know that that is a top priority. The Ana Stewart approach needs to be embedded. When she first started working on her report, she and I had a number of conversations about how to progress it, and whether we wanted female investment work to happen in isolation or whether we wanted to try to embed it more. That is where the decision to shift the approach to the women's business centre came from, as Ana Stewart was loth to have women's work happening only in the women's business centre, with nobody else having to take responsibility.

I will give an example of my expectations by referring to the recent Techscaler programme. CodeBase and the Scottish Government are monitoring intensively the data about who is benefiting from that. I am pretty sure that we monitor, for example, the impact on equalities, including on gender. That data is there. Techscaler is a multiyear programme. We will develop an early evaluation of that, and we can see whether we can take a gender data set from it.

We are trying to embed that evaluation throughout the work that we do. Since the enterprise agencies operate on a more independent basis, I have made clear my interest in the gendered impact.

Michelle Thomson: You opened your remarks by referring to the committee's letter and, in particular, the disaggregation of data. I have no wish to create a massive data factory, because I appreciate that that would expend a huge amount of time. My interest in the issue started with a simple question that I put to a business organisation when I asked for assurances that it routinely disaggregated all its data sets by gender. I received a long, fulsome answer that said absolutely nothing and could be summarised as, "No." I then started to think about all the other data sets—you mentioned private equity, cabinet secretary.

Will you give the committee a flavour of how actively you are progressing work so that, when asked, any body that is in receipt of public funds—as well as the Government—can give assurances that they are routinely disaggregating their data sets by gender?

Kate Forbes: Where we have established new schemes, such as Techscaler, an expectation has been built in from the beginning. There is a clear steer that we expect data to be collected and disaggregated based on gender.

Colin, do you want to add to that?

Colin Cook: Yes, cabinet secretary. We still have further to go in collecting gender-based data. However—this starts to address Mr Johnson's earlier point—each of our agencies, along with local government through its Business Gateway operation, are working together to improve the way that we offer business support. That relates to the degree to which that is integrated across the piece, so that people get a good level of support regardless of which door or peg they represent, and the quality of the support.

We are applying new technologies and various programmes are in place. For example, we are developing data analytics that include customer master records, which would give an oversight of all public sector engagements with businesses across Scotland. Those programmes are being designed from a service design perspective in order to understand the needs of the audience. The agencies are driving that process, and I am sure that it will generate the analytics that you hope to see.

Michelle Thomson: I will move on from that issue, although other members might want to come in with supplementaries on that. I want to raise a question about the Scottish National Investment Bank and accounting rules, which has come up in committee a couple of times.

I understand that UK Government accounting rules prevent SNIB and similar agencies from reinvesting profits. I am keen to see that change, which goes back to your fundamental point about trying to create wealth in the economy.

Cabinet secretary, will you give us an update on any discussions that you have had on that with the UK Government? It has been suggested that the introduction of a national wealth fund would perhaps cause it to look again at the rules, although I must admit that I find it dispiriting that the UK Government would only look at changing them because of something that it has instigated rather than because of something that we have tried to progress in Scotland.

Kate Forbes: We have not let up on working with SNIB to identify any solutions that are within the gift of Scottish ministers and aligned with the Scottish public finance manual. However, as you know, we have to work with the UK Government to see how the financial transaction control framework, and the same arrangements that are being designed for the national wealth fund, might yield solutions that apply to the bank.

SNIB would meet the criteria for an investment body as set out in the framework, so there do not seem to be any inherent reasons why the control framework for debt and equity investments, which are deployed by public finance institutions, cannot be applied to SNIB.

We are raising the issue with UK ministers and will continue to do so. I do not really have any updates about the opportunity beyond that.

11:00

Michelle Thomson: That would be very helpful.

I am mindful of SNIB's evidence to the committee that, because of year-end, there is a hard date. It cited a specific example of when it was trying to close a deal before year-end. If you could bear with me for a minute while I find the text in my notes. SNIB said:

> "Last year, we got to 31 March and we did not know whether were going to be able to complete a £50 million deal according to the rules."

I encourage the cabinet secretary, or whoever the most appropriate person is, to find out the latest status on that, because 31 March and, therefore, the potential to close other deals, is not that far away.

SNIB added:

> "We got it done, and we did not compromise our underwriting in doing so".—[*Official Report, Economy and Fair Work Committee*, 25 September 2024; c 28],

However, it commented that the need to get a deal done while fitting in with the rules could be played against it.

Kate Forbes: You have summarised it well.

You mentioned SNIB. I do not know whether the committee is aware, but it is worth noting that we agreed to the bank's request to increase the minimum amount of cash that it can hold from £3.5 million to £5 million. It has also received Financial Conduct Authority authorisation, which is an important step in the bank's progress towards managing third-party capital and growing mission-aligned investment. That is a really important step, because SNIB has highlighted the importance of receiving FCA authorisation to enable it to directly allocate private capital to project finances alongside the capital that it receives.

Michelle Thomson: That is heartening and very good news, indeed.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Thank you, convener and good morning, Deputy First Minister and colleagues.

I have a couple of questions about the reaching 100 per cent programme and another about city and region growth deals. R100 has been a hugely successful programme that the Government introduced in 2017, I think, to try to get 100 per cent of properties in Scotland on broadband digital connectivity. I note that the connectivity element of the spend profile falls off slightly to £33 million. Is that an indication that the Government thinks that we are nearing the end of the requirement for connectivity spend for the R100 programme?

Kate Forbes: I have a couple of comments to make about R100. By the end of 2025-26, it is forecast that spending of around £460 million will have been incurred to deliver the R100 contracts, but Openreach is paid in arrears, so it is expected that £400 million will be paid to Openreach by the end of 2025-26.

From 2025-26, we will also be delivering project gigabit in Scotland, with capital funding that is provided by the UK Government. That will complement the transformational work that has already been done by the R100 programme. We feel that the conversations with the UK Government have been quite helpful. We have the track record and the structures to deliver large-scale broadband programmes. Project gigabit is a £5 billion UK Government programme with a target to provide access to gigabit-capable broadband for at least 85 per cent of UK premises by 2025, and nationwide coverage by 2030. That is really promising.

On the figures that Willie Coffey referenced, the total includes income to the Scottish Government of around £68 million from legacy programmes. I think that that has been offset.

Marcus McPhillips: I confirm that that would be in addition to the £33 million. In the budget, £68 million is also being recycled through income, which would take the total to more than £100 million. There is still a fall, in line with what the Deputy First Minister has said, because the R100 programme has matured, but the fall is not as sharp as would seem to be the case if we looked only at capital, because income has been recycled.

Willie Coffey: Okay, thank you for that. I will come to project gigabit in a wee minute.

The areas that the R100 programme cannot reach—very rural locations, single properties and so on—rely on the voucher scheme for access. However, I am worried by the number of inquiries that I still get from people who live remotely and cannot access mainstream R100, so to speak. They include people in East Ayrshire, for example, who rely on the voucher scheme. Does the Government think that a subsidy of £5,000 is enough to enable single-property outliers, for example, to get connected? I am sure that other members get inquiries from people in the more rural parts of their constituencies on whether they can access superfast broadband in that way. I would like to hear your views on whether the Government thinks that the voucher scheme is still delivering what was intended.

Kate Forbes: We believe that the voucher scheme is delivering what was intended, and we think that it has been quite successful, to date. As Willie Coffey knows, reaching 100 per cent will be achieved through the R100 contracts and the voucher scheme, as well as through continued commercial roll-out, and that remains our target. We keep all those things under review and consider whether they are achieving their aims and objectives. If the member has specific constituency cases, I would be happy to take a look at them.

Willie Coffey: I can see Colin Cook looking; he has kindly answered many questions from me on this subject at the Public Audit Committee and others. Looking ahead to project gigabit and other matters, does the Government see new opportunities to develop and progress Scotland from the average 30 megabits per second speed that we currently deliver through R100? Germany is sitting at an average speed of 100 megabits and Iceland is at 250 megabits, but a gigabit is much faster than that. Are there opportunities for further progress on that during the next session of Parliament?

I am thinking of delivery of access and data on the road and rail networks, in town centres and in stadia, where lots of people put demand on data services and data access. The stories that I hear tell me that when you are in a stadium, you can never get a connection, but that is possible in countries where there has been investment. Do you see project gigabit covering such places and delivering faster data and connectivity in places such as the transport network, in the future?

Kate Forbes: Future proofing has been a hallmark of the R100 programme. The vast majority of R100 contract build is full fibre and is gigabit capable, so it is more than 30 times faster than our original superfast broadband commitment.

If we look at the infrastructure, the R100 north contract has delivered 16 new fibre optic subsea cables to 15 Scottish islands to enable more than 12,000 island premises to be connected. Future proofing has been pretty key.

However, I think that what you were asking is how the infrastructure can be used to greater effect once it is in place. Project gigabit supplements and complements the work that has already been happening to achieve the aims that you set out. It is an exciting time to do that.

It is worth referencing that we have also been investing in mobile masts, with 55 masts in mobile not-spots. I can confirm that, even during the Christmas period, areas of my constituency where there was no connectivity, which was actually a great delight during the holidays, are now connected—which is most inconvenient if you are trying to completely switch off. However, the masts are now live and are delivering 4G services, so they are providing connectivity in remote, rural and island areas.

Those are some of the things that we have done to get the infrastructure in place. It is then about deployment and use.

Willie Coffey: On the rail network issue, I know from my trips around Europe to watch Scotland play last summer that data connectivity in trains, particularly in Germany and Belgium, is fantastic—data access and speeds are incredible. As you probably know, it is not quite there in Scotland. Is there an intention to make improvements in that area?

Kate Forbes: We always have an appetite for making improvements. We are keen to see the public sector, in particular, make greater use of superfast connectivity. From a transport perspective, the matter usually sits with the Transport Secretary, but we are keen to make progress on that.

Willie Coffey: My other question is on city region and regional growth deals. If you have seen the evidence that has been given to the committee, you will know that some projects have fallen off the growth deal, in particular in Ayrshire, where a couple have dropped off. Generally speaking, when that happens in a growth deal, what happens to the money? Is it pulled back into Government or are local authorities allowed to keep it and repurpose it for new programmes?

Kate Forbes: We are working with Ayrshire on its priorities for redeploying the funding. Every growth deal is a tripartite agreement between local authorities, the UK Government and the Scottish Government. We remain committed to investing what we said we would invest, and so does the UK Government. I am keen to see the Ayrshire growth deal move as quickly as possible, because there are exciting options for reinvesting the funding. It is for the Ayrshire councils to be clear with us about their priorities. The UK Government and the Scottish Government have said that we are willing to move at pace to invest the funding once the priorities have been identified.

Willie Coffey: Ultimately, who will assess the effectiveness of the programmes that come out of the growth deals? We, in Scottish Parliament committees—the Public Audit Committee or others—get a glimpse from Audit Scotland almost annually about how they are performing. Where is the reporting line and scrutiny for the whole growth deal process? Does reporting go to Government officials? Could there be a bigger role for parliamentary committees in scrutiny of the progress of growth deals in the areas that members represent?

Kate Forbes: Parliamentary scrutiny is always to be welcomed, but the deals' programmes are governed by boards because they are tripartite arrangements, and the boards are accountable for delivery of the programmes. On those boards are representatives from the three partners and others.

Colin—would you like to add anything?

Colin Cook: As the cabinet secretary said, there is very much a tripartite approach, but there is a team within my directorate that was set up to monitor the application and the effectiveness of city and region deals from the Scottish Government's point of view.

Willie Coffey: Would we, in this committee or in other committees of the Parliament, be able to see something like that a couple of times a year, perhaps, so that we can see how progress has been made and give the deals democratic accountability? There is substantial investment by the Scottish Government—the Ayrshire growth deal, for example, is worth £100 million—but there is no formal scrutiny process in Parliament for it, that I am aware of, and I would certainly value one.

Kate Forbes: I am very conscious that, because the agreements are tripartite, it is not only the Scottish Government that owns them, but I am very happy to provide whatever the committee feels it needs in order to consider the details more.

Willie Coffey: Thank you for that.

The Convener: That is clearly an issue that we will probably return to as part of our inquiry, but that is a well-made point. I bring in Jamie Halcro Johnston.

Jamie Halcro Johnston (Highlands and Islands) (Con): Good morning, cabinet secretary and team.

I want to cover a few areas that have come up today, but I will first continue on the city and region growth deals with a quick question about a particular case—the Corran Narrows ferry—that happens to be in your constituency and my region. There has been repurposing of UK Government and Scottish Government funds for infrastructure and for a new ferry. I am not going to dwell on whether that is what the community wants or whether it is the right answer. Do you have any concerns that repurposing that money and directing it to other areas might affect the overall objectives of the deal, given that, before the deals were in place, the funding would probably have had to come from councils, together with the Scottish Government? The deals are therefore not really being used for the intentions that existed in the first place.

11:15

Kate Forbes: First of all, I should say that I am entirely recused in Government, on a constituency basis, from making decisions about the Corran ferry. I am delighted about it—however, at Government level, it is important for propriety that I am not involved in decisions that would have either a positive or negative impact on my constituency.

On the wider principle, it is not the first time, and it probably will not be the last, when the three organisations that are involved—the local authority, the UK Government and the Scottish Government—have collectively agreed to repurpose funding. Willie Coffey used the example in Ayrshire of a change to a business investment decision in which all partners came to the decision that, in fact, the world had changed and they wanted to pursue other opportunities.

I would be reluctant to dismiss such things, which could opportunities. The growth deals are all very long-term. A handful have made specific requests for changes to how funding is spent or deployed, because life has changed. In some cases, costs have risen. Change is perfectly appropriate, as long as there is tripartite agreement. In this case, of course, the UK Government also agreed to repurpose funding for infrastructure for the Corran ferry.

Jamie Halcro Johnston: That is interesting, because there is no doubt that there is a need in that particular case—and, I imagine, in other cases. However, as I said, the question is, given such changes, about the objective of the original deals and how they were put together after quite a long process.

We talked earlier about housing and how important it is. It is obviously a major and important issue in the Highlands and Islands and across Skye, Lochaber and Badenoch, which is the constituency that you represent, and which we both represent in one way or another.

You talked about increases in the housing budget this year and in the next budget, which are welcome, but they are, of course, making up for cuts in previous years. Do you accept that the previous cuts are having, and have had, a significant impact—in particular, in relation to providing affordable housing in some of the most remote and rural communities in Scotland, which we already struggle to get people to come and work in?

Kate Forbes: We know that, on average, between 2007-08 and 2023-24, the affordable housing supply in Scotland has been 73 per cent higher per 10,000 of population than it is in Wales, and 47 per cent higher per 10,000 of population than it is in England. The reason why I make that point is that we have, because of its importance, invested more in affordable housing over that period than anyone else.

The draft budget for next year more than reinstates the affordable housing supply programme to 2023-24 levels: £15.8 million more than 2023-24 levels is being made available to invest. That is a reflection of the housing emergency, which we agree and accept exists in spite of the huge investment that has been made in affordable homes.

Jamie Halcro Johnston referenced the Highlands. Very few communities have not seen delivery of affordable housing, in all the various forms. I think that the point that we would both make is that the need there is even greater—but it will not be met only by the affordable housing supply programme. Government money has an important role to play, and it is delivering. That includes new build, rehab and existing properties. However, there has also been a lot of private sector funding.

At the Cromarty Firth green freeport, for example, the number of new homes that will be required for the level of economic activity in the area varies between 10,000 and 25,000. If you speak to one of the big housing developers that operate in the Highlands, they will tell you that, right now, they have the capacity to deliver several hundred homes. That requirement would require them to upskill to the extent that they would be able to go from delivering several hundred to several thousand homes every year. There are consequences for the construction industry: the question is whether it has the skills.

We have a strong track record, but the need right now is enormous and is reflective of economic activity and the huge opportunities for growth and prosperity, which is a good problem to have. However, public sector funding alone will not meet that need: there has to be private sector funding, too.

Jamie Halcro Johnston: Not necessarily with your cabinet secretary hat on, but with your Deputy FM hat on, are you, as a member of the Government, confident that the Government can meet that need through the budget and perhaps through changes to planning regulations and so on, or are there still concerns, given that we are under huge pressure already and that demand will only increase?

Kate Forbes: I am confident that we are throwing absolutely everything at the matter. We have had the chief planner write to all local authorities about taking a more flexible approach. Ivan McKee has sketched out changes to planning. Shirley-Anne Somerville and Paul McLennan have taken an intensely focused approach with local authorities. I am meeting anybody who will talk to me about investing in and developing housing.

I was in Shetland, which, I know, will be closer to your heart, as the crow flies—

Jamie Halcro Johnston: As an Orcadian.

Kate Forbes: —than my patch is. Shetland has a site for 300 houses. The problem is not planning, funding or appetite, but the construction industry. A lot of workers—in particular, Hungarian workers—returned to Europe during Covid and have not come back to the UK because of challenges around freedom of movement and other such things. I have been asking builders in my patch how they fancy working in Shetland. There is a big challenge.

You asked about my confidence: I am confident that we are doing everything we can, but we do not own all the solutions.

Jamie Halcro Johnston: I appreciate that.

I will move on to two further topics. When we talked about Highlands and Islands Enterprise, you might have been reluctant to admit that the funding has reduced over the past 10 years or more. Given the importance of Highlands and Islands Enterprise and the other enterprise bodies, that will surely have an impact on their abilities in the longer term.

I have two specific things to ask about. Across all sectors, a number of businesses have come out the past few years carrying large debt. Some are managing that debt, but others are struggling to do so. The enterprise bodies tend to focus on new companies, expansion and growth. Is there any support, or is any support being considered, for businesses that are viable, bar the debt that they carry because of Covid restrictions, energy costs and so on?

Kate Forbes: The enterprise agencies have a role in engaging with businesses that need help, but I caution against their being responsible for dealing with debt that mostly came out of Covid. A lot of that debt is from the coronavirus business interruption loan scheme and bounce back loans. That relationship is with the UK Government, because those were UK Government loans that were absolutely fundamental—they were critical.

Jamie Halcro Johnston: I am not necessarily suggesting that that would fall under the responsibility of the enterprise bodies. However, does the Government recognise that Scottish businesses may be successful in many ways but are having to manage debt that may be increasingly difficult to manage or refinance? Is the Government looking at doing anything to support and help them more widely?

Kate Forbes: There are two points. First, you are right to caution against supporting just shiny new businesses. When it comes to investment, a lot of the work that I have been doing has been with current investors, rather than just going after new ones. The same applies to enterprise agencies and businesses. It is about supporting existing businesses to not fail and to grow and survive or whatever, and about investing in them. That is where relationships are so important. You are right on that point.

You are also right on the wider debt point. Businesses are grappling with much higher levels of debt as a result of Covid but also perhaps as a result of the fact that they did not get an easier time post Covid. Suddenly, inflation ate into their margins and energy prices spiked, and they have just not been able to catch a break to deal with some of that debt. That is a critical point.

More widely, we work closely with Scottish Financial Enterprise, which represents the banks in particular, in supporting their customers. That is on a macro level, rather than dealing with specifics, so that we understand what businesses are dealing with and how we can support them more generally. There have been some specific examples of businesses that have been close to some really difficult times, and we have been able to step in, with the help of our enterprise agencies, to support them.

Jamie Halcro Johnston: Are those perhaps larger businesses that have been in emergency situations?

Kate Forbes: They are not necessarily larger businesses; some are medium-sized businesses, but pivotal, anchor businesses in their communities.

Jamie Halcro Johnston: You will know about the pressure on high streets, which mainly concerns some of the sectors that we have already talked about—hospitality and the like. The DigitalBoost programme has been suspended, or rather paused, at a level of £1.6 million. Why is that? I appreciate that that is a very specific question. Given the importance of helping businesses to get online so that they can supplement their bricks-and-mortar incomes with online activity, why has that happened?

Kate Forbes: It remains on pause. That was a very successful scheme. My first job in the Government was as Minister for Public Finance and Digital Economy, with poor Colin Cook having to provide support. We basically spent every day going round 20 different businesses that had benefited from DigitalBoost. It is a very valuable programme. We keep all those programmes under review.

Jamie Halcro Johnston: Why pause it, then, if it is successful and very valuable? The sum of £1.6 million is not a huge amount of money. The Parliament spent £3 million on its website alone. It is a tiny amount of money, and it seems odd to pause the programme if it has been successful.

Kate Forbes: I do not know whether officials want to add anything. The decision was made when I was not in the Government, so I was not in the weeds of it all.

Colin Cook: I am not sure that I can comment on the specifics but, going back to the point about business support, the scheme was first developed to kick-start the capability of the public sector and its agencies, including Business Gateway, to give advice on digital issues.

Rolling forward four or five years, Business Gateway is now mainstream in the provision of business advice, including on the ability to be online, get online and benefit from technology. There has been a change in the mix of what the core funding supports.

Jamie Halcro Johnston: I note from what I have in front of me that DigitalBoost

“offered SMEs funding to adopt digital technologies and upskill staff.”

That went directly to businesses; it was not just for supporting agencies, was it?

Kate Forbes: No—it was specifically for business. It was basically for businesses that wanted to develop a website or to develop their digital capabilities.

I am not ruling anything out completely, but we need to ensure that the programme complements what is already being provided. Let us think about the other schemes that are operational right now. The Business Gateway programme is on-going, and it provides advice and support on digitalisation, for example. There is also Techscaler, with £42 million specifically for tech businesses—although everything is a tech business now. A food business is a tech business, an agriculture business is a tech business—everything is tech.

Jamie Halcro Johnston: Perhaps it is something to get more information on, but it seems strange to me that a programme that you have said was successful—I imagine that it was oversubscribed, if that is the case—and which was funded with what is a small amount of money in the grand scheme of things has been paused. A few years ago, the committee had people in front of it talking about the importance of getting more and more businesses online. Admittedly, that was pre-Covid.

Kate Forbes: Yes—that was pre-Covid.

Jamie Halcro Johnston: A lot of businesses went online, but there are probably still many businesses that are not online, or are not at that level. It might be helpful to get a better understanding of the situation.

I have a question about VisitScotland and its costs. We know that we do not spend as much as Ireland, for example, on our tourism offer and promotion. The sector has experienced huge pressure, including on short-term lets, and there are real concerns about a tourism tax, as I am sure that you have seen in your inbox as a constituency MSP.

You talked earlier about people booking things and getting their information online or doing all of that on their phones, which is why we do not need iCentres. However, many of the people who speak to me have suggested that those iCentres have gone because of budget cuts. There is real concern and anger in a lot of communities, particularly among those who work in the tourism sector and in largely remote communities, about the loss of the centres. Do you recognise that? Have you heard that yourself? If the centres were essentially outdated, why is there real concern about their loss?

11:30

Kate Forbes: I hear the same level of concern that you do, particularly at a constituency level, where a number of the centres have shut down. The fact is that public bodies have had to deal with some challenging budget settlements, because the overall budget has been really challenging and because of inflation, as I have said. However, they have also had to grapple with the changing nature of the market, and I would expect VisitScotland to spend every penny of taxpayers’ money in the way that delivers most for the tourism industry. That is what I would expect, and it requires some difficult decisions to be made.

I think that it is a really fine balance. As I said to Murdo Fraser, we have invested an additional £2 million specifically in international footfall and in targeting areas that are undervisited at the moment. That is the aim, and I think that that is a good use of money. Some of those areas might have had a visitor centre, but people might not have been going to them in the first place. The value to that local tourism industry is definitely going to be in getting more visitors to go there to spend money instead of just waiting for them to come. Therefore, as I have said, it is a really fine balance. It is always difficult to make changes to infrastructure.

On your last point, you will be as familiar as I am with the iCentre in Drumnadrochit. Anybody who was at the most recent Highlands & Islands Thistle Awards will have seen the community group that transformed that centre into a community facility win tourism award after tourism award after tourism award. They totally wiped the floor, winning tourism awards as a community group that saw an opportunity for that centre. Therefore, there is also an opportunity to use those facilities in perhaps a more community-empowering way, but I accept that it is not easy.

Jamie Halcro Johnston: I will finish on this point. We should remember that we centralised control of the tourism centres and the local tourism bodies, and we are now basically asking communities to go back to running and marketing their own tourism, certainly on the ground. It feels as if we are almost going back to where we started. I do not disagree with you; in many ways, local communities have the most passion, knowledge and understanding when it comes to these matters. I am just saying that we have gone through a process of flipping between the two.

The Convener: Daniel, do you still want to ask a supplementary?

Daniel Johnson: I just have a small request. I want to go back to Jamie Halcro Johnston's query about the balance of the DigitalBoost funding. My understanding is that it was made up of direct grants. Can you write to the committee to clarify the shape of that funding and the balance between capacity building and direct grants? My understanding was that the funding was primarily made up of direct grants.

Can you also clarify the effectiveness of the funding? My feeling from speaking to businesses is that Business Gateway does not have capacity in this space, so a written clarification about what that funding did and how effective it was would be really useful for the committee.

Kate Forbes: I do not whether you will recall this, but we hugely increased the programme during Covid. I cannot remember, so I am really going out on a limb here, but I think that the increase was in double-digit figures. It was something in the region of £10 million plus £10 million—it was a massive increase, given that the programme was small and amounted to £1.6 million. The funding was made up of direct grants—people would apply for investment for a website or system. I just make the point, if I may be so bold, that it was very much about entry-level digitalisation—in other words, it was for the wee business that was perhaps not online. Then Covid came along, and it needed to get online.

I am always open to Parliament's ideas on how we can spend our money most wisely, but I query whether, post-Covid, there are many businesses that still need that entry-level digitalisation and whether that is where we should focus our attention. However, I was a huge advocate for DigitalBoost, and I feel like I visited almost every company that benefited from it.

I will write to the committee with the clarification that Mr Johnson asked for.

The Convener: I am conscious that we have kept you for a long time, cabinet secretary, but we have a couple more questioners.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Good morning, Deputy First Minister. I will ask you about the impact of the national insurance hike, both on the Scottish Government budget and on the wider economy.

In October, the rate of national insurance increased and the threshold reduced. What impact has that had on the Scottish Government's budget? Has the increase in the block grant from Westminster entirely mitigated that impact?

Kate Forbes: The increase in the block grant did not cover the full cost of the increase in national insurance contributions across the public sector, and all public bodies will have to grapple with that in relation to their overall costs.

Despite what has been said, the measure has quite a stark effect on jobs. From engaging with businesses, we have heard that, for them, it will involve choices as to whether they continue to invest in their people. They will have to find the money to pay higher taxes rather than invest in fair work, skills, training and hiring more people. The increase in national insurance contributions will have an impact because it hits businesses' bottom line.

The overall impact is still a bit unknown. The joint letter of 3 January from the Convention of Scottish Local Authorities and the First Minister called for funding to fully cover the additional costs that face organisations across civic society, and business faces the same challenges. That letter was supported by 48 organisations, including the Scottish Trades Union Congress.

Gordon MacDonald: As well as the immediate impact on employees—such as those in the NHS and the Scottish Prison Service—throughout the areas covered by the Scottish Government's budget, there is also the inflationary increase in the supply chain. Has that been taken into consideration? Has the increase in the block grant mitigated that?

Kate Forbes: You are absolutely right about the inflationary impact. Despite inflation falling, it is still higher than it has been, and, according to decisions that the Bank of England is taking, inflation remains a risk. Clearly, it is still a very present risk that is at the forefront of people's minds. Things are still more expensive and they are getting more expensive than they were. That has an effect.

Although the budget is in a better place than we had feared, inflation is still having an impact on it because of where inflation has been and the impact that it has had on major infrastructure projects in particular.

Gordon MacDonald: I have a few questions about the wider economy. The Scottish Fiscal Commission forecast that, from 2025-26, Scotland would have a slightly higher GDP per capita growth than the rest of the UK. What impact will that have on potential economic growth, bearing in mind that substantial funds will be stripped out of Scotland? It has been estimated that the cost to

Scotland is anything between £2 billion and £2.5 billion. What impact will that have on economic growth?

Kate Forbes: There are two points. First, our GDP growth has not been where we would like it to be, and we need to see greater growth and greater prosperity. Scotland's GDP growth was flat—0.0 per cent—over the three months to October 2024, although it grew 0.9 per cent on an annual basis. All of the investments that we are making are about creating greater prosperity that is shared more equally across Scotland. That is our aim and objective.

Secondly, relative growth is really important, because relative growth has an impact on our income tax take. Our income tax policy choices since devolution will raise up to an additional £1.7 billion compared to what would have been the case if we had matched UK Government policy, according to the SFC. However, we also expect higher levels of growth to have an impact, because they inevitably have an impact on skills and on earnings as well.

It is worth reminding the committee that, since 2007, GDP per person in Scotland has grown by 10.5 per cent, compared with 6.5 per cent in the UK. However, I think that we should set our sights higher and should be looking to other comparable small countries rather than just competing with the rest of the UK.

Gordon MacDonald: Given that, because the national insurance hike means that between £2 billion and £2.5 billion will be stripped out of the Scottish economy, there will be less money around and companies will have less money to invest in their people and more efficient production methods, how will we close our productivity gap with the UK?

Kate Forbes: I know that productivity has been an issue of interest to the committee, and one of the ways to increase productivity is to invest in people, in skills, in training and in technology. However, if more money is going to the Treasury, less will be spent locally within a particular business, which means that businesses will have to make difficult choices. In terms of private investment and investment in productivity, the UK has lagged behind comparable Organisation for Economic Co-operation and Development countries, and we need to change that.

Gordon MacDonald: Earlier, we talked about artificial intelligence, robotics and so on. Will the fact that companies will have less money to invest possibly accelerate investment in automation, which will, therefore, impact on employment?

Kate Forbes: A big focus for Government is to support businesses with innovation and technology, including robotics and AI, which you mentioned. We have record low unemployment right now, so there is an imperative on businesses to look at their systems and be as efficient as possible. For me, as we continue to support businesses, the key is to ensure that people are not left behind due to the rapid rate of technological growth. That issue connects with the DigitalBoost programme and the question of where we can spend our money most effectively, because, although some of the entry-level technology is important, it is not the lack of a good website that will be holding businesses back anymore; it is more likely to be the use of AI, robotics and autonomous machinery—that is where the cutting-edge growth is happening.

Kevin Stewart (Aberdeen Central) (SNP): Good morning. I want to follow up on the issue of the UK Government's hike in employer national insurance contributions. It has been said to me that that hike is, basically, a tax on jobs. How does the Scottish Government intend to monitor whether that hike leads to reduced investment and reduced employment opportunities in Scotland? Are we going to use our various agencies to check on that? Will you and the Government continue your good dialogue with businesses to get their take on what is happening out there?

11:45

Kate Forbes: We absolutely will monitor the situation, as we have been doing. Our chief economist monitors it. He regularly reports publicly, and he regularly reports to me internally on what is happening in our labour market, to earnings, to GDP growth, to business activity, to job vacancies, to labour shortages, to inflation and so on. We have a very detailed analysis at least monthly, if not more regularly, of precisely what is happening, using a range of data.

It is an employer national insurance contribution, so it is a tax on jobs—there is no getting away from that. As I said, in very simplistic terms, employers will have to choose whether they invest in an employee or pay tax on an employee. That will have an impact.

We know that our unemployment rate is low—from August to October, it was 3.6 per cent—so we are able to track against that. Employers continue to face staff shortages. In December, 23.1 per cent of firms reported experiencing a shortage of workers. Recruitment activity has slowed in 2024 from elevated rates. In the week beginning 18 October, the number of weekly online job vacancies was 32 per cent lower than it was the previous year. We have a lot of data to monitor the situation, and I think that we will see a shock running through the labour market. There might be other shocks in relation to investment in productivity that we do not see the outcome of until later on.

Kevin Stewart: Those shocks might be employment shocks or inflationary shocks. The committee might ask for more detail on that and use your good office to ensure that the information that you get from the chief economist is cascaded throughout. I am sure that you would be amenable to that.

Kate Forbes: Absolutely.

Kevin Stewart: Thank you very much.

I will move on and be a wee bit parochial by asking about the just transition fund for the north-east and Moray. The allocation this year is £15.9 million, which is on top of the £75 million that has already been allocated. The Government committed to investing £500 million over 10 years, which, in my opinion, is necessary to ensure a just transition in the north-east. Is the Government still committed to that £500 million investment?

Kate Forbes: The short answer is yes. The member will know that, through the just transition fund, since 2022, we have allocated £75 million, which has supported a number of projects and communities. We want to ensure that the impact of those projects is maximised, and the £25 million that was allocated to the Scottish National Investment Bank has helped to leverage in about £40 million of additional investment.

The fund sends a very clear signal about the value that we place on the north-east. We know that it needs to be part of a wider stream of investment from the private sector and from the UK Government, but we are absolutely committed to that fund and that programme of support.

Kevin Stewart: You mentioned the UK Government. Has the Scottish Government continued to ask the UK Government whether it will match the Scottish Government's investment, considering the amount that the UK Treasury has had out of the north-east of Scotland during the oil and gas years?

Kate Forbes: Yes, we have. We strongly believe that the fund needs to be part of a wider package of support. It should not just be the Scottish Government that makes those investments, as important as they are, and we remain in very regular dialogue with the UK Government about supporting the north-east.

In the past year, perhaps more than ever, we have seen the impact of the UK Government's decisions, choices and rhetoric, so if we are agreed on anything, it is that we cannot leave workers behind. There needs to be a just transition, and the just transition fund is a great vehicle for supporting communities that feel at risk of being left behind.

Kevin Stewart: In my opinion, it is paramount that we do our level best for those workers, because, at the end of the day, they will drive our net zero ambitions.

I understand that independent evaluation of some of the projects that have already been funded through the just transition fund will be available shortly. Will that evaluation be made public?

Kate Forbes: We are happy to share relevant details of the impact of that evaluation, because we want it to be effective. It does not sit entirely within my portfolio, so I am reticent to make concrete decisions on behalf of somebody else who sits around the Cabinet table, but I am happy to take the committee's request away to ensure that there is as much transparency as possible.

Kevin Stewart: On those joint responsibilities and, sometimes, separate budgets, how will the Government ensure that we get the biggest bang for our buck in future investments to grow our economy? For example, on hydrogen, which you are probably bored of hearing me talk about—

Kate Forbes: Not yet.

Kevin Stewart: Thank you. How do we ensure that you and your Cabinet colleagues take a joint approach so that we get the best possible opportunities from any Government investment?

Kate Forbes: That is such a big issue that it is not right for it to sit in a silo under only one person or team. Since coming into office in May, I have taken an intentional and active interest in the area and have worked very closely with Gillian Martin.

I do a huge amount of work on the investment side. You would have thoroughly enjoyed it, but, just a matter of weeks ago, I met 50 businesspeople who are active in either investing in, developing or applying hydrogen technologies, and I engaged with them to understand what they need. I then communicated that openly to Gillian Martin. She and I are doing a lot of work in the area, and I think that we are working quite well together as a team.

This is the biggest opportunity that the Scottish economy faces. It is huge. I was told—I have not had it fact checked—that there is more offshore wind in the pipeline in Scotland than was committed to with the US Inflation Reduction Act of 2022. Someone can tell me whether that is true, but I think that it is, and it shows the scale of the opportunity. When we look at the surplus of green energy that we might have and the opportunities that might come from it, we can start to see that scale.

The appetite among investors and developers is huge. It is therefore on us to get our ducks in a row and on the UK Government to sort out some of the barriers, such as those relating to grid connections and contracts for difference allocation rounds.

Kevin Stewart: It would be helpful if the UK Government developed the right storage and transportation regulations, but we probably better not stray into that.

One of the issues with those new opportunities is that we often have to be flexible with public sector money allocations to maximise the possible private investment. I recognise that you are saying that there is co-operation across the Scottish Government. How do you ensure that the UK Government is equally flexible so that we can have the investment and employment opportunities that are definitely out there?

Kate Forbes: We need flexibility. I am having regular dialogue with the Secretary of State for Scotland, and the need to move flexibly to respond to the big opportunities has been on every agenda. The UK Government has a number of live consultations, and some work is going on around its industrial strategy. However, we cannot wait too long and we need a better response. I get the impression that there is an appetite for that.

We now need to take ownership of the things for which we have responsibility, such as progressing consenting—which we are on track to do, with the massive resourcing of the consenting unit—and the planning hub in the north-east, in Aberdeen. Those kinds of things are within our control; we are just trying to do them. There is certainly an appetite from the UK Government, but it is about doing those things.

Kevin Stewart: I am glad to hear you mention that changes are being made here around consenting, and some of the investment, including in the Aberdeen hub, is most welcome. However, how do we ensure that the regulations and consents that are required from the UK Government actually come to fruition? Is there co-operation across the Government to get the UK Government to make those vital shifts in order to create those jobs?

Kate Forbes: We are definitely communicating regularly, extensively, robustly and clearly. As I said, the matter dominates all my conversations with the UK Government, and I know that it dominates the conversations that Gillian Martin has, as well. I do not sense a reticence in theory; it is just about doing those things.

We are at a critical crossroads. Over the past few years, there was big momentum through ScotWind innovation and targeted oil and gas leasing rounds. There was huge interest and appetite, and some early investment decisions were made—we have talked a lot about Sumitomo and others. We are now at the critical point at which those in the supply chain are awaiting developers getting all their consents and grid connections sorted and bringing them forward before they make decisions to invest. However, they will need to meet certain deadlines so, if they wait too long and, suddenly, the consents flow but there is no active supply chain, they will look overseas, so we need to get things right now.

A lot of that lies with earlier grid connections, CFD allocations and, of course, consenting. There is a process, and I am trying to keep everything moving. I am looking at how we can derisk investments so that supply chain investments can proceed—to allow, for example, the cable factory to be built—and we do not lose the opportunity.

Kevin Stewart: The Deputy First Minister has read my mind somewhat about the importance of the supply chain and the shifts from oil and gas into some of the new sectors. You have talked about some of the issues that are at play. Basically, folk require a level of comfort. How can the Government use the resources that are at its disposal to provide that comfort in order to get businesses over that hump and into the new ways of working?

Kate Forbes: You are absolutely right—they are looking for us, collectively, to provide as much certainty as possible, because there are a lot of uncertainties around.

I can give a number of points of comfort. First, we have doubled the resource to the consenting unit. We have a commitment to turn consents around within a year. Obviously, some will be complex, and it will be dependent on the application, but that is our aim and our goal.

Secondly, we are working extremely closely with the UK Government on the issues that are outwith our control, including those relating to the grid, regulation, CFD and other things. I can give folk the commitment that we are absolutely having those conversations. Apparently, GB Energy was represented at the energy advisory board meeting with the First Minister. Those conversations are really tight at the moment.

My third point relates to money. When we cannot control other elements, can we derisk a private sector investment by investing some public money? That is what our strategic investment model is all about. It is why we have tripled the investment in the supply chain in next year's budget to £150 million. Investors are telling me that they need us to take out a bit of the early risk, because they do not see customers coming at the rate that they need, so they are asking whether we can help them to get through that stage. The enterprise agencies and the Scottish National Investment Bank are actively involved in those kinds of conversations.

Those are three ways in which we can offer some degree of comfort.

Kevin Stewart: That has been very helpful.

The Convener: You will be pleased to hear that that brings us to the end of the evidence session—I was going to say this morning, but it is almost this afternoon. I appreciate that the session has gone on longer, but I hope that everyone has found it constructive. I thank the Deputy First Minister and her officials for joining us today.

12:01

Meeting continued in private until 12:22.

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