



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Jobs and Fair Work Committee

Tuesday 21 November 2017

Session 5



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ECONOMY, JOBS AND FAIR WORK COMMITTEE
30th Meeting 2017, Session 5

CONVENER

*Gordon Lindhurst (Lothian) (Con)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Tom Arthur (Renfrewshire South) (SNP)
*Jackie Baillie (Dumbarton) (Lab)
*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Jamie Halcro Johnston (Highlands and Islands) (Con)
Richard Leonard (Central Scotland) (Lab)
*Dean Lockhart (Mid Scotland and Fife) (Con)
Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Gillian Martin (Aberdeenshire East) (SNP)
*Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Keith Brown (Cabinet Secretary for Economy, Jobs and Fair Work)
Stephanie Brown (Registers of Scotland)
Professor Julia Darby (University of Strathclyde)
Graham Fisher (Scottish Government)
Chris Kerr (Registers of Scotland)
Richard Marsh (4-Consulting)
Professor Catia Montagna (University of Aberdeen)
Dr Tanya Wilson (University of Stirling)
Dr Alexandros Zangelidis (University of Aberdeen)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament
Economy, Jobs and Fair Work
Committee

Tuesday 21 November 2017

[The Convener opened the meeting at 10:50]

Interests

The Convener (Gordon Lindhurst): Welcome to the 30th meeting in 2017 of the Economy, Jobs and Fair Work Committee. This morning I have received apologies from Richard Leonard and Alex Neil; we have also received apologies from Gordon MacDonald. I remind everyone to turn off electrical devices that might interfere with the work of the committee.

We have two new committee members, Colin Beattie and Tom Arthur, who replace Ash Denham and Gil Paterson—I thank Ash Denham and Gil Paterson for their work on the committee. I invite our new members to make the usual declaration of interests.

Colin Beattie (Midlothian North and Musselburgh) (SNP): Thank you, convener. I am delighted to be on this committee. I simply direct members to my entry in the register of members' interests.

Tom Arthur (Renfrewshire South) (SNP): Like Colin Beattie, I am delighted to be on this committee. I have no interests that I think require to be declared, but I advise the committee that I am a member of the Musicians Union and that I was formerly a company director but no longer have any shares or interest in the company.

The Convener: Thank you.

Decision on Taking Business in
Private

10:51

The Convener: Do members agree to take items 3 and 4 in private?

John Mason (Glasgow Shettleston) (SNP): Are you sure that those are the items that we are considering taking in private?

The Convener: I have the wrong numbers on my paper; it should be item 8. I thank the deputy convener for keeping us right. Do we agree to take item 8 in private?

Members indicated agreement.

Scotland's Economic Performance

10:52

The Convener: Item 3 is evidence in round-table format, as part of our inquiry into Scotland's economic performance. In the interests of hearing as much as possible from the witnesses, I ask my fellow committee members to limit the length of their questions. If anyone wants to comment, please indicate by raising your hand, and I will bring you in as the discussion moves along.

I welcome our guests. Professor Catia Montagna has a chair in economics at the University of Aberdeen; Richard Marsh is director of 4-Consulting and I think has appeared before the committee in the past; Dr Tanya Wilson is from the University of Stirling; Dr Alexandros Zangelidis—I am not sure whether I pronounced that correctly, but no doubt you can correct me—is from University of Aberdeen; and Professor Julia Darby is from the University of Strathclyde. I invite each of you to give a brief introduction from the point of view of the work that you and your organisation do.

Professor Catia Montagna (University of Aberdeen): I am a professor of economics at the University of Aberdeen. My work focuses on issues related to globalisation, international competitiveness and foreign direct investment. I work with a team of people in Aberdeen who work on related areas, in particular the interface between such issues and the labour market.

Richard Marsh (4-Consulting): As you said, convener, I am a director of an independent economic consultancy, which is based in Kirkcaldy. We work across a broad range of clients and sectors, delivering research to help to inform public sector investment decisions and private sector strategy.

Dr Tanya Wilson (University of Stirling): I am a lecturer at the University of Stirling. I am a labour economist; I specialise in family economics and the economics of the household, which includes how households make decisions as to when to participate in the labour market and how much labour market activity they want, collectively.

Dr Alexandros Zangelidis (University of Aberdeen): I am a senior lecturer in economics at the University of Aberdeen. My research area is labour economics and health economics, and I work primarily on issues related to wage determination, labour supply and economic and socioeconomic inequalities and their effect on health.

Professor Julia Darby (University of Strathclyde): I am the head of the economics department at the University of Strathclyde, which is the home of the Fraser of Allander institute, with which a lot of our work is connected. We look at productivity performance, labour market performance and so on.

The Convener: I will start with a general question to our guests. What have been the main drivers of growth in the Scottish economy over the past 10 years and how do you see them developing in the next 10 years?

Richard Marsh: Given that I come from the private sector, I will just venture an opinion. It would be helpful if the inquiry did not focus on asking what is the one driver of the economy or what are the barriers that have been holding us back, because there is no single driver of Scotland's economy, or any other economy; we need to pull dozens of different levers at different times and in different ways. Projects and programmes need to be delivered by a range of actors in central and local government, the private sector, the public sector, colleges and universities.

You asked what has driven growth in Scotland's economy. Our exports have performed reasonably well, investment is continuing and we are continuing to educate the workforce. A range of things are nudging the economy forwards.

What could we do better? We will not have identified just one, two or three things, either after today or at the end of the inquiry; we need to tweak and adjust a range of things.

The Convener: No other interested parties want to comment on that, so I invite John Mason to raise another issue.

John Mason: This is quite a wide question. How does Scotland's growth rate compare with the growth rate in the United Kingdom as a whole, other regions of the UK—we realise that London is a bit odd—and other countries and regions in the European Union? Which of those should we compare ourselves with? Richard Marsh suggested that maybe we should just compare ourselves with everywhere. Would that get too complicated? How are we doing and what should we compare ourselves with?

Professor Montagna: I think that we are all a bit shy about answering questions. [*Laughter.*]

I found it difficult to structure answers to the questions that we were asked in the sense that they were all pretty interconnected. You asked us how we are doing in comparison with others, how we measure success and what are the sectors and drivers of growth. Those are all interrelated, and they also relate to an extent to the reasons why growth has not been as good as it could have

been. It is inevitable that our answers will criss-cross the various questions.

I refer back to what Richard Marsh said. We could say that in the past few years the Scottish economy has not performed as well as it could have performed—or as well as we would have hoped. The key thing to understand is why that has been the case. In some dimensions it has performed better than the UK economy as a whole and in others it has performed worse. For example, there has recently been an increase in growth and a little bit of catching up on productivity with respect to the UK economy as a whole.

The point of reference that you choose is important, because the UK as a whole has not performed that well. If you compare Scotland to countries of a similar size, such as Norway, Sweden or Finland, or eastern European countries, you will see that Scotland has not performed very well against many indicators. The committee should try to understand why there are such differences. I am sure that inequality, productivity and other aspects, under different headings, will come up. Scotland's performance has not been particularly good.

11:00

John Mason: When you say “performance”, are you thinking particularly of gross domestic product and GDP growth, or are you thinking of other things as well?

Professor Montagna: GDP per capita in Scotland has been stagnant. It has grown by something in the region of 1 per cent over 10 years. GDP is not the best indicator of performance, and GDP per capita is certainly not the best indicator of income distribution, but performance at that level is pretty bad, even in the context of a financial crisis. One thing that emerges when we look at the data is that there is a strong correlation between the degree of inequality in a country and the ability of the country to recover from recession, so countries that have done better in that sense are countries that have a much lower inequality as measured by the Gini coefficient. The Gini coefficient in Britain is very high; I think that it is the worst performer in Europe in that respect after Latvia.

One of the issues that we have to decide on is how to measure performance. There are different dimensions to performance. GDP is important, but it is not the only measure. Inequality is another dimension, but all those things need to be considered in a more connected way.

Gillian Martin (Aberdeenshire East) (SNP): You have talked about Scotland in comparison to other similar-sized countries. If those countries are performing better than Scotland, what

mechanisms do they have in place that we do not that are driving that improvement?

Professor Montagna: Answering that question involves addressing an issue of causality and it requires analysis of the data. Some of those countries have very different labour market institutions and welfare state systems, and I am a firm believer that those policy dimensions are important in determining both the degree of equality in a country and its ability to adjust and respond to international shocks. The provision of a safety net helps smooth out the response to shocks.

There are significant long-term implications regarding incentives underpinning the acquisition of skills, for example. There is work that shows that certain labour market institutions favour the acquisition of far more industry-specific skills, which are important for productivity and the development of industry, whereas the liberal welfare state that the UK and other countries have favours the acquisition of generic skills. Workers need to self-insure in the face of negative shocks, and the best way to do so is to acquire skills that allow them to recycle themselves and move jobs more easily than if they have industry-specific skills. However, industry-specific skills are important in manufacturing and underpin productivity in those sectors. That is why I say that it is important to take a multidimensional view of performance and of policy, as policy areas are interconnected, and it is important to understand, in an evidence-based manner, what those connections are.

Gillian Martin: So although some policy decisions can be made in Holyrood, there are certain policy decisions that have an impact on our economy that are made elsewhere.

Professor Montagna: Absolutely.

Dr Zangelidis: There are three points that I want to highlight. I would echo what my colleague Professor Montagna has said. It is important to understand that there is not a single answer. In an ideal world, it would be nice to have one single answer to all those questions, but the situation is more complex than that. We need to understand the history of what the British economy and the Scottish economy went through during the past 10 years, in light of the great recession and the vote for Brexit and its implications for the overall economy, consumer confidence and the labour market.

As Professor Montagna said, we should not look at a single indicator when we talk about productivity or inequality. We need to be very cautious because there is a lot of information hidden behind single measures. For example, unemployment has improved in the past few

years, but behind that is the big issue of underemployment—there are many people on part-time, temporary or zero-hours contracts. Therefore, one could say that the situation in the labour market has not necessarily improved. We need to be very cautious about that.

To go back to Ms Martin's question, I agree with Professor Montagna's position that the labour market institutions that are in operation are key, as well as the overall regulatory environment and whether there is scope for the Government to intervene further in the goods market, labour market and financial market and take a more active approach.

The Convener: John Mason, do you want to come back in on that?

John Mason: I will leave it just now, convener.

Colin Beattie: I have a two-part question. The population of Scotland has been increasing, but the population of the UK has been increasing at a much higher rate, partly due to immigration. What impact does that have on GDP and the calculation of GDP for each market?

Richard Marsh: If you have a growing population, it is more likely that your economy will grow more quickly because you will need to spend more money on public services, those people are more likely to have jobs and they will spend their money on the high street, which will create economic activity. Countries in which the population is growing more quickly tend to have a slightly higher rate of economic growth. However, as several witnesses have said, more important measures might be the level of wages, quality of life and GDP per capita. Ideally, you want your economic growth to be slightly ahead of your population growth in order to ensure that you can deliver real growth in wages.

Colin Beattie: Would it be correct to say that some of the GDP difference is based on population?

Richard Marsh: Absolutely.

Colin Beattie: The second part of my question is about future growth. Where do you see future growth coming from in the Scottish economy? Will it be export driven or come from any particular sector in the market? Who is the expert on that?

The Convener: Professor Darby.

Professor Darby: Much of the growth in jobs has been around certain cities. We have quite big differentials in productivity between cities. You talked about London being slightly different. However, both Edinburgh and Glasgow have better headline statistics on gross value added per head than many of the other big cities in the UK. In contrast, Dundee is right at the other end, with

poor GVA and a lower-skilled labour force, on average.

At the moment, it looks as though job growth is concentrated in the well-performing cities and the recovery of employment in Glasgow has been quite big. We do not know quite as much as we would like about the nature of the increased number of jobs, but around Glasgow and Edinburgh employment has been stronger than in other parts of Scotland. If you go to North Ayrshire, you will get a very different picture in that there is a lack of a recovery in jobs.

Colin Beattie: Is that because of the nature of the economic activity in those regions, or does it come down to another factor?

Professor Darby: It appears that the concentration of activity has become more city-centric.

Colin Beattie: What does that hold for the future?

Professor Darby: We need to know more about the types of jobs on offer. One of the submissions referred to the mismatch between skills and jobs and those people in graduate and non-graduate jobs and so on. We do not know enough at the moment about the extent to which the new jobs are not bringing out the efficiency of the workers as much as we would like. There is a possibility that we still need to have quite a shakeout from some of the jobs that were available to the jobs that will be high-growth jobs. That push needs more of a recovery.

Colin Beattie: Does anyone else have a view on that?

Professor Montagna: Guessing what may happen in the future requires a number of uncertainties that we are facing at the moment to be resolved. There is a big uncertainty, for example, about the price of oil. One of the key sectors that has led growth in Scotland over the past decade or more is the oil sector. Much of the uncertainty is political in nature, so it is difficult to guess. The other big uncertainty is Brexit—the state of play is still undetermined and it is not easy to understand what the impact of Brexit may be on sectors.

The other big factor that will determine the development of the economy is investment. That, in turn, may depend on the outlook of firms, which, in turn, depends on the state of the overall economy. It has been mentioned that what we have observed is consumer-led growth, which has been funded essentially by consumers' savings.

The country has experienced one of the biggest devaluations in history as a result of the referendum, but that has not translated into an improvement in the trade balance or an increase

in exports. There is no evidence of a rebalancing of the economy towards manufacturing and, while there may be many reasons for that, certainly one reason is the fact that investment is flat, if not falling. That requires us to go back to why that is so and what are the drivers of firms' decisions. We have had a decade of low interest rates and a fairly weak pound, which should favour exports, but the structure of the economy is such that a small percentage of firms export. Some sectors are at the forefront of the technological frontier, but the economy in Scotland, and in the UK, is characterised by a high degree of dualism with small pockets of activity, which are geographically and sectorally concentrated. They are high-productivity sectors, but they employ a small number of people. The majority of employment creation is occurring in low-productivity sectors.

The Convener: I would like to bring in Dr Zangelidis and Dr Wilson.

Dr Zangelidis: I agree with both the previous speakers. Another issue is not only which industry will generate growth in the Scottish economy but what type of business will facilitate that. Small and medium-sized enterprises are a large component of the economy, so we need to think about that. We need to think geographically about how we can facilitate sustainable growth for SMEs. We also need to support innovation and entrepreneurship, and to think about the type of ownership.

Some interesting reports have been submitted to the committee on employee-owned companies or co-operatives. There is a lot of scope for the committee to investigate that further. There is a great deal of literature on co-operatives and the effects that they have on employee behaviour in the context of productivity, turnover and absenteeism. Such firms have many positive effects. That would be one way forward for the committee to explore not only the particular sectors but the business models that can facilitate future growth and alleviate inequalities in the labour market, or at least to deal to some extent with the gender pay gap. Those could provide an opportunity for younger people and women, who were more adversely affected by the recent recession, to get back into the labour market and engage in more meaningful career pathways.

11:15

Dr Wilson: I want to return to Professor Darby's point. In my submission, I did some analysis of employment share across industries; I apologise that the figures are very small and may not be discernible. Within Scotland, the most important sectors for employment are the wholesale and retail trade, but they have been declining over time

in Scotland, and in the UK as a whole—the rate of decline seems to be broadly similar.

The other very important sector is human health and social care, which employs up to 15 per cent of the total workforce. Employment in that sector is increasing over time, which I imagine is due to the demographics of Scotland—we have an ageing population. I cannot talk about regional differences, because I have not looked at that.

Looking at the trends in employment by sector, the committee might want to consider whether effort should be focused on declining sectors in order to rejuvenate them. Professor Montagna talked about manufacturing, which has been declining for more than a decade. Is a focus needed on trying to rejuvenate manufacturing and, to a certain extent, construction, or should the focus be on sectors that are already increasing and becoming more important?

Richard Marsh: Very briefly, to return to Colin Beattie's original question about who is the expert on which will be the sectors of the future, the answer is no one; there are no experts on which will be the winning sectors. If anyone claims that they are an expert and can tell you what the sectors of the future will be, hurl them on to the streets and do not listen to them.

We have a mixed track record in Scotland in picking the sectors of the future. We have the graveyard of silicon glen and other sectors that have been called the key growth sectors. We chop and change those over time and they tend not to perform as well as we hope they will. Where will the economic growth come from? Take it wherever you can get it; we should welcome whatever growth comes our way. Listen to businesses that decide to come to Scotland to invest and grow here, and let there be growth from sources that we may not have been thinking or talking about in public forums to date.

The Convener: The comment about the non-existence of economic prophets has raised a bit of interest. Gillian Martin, Professor Darby, Dean Lockhart, Tom Arthur and John Mason all want to come in, so we will hear from them in roughly that order.

Gillian Martin: What has been said about business models is really important. When Dr Zangelidis mentioned that it informed my next question, which is about policy decisions. I direct the question to Dr Wilson, who mentioned in her introduction that she looks at family economics. Which recent policy decisions, by both the UK and Scottish Governments, have the most potential to improve productivity and the family situation and, conversely, which have the potential to have a negative impact on the family?

Dr Wilson: A policy decision that is incredibly welcome in Scotland is the increase in childcare provision for young families. We can see in the data that having young children in the household can impact someone's decision about whether they are able to go to work, or to work the number of hours that they wish to work. There is a gender divide in that regard; the issue generally impacts women more than it impacts men. However, it is an issue across the board. The fairly recent increase in childcare provision will allow individuals who want to return to the workforce to do so earlier and perhaps to work longer than they would previously have been able to do. It is a welcome policy move.

Gillian Martin: Business models, which Dr Zangelidis mentioned, have to be able to fit around that, to increase productivity in general. It would be good to get an example of a business model that will encourage more people to enter the workforce.

Dr Wilson: If I have understood your question correctly, I suggest a business model that is built around flexible working and facilitating workers to juggle their many commitments. The data show that a proportion of people would like to work longer hours but cannot do so because of family commitments, which are generally childcare commitments. More flexible working practices in many businesses, for example to allow individuals to start earlier and finish earlier so that they can look after the children, might help.

Professor Darby: I think that we all agree with Richard Marsh that it is damned difficult to sit here and try to pick where growth will come from. However, we can get quite a lot from the London School of Economics and Political Science growth commission's most recent recommendations. The LSE growth commission talks about not concentrating so much on the frontier and looking beneath that at the productivity growth of the second, third and fourth quartiles—if we can move those up, we can do an awful lot to close the gap that has opened up in relation to past trends in productivity.

The LSE growth commission talks quite a lot about how we might go about that. It has done a lot of studies, for a lot of countries, on how efficiency improvements at company level can make big gains. That definitely scratches beneath the surface of the aggregate figures. The commission talks about, for example, matching firms to higher-productivity firms and sharing best practice, and it talks about what might be in it for the best-performing firms, which is that they get an improved supply chain. There might also be something that Government can do to incentivise that.

If we focus on the frontier and try to pick winners, we are almost bound to spend a lot of money and get some of those picks wrong, whereas if we look beneath that and consider how we can move people up towards the frontier and what is stopping them getting there, we can make bigger gains, at the aggregate level.

Dr Zangelidis: I want to add to Dr Tanya Wilson's point about flexible working arrangements. It is important to understand the complexities of trying to keep a work-life balance, especially for women. We also need to acknowledge that there is a bias against such arrangements. Often in the liberal market, individuals who are in part-time or temporary contracts—especially part-time contracts—are regarded as inferior and are not given the same opportunities for training, career development and career progression.

There needs to be a change in culture to accommodate that. It is about not just providing flexible working arrangements but recognising the value of people who take up such arrangements and their contribution to the economy. It is about providing the necessary regulatory framework to support such people, rather than treating them as inferior, as they are currently treated.

Dean Lockhart (Mid Scotland and Fife) (Con): I have a question about the role of policy—specifically, the UK industrial strategy. The white paper on that will be published shortly. I do not think that it will look like the 1970s version of an industrial strategy, which was about picking winners; it will be more about sector deals, collaboration, city deals, increasing innovation and so on.

How might the industrial strategy help Scotland? Might it cover business models, for example, given that it is a wide-ranging policy? I ask our guests to identify priority areas for Scotland, where the industrial strategy could help to boost the economy by boosting productivity or innovation.

The Convener: I will bring in Tom Arthur before I invite our panel to respond.

Tom Arthur: I have a supplementary question on a point that Richard Marsh made. We probably all agree that picking winners is a risky business, but the corollary to that is what we do about sectors that are in decline. What sectors are particularly exposed to innovation such as artificial intelligence and robotics? Are we overexposed in some sectors? Should we be on our guard and starting to plan ahead for reskilling and retooling?

I am keen to gauge people's views on the current forecasts, which range from saying that we will muddle along and be fine to being fairly apocalyptic and forecasting 40 per cent unemployment. I am keen to get a sense of where

a happy medium might be. Equally, I want to know how we can accommodate the changes that will come through innovation. Can you identify sectors that not only might not be winners but will be losers in the long term?

Professor Montagna: Again, doing that would require a crystal ball, to some extent.

You have raised a number of issues. A key issue in this context is productivity, which should be at the core of any industrial strategy. It is easy to think in abstract terms about the key factors that determine productivity. Everybody can name them: infrastructure, skills and so on. However, a deep understanding of productivity requires to be evidence based, because there will be different reasons behind the poor or successful productivity performance of different sectors, regions and firms.

Professor Darby talked about the LSE growth commission's productivity report. The core of that research is really the idea that the profile—the size and productivity distribution—of industries is important in determining aggregate productivity. We discussed that with the committee in the context of your inquiry into economic data.

An interesting stylised fact is that there is a positive correlation between the size, distribution and productivity distribution of firms and aggregate productivity. However, although we know that Scotland is primarily made up of small and medium-sized enterprises, Scotland does not score badly compared to the rest of the UK in that dimension. For example, 64 per cent of new firms in Scotland are zero-employee firms, which is a lower percentage than that in the rest of the UK. The percentage of bigger firms with 250 or more employees is higher in Scotland than it is in the rest of the UK, but productivity performance has been worse in Scotland. It is important to understand why the link that exists in the aggregate breaks down when we compare Scotland with the rest of the UK. What is it that means that the productivity profile of firms does not translate into better aggregate productivity performance?

I am working with a colleague and a PhD student in Aberdeen on the effects of firm characteristics on mismatch. We know that Scotland has a greater problem of skills mismatch, so firms in Scotland have more difficulty than firms in the rest of the UK in finding the right skills. Yet, the profile of firms in Scotland is, if anything, better than that in the rest of the UK.

When I gave evidence to the committee recently, I talked about productivity as a process that is akin to peeling an onion. The key issue is that we need to understand what lies at the core of the onion. What is the root cause of the country's

productivity problems? That requires evidence-based analysis.

There may well be a Scottish factor that is to do with the region, such as the characteristics of industries or the fact that industry in Scotland may not be as large as industry in other parts of the UK—a scale factor that Marshall called external economies. The productivity of individual firms depends on the productivity of the sector and on whether there are industrial clusters, which plays a role in facilitating the growth of individual firms, as we know.

Those factors all require a deep understanding of the issues. A good suggestion would be to set up a productivity commission in Scotland to look at those issues.

11:30

Dr Wilson: I will pick up Mr Arthur's point about the implications of growth in different sectors. The impact of automation has been talked about a lot recently. It is expected to be fantastic for productivity but it may not be as fantastic for employment. There are rumours that the chancellor will talk about it in the budget with regard to investment in driverless cars, for instance. I read this week that we are expected to have our first drive in those cars by 2021. In one way, moving forward sounds fantastic, but more than a million individuals in the UK are employed as drivers. If that change happens incredibly quickly, the questions will be about reskilling and which sectors those individuals can go into.

There have been wild claims, with some papers saying that up to 40 per cent of jobs will disappear within the next 20 years—one said recently that 4 million private sector jobs in the UK will go in the next 10 years. It may be possible to do 4 million current jobs with robotics or automation, but history tells us that jobs in other sectors will arise and become more important. However, that will take time, and it takes time to reskill. For those individuals who are affected by automation, it may be extremely difficult to acquire skills in different areas. Which skills should they acquire in order to get the new jobs? At this point, we do not even know what those jobs will be.

Richard Marsh: The topics that everyone has touched on are hugely interesting. Tom Arthur's point is fantastic and chimes with what Professor Darby said at the beginning of the meeting.

Parts of Scotland, such as the big cities of Edinburgh and Glasgow, are doing quite well. Other parts of Scotland, such as North Ayrshire, are not doing so well, as has been mentioned. That chimes with what any economics 101 textbook on Scotland would say in the first few

pages about the trade-off between efficiency and equity.

Scotland currently has an economic strategy that talks significantly about equality. At its heart, it says that, if Scotland improves equality, it will increase economic growth in a specific way that will help equality. Although I do not disagree with that point, it almost tries to rewire the basic lesson of economics that there are significant trade-offs in identifying the losers from the trends that are unfolding in Scotland. A stark choice is put in front of us by identifying the big winners, such as Edinburgh and Glasgow, and those areas that are struggling, such as North Ayrshire. If we want to focus our resources where we will generate more growth, we might focus on the cities of Edinburgh and Glasgow; if we want to mitigate the negative consequences of those trends, we might focus a bit more on North Ayrshire. Alternatively, we might identify areas that might lose out because of the trends that are unfolding and ask what support mechanisms we can put in place, as has been suggested.

We could try to do both. We could try to generate economic growth and mitigate some of the negative consequences of the trends that are unfolding in Scotland, but there are choices to be made. We have limited resources and we need to focus them on where we can generate growth and improve equality.

It would make me slightly nervous if we were to go down the track of saying that doing all these things will naturally raise economic growth. We have stark choices to make about where we put resources. Enterprise agencies' mission to raise economic growth has sometimes been muddled.

The Convener: Muddled in what way?

Richard Marsh: Professor Richard Harris produced a good paper on the evaluation of regional selective assistance, which said that it is a good tool for safeguarding employment but less effective at raising productivity. That goes back to the point that we were making. We know that certain sectors in Scotland will struggle in the face of global movements and we might want to safeguard jobs or move them into more deprived areas, although that might come at a slightly higher cost than the cost of moving them into slightly more affluent parts of Scotland. We have to think very carefully about that choice.

Dr Zangelidis: I understand where Richard Marsh is coming from, but we are talking about sustainable and balanced growth. Focusing on single indicators and looking at the average of what is happening in Scotland can hide a lot of heterogeneity, so we should be cautious. I would adopt a different approach of promoting more balanced growth.

We have previously seen that there are areas that can drive growth, but we should be careful about investing in those, because that should not be done at the expense of more remote areas or urban areas. We need to think about how Scotland will evolve, given its geography and its socioeconomic and demographic composition, in the next 10, 15 or 20 years and what we want to happen.

We need to be cautious and not look at single indicators or what happens on average. We need to look at different segments of society in different areas and how sustainable growth will be for them.

The Convener: Andy Wightman and Jamie Halcro Johnston have questions on the areas that some of our witnesses have just covered.

Andy Wightman (Lothian) (Green): I have three questions to throw into the mix. First, there has been some talk about not picking winners, and most politicians agree that that is not a valid strategy. There are sectors that we will always need—food, health, shelter, warmth and energy—and there are broad sectors that we need to move away from, such as fossil fuels, because we need to decarbonise the economy. There are therefore clear drivers as to which sectors we need to ensure are at least going to be in a good place in the future. That is my first point.

Secondly, how important are savings and debt ratios? Britain has high levels of personal debt, a lot of which goes into consumption and is behind a lot of the GDP growth. What is the importance of that?

I will come back to my third question.

The Convener: John Mason wants to add a top-up question, and I will throw it open to the panel before we come to Jamie Halcro Johnston.

John Mason: It is a follow-up question in response to what Andy Wightman just asked and what Richard Marsh said earlier. We seem to accept that we cannot pick winners, but Andy just made the point that we will always need certain sectors. We appear to have missed the boat, or we are behind the curve, on the decommissioning of oil rigs and such, especially compared to other countries. Surely, we should have seen that coming. I do not know why we did not see it coming, although perhaps I have misunderstood it and we did. All the oil rigs seem to be going somewhere else. Taking that as an example, are we just not good at picking winners? Was that opportunity not predictable?

Professor Montagna: In a knowledge economy, comparative advantage is man-made—it does not necessarily rely on natural resources—and the role of policy in facilitating the emergence of industry and new sectors could be important. I

agree that much can be done in the clean energy sector and that Scotland is already in a good position, but we could do better.

Savings and debt are a big issue. The financial crisis has resulted in an aggregate demand deficiency, and the little growth that the UK has experienced in the past 10 years has been led by consumption. That is a problem. I go back to the big issue of productivity. We need to address investment, as that would facilitate more export-oriented growth, which we do not have because of a lack of productivity. I will stop there.

Richard Marsh: I will pick up on the specific points raised by John Mason and Andy Wightman about decommissioning and the renewables industry. You are probably right. In the past we have been lousy at making specific projections about where we are going to be in 20 or 30 years' time. We are not terribly great at that, but no one is. However, I fully agree that we can make broad assumptions about where things are going and consider what would happen if household debt moved in certain ways or if we moved away from fossil fuels more quickly. We can make those broad projections.

So far, we have talked in a rather abstract way about the issues, but I share your concerns about decommissioning and whether we have missed the boat. Given the resources and assets that we had at our command, we probably should have been better positioned than we were. Think about the recent issues around Burntisland Fabrications, which is close to where I am based, so I am reasonably familiar with it. BiFab is a company that is involved in the kind of industry that we have just been discussing, and within an hour's drive of its Burntisland location there are five docks. The Tay plan sets out that Dundee and Montrose harbours will be invested in to take advantage of the renewables industry and decommissioning; the City of Edinburgh Council's economic strategy says that it will develop Leith docks to take into account renewables; and Fife Council developed the energy park at Methil to deal with renewables. However, we have a company in Burntisland that is involved in the renewables industry and is struggling.

We are not so great at the execution of those plans, particularly in local areas. Within an hour's drive of that struggling company, we have five locations that are all trying to do the same thing and that are all supported by public money. Too much of that is going on at a local level. We are not competing internationally; rather, we are competing with one another.

In the enterprise networks and at a local level, we often talk about how we can come together as Scotland plc, but there is no Scotland plc in that sense. If there were such a thing and Burntisland

was an arm of the company—a struggling one—and we had five sites all doing similar things, we would be asking which sites we should close, where we should concentrate our resources and how we could collaborate more. We do not have those conversations.

We must make those sensible assumptions about where we are going and implement that knowledge in a far more focused way at a local level.

11:45

Dr Wilson: As I understand it, Mr Wightman was making the point that, although we may gaze into our crystal balls to try to identify those sectors that will become more important, we already know that some sectors will always be important, such as the food, health, and shelter sectors.

We can learn from the international context. I recently read that the Netherlands has overtaken Spain as the largest producer of tomatoes in the European Union. The technological focus is on producing energy to create artificial sunlight and a lot of water. Scotland has a lot of water, and we have the ability to generate fossil-free fuel and energy. I do not know enough about the situation in the Netherlands, but we can look at that example and consider that Scotland would, given its geography and tech, have an advantage in comparison to other countries, so we could work in that sector.

Andy Wightman also mentioned the importance of savings and debt and the extent to which demand is driven by consumer choices in a debt-driven environment. That is an important question. If consumption is driven through debts rather than through incomes, the economy is open to more adverse shocks. When there is a global shock, people tighten their belts and stop spending, which is exactly what happened in the previous recession. The movement should be towards increased growth through increased incomes and spending rather than through increased debt collection.

Andy Wightman: My third question is about household income, which is important to the economy. Historically in Britain, there have been very high house prices and very high housing costs both in debt and in rent. What role does reducing household costs play in improving the performance of an economy, or is it just swings and roundabouts? For example, if there were a target to keep housing costs down to 20 per cent of average incomes, would that be good for the economy, or would it not be good for the economy because the people who receive those flows of funds from high levels of housing costs would no longer be receiving them? What role does

reducing household costs and increasing disposable income play in improving economic performance?

Professor Montagna: In a situation in which household incomes have been falling, reducing household costs is helpful. The key point about the saving issue is not simply that people are spending money because they want to; they are dissaving because they do not have incomes. Increasingly, finding a job is not necessarily a way out of poverty. I return to the point about the great degree of economic insecurity that characterises current labour markets. The majority of the jobs that have been created in the past few years are either self-employed jobs—and we are talking not about Rockefeller self-employed but about zero-employee firms and people not making much of their enterprise—or temporary jobs. It is true that some people opt for a temporary job because it gives them flexibility, but the evidence also suggests that about 30 per cent of those people would like to work longer hours. Therefore, those people are technically underemployed. Furthermore, some full-time workers are on very uncertain terms. That links up again to automation, which is often used as an excuse to justify such contracts.

However, it is important that we understand that we need to take a general equilibrium view of the economy. If incomes are too low, there is not enough aggregate demand and there is no market for firms, so nobody wins.

That is why it is important to address the problem with the way in which the labour market works. Flexible labour markets do not necessarily lead to a better allocation of resources if they underpin a deficiency in aggregate demand. That is where institutional arrangements and, perhaps, business models such as the co-operative model are important. We are now observing a situation in which, as never before in the modern history of the capitalist world, there has been a reallocation of risk away from firms towards workers. That is a key point that needs to be addressed.

Professor Darby: The increase in in-work poverty means that housing affordability is a huge issue for some parts of the population. There is also a generational thing going on. We have now had a decade of slow income growth and people entering the labour market have just not had the income to be able to save in the way people were in the past. Also, optimism about where future earnings will go is very different for people who have not experienced that kind of growth in the past. The increase in unsecured consumer credit that is concentrated among the relatively young and people who are in work and in poverty is a worrying feature. Action that can help those

people with the affordability of housing, for example, is worth while.

It is a mixed picture: there are people who are doing okay and people who are really struggling.

Dr Zangelidis: I agree with both the previous speakers, who highlight some important issues. Reducing housing costs would definitely help, but increasing household income would help even more. Over the past 10 years, we have seen an increase in in-work poverty, involuntary flexible contracts and part-time arrangements. There has also been a reduction in real wages and household income has been reduced.

There has also been an impact on the returns from education. Education still pays a premium, but it has almost halved if we look at the returns relative to years of education. The same goes if we consider qualifications. The qualifical premium—the premium of having a university degree—has reduced in the past 10 years. That has implications for household income and for future growth. It has implications for how competitive the Scottish labour market will be in the years to come, especially in light of the labour market uncertainties that the great recession has created, the prospect of Brexit and whatever the new working arrangements will be.

We need to look at those issues and see not only how they have affected income inequality and the average household but the projections for how competitive the Scottish economy will be and how equitable the distribution of income in Scotland will be in future.

The Convener: If, 30 years ago, only 5 per cent of the Scottish population went to university and had a university degree but that has now increased exponentially—I do not know what the current Scottish figure is but let us suppose for argument's sake that it went from 5 per cent to 50 per cent—simply having a university degree surely does not mean that someone is guaranteed a higher income in the real economy. Has the wrong approach been taken to education and technical training in Scotland over the past 30 years? That is a common theme in other countries, so the development is not limited to Scotland by any means. What comments do you have on that?

Dr Zangelidis: That is a valid point, but the counterargument to that would be that the distribution of occupations and the type of jobs have changed in the past 20 or 30 years, so we have moved from an industrial economy to a knowledge economy. The figures in my report suggest that the number of professional occupations has almost doubled in the past 10 years, going from 14 per cent to almost 25 per cent, and the distribution of occupations in the Scottish economy has changed as well. We

should not necessarily expect that because we have more highly educated individuals the returns will go down, because the requirements and the nature of jobs have changed.

The Convener: Before Richard Marsh comes in, there is another issue that Jamie Halcro Johnston wanted to ask about.

Jamie Halcro Johnston (Highlands and Islands) (Con): I was going to ask about skills, but some of that has been covered. I want to go back briefly to some of the comments that Richard Marsh made about identifying new sectors. One of the key sectors in the Highlands and Islands, which I represent, is renewables, which has provided new opportunities. You talked about Burntisland Fabrications and the number of ports and harbours looking to that sector in Fife, and that activity is magnified again in the Highlands and Islands. Has there been a lack of focus or co-ordination over the past few years by the Government and Government agencies in where investment has been made in particular sectors? Have other countries co-ordinated or focused their efforts better, perhaps by identifying one or two key areas of expertise? How can we do that better? I know that some of that has been covered, but it would be interesting to hear your views.

Richard Marsh: The point that I was going to make was in response to Andy Wightman's question about how housing costs would affect economic growth. I thought that it was a trick question, so I let the other macroeconomists answer first. If you lowered housing costs, the economy would grow more quickly, simply because people would have more money to spend. If you put 20 economists in this room, 19 out of 20 of them would say the same thing. I think that we all agree broadly on that point. The only people who talk about a healthy housing market with prices going up are estate agents. The poorest people in Scottish society, particularly in areas where housing costs have risen more quickly, tend to spend all the money they get, and the multiplying knock-on effect on generating further economic activity would be greater if they were able to spend more. Everyone here has said pretty much the same thing.

To answer your questions, since devolution we have had eight different economic strategies, plans and frameworks. We have had a different economic plan almost every other year. We have had more economic plans than we have had Scotland managers since devolution. We have talked about focusing our efforts on different sectors. Someone mentioned clusters, and the cluster approach used to be really popular in Scotland. That is what we used to base a lot of Scottish Enterprise activities around, but we

simply decided to move away from it. It is not that clusters have gone away; they are still there, but that is not how we have chosen to approach it.

The kind of changes that most of us have suggested here today, such as providing additional childcare and looking at city structures, are things that take 10, 20 or 30 years to come through. We cannot be in a position where we are changing the strategic direction of travel for economic development every second or third year. We have to pick a way to go, keep it broad and talk about the broad trends that we have highlighted, but put our shoulder behind it and move forward.

The Highlands and Islands are an interesting area where there is that kind of concerted effort and collective ambition to develop things more collaboratively, so things are probably done slightly better there than in other parts of Scotland, but there are renewables sites in the Highlands that are competing with a number of different locations across Scotland. There needs to be a choice and we need to decide where to focus our efforts.

Jamie Halcro Johnston: Parts of the Highlands will compete with other parts of the Highlands, which is again part of the issue. Decommissioning is interesting, because that presents a huge opportunity, but there are very few facilities in the Highlands and Islands, or anywhere in Scotland, that are capable of doing it. Why have we been bad at taking opportunities that seem obvious and could be timescaled in?

12:00

The Convener: Does anyone have a comment on that? Does everyone agree on the housing point? Some of our guests reacted to that.

Gillian Martin: As one of the conveners of the oil and gas cross-party group, I should point out that the majority of decommissioning happens offshore and we have not missed the boat on that. We have been active on that. The break-up of installations onshore is a small part of decommissioning, so I would not lose too much faith.

The Convener: Does anyone have a comment on the point that the economy will grow if we have cheaper housing?

Dr Wilson: We have highlighted a few times that the average figure can hide what is happening through the entire distribution. The issue that has been brought up a few times is that a particular sector in the economy is being adversely affected. Making cheaper housing available for low-income individuals seems to be an absolute priority because a large proportion of their income goes

on housing costs. However, if housing costs are reduced by 20 per cent across the board, that will not have the same effect on people at the top end of the income distribution. Targeting low-income individuals would have an incredibly important impact on their lives, but if household costs were reduced by 20 per cent, it would mean higher savings for other individuals.

Professor Darby: I agree with Richard Marsh that the people who have the least income will benefit by having more disposable income as a result of lower housing costs and they are bound to spend more of that. They have little ability to save on low incomes. Their disposable income will be spent, so it will feed through to the economy. The people at the top end benefit from higher house prices through their wealth. Their propensity to spend out of their wealth is much smaller than the propensity of low-income individuals to spend out of their income. Every macroeconomist would agree that that has a spending effect. Low-income people or people in key jobs might need to be brought into places where accommodation is expensive. The key-jobs argument for subsidising housing for particular groups is also relevant, but high housing costs can certainly be a drag on growth.

Jackie Baillie (Dumbarton) (Lab): Housing is a sector that contributes to the overall economy, so there is probably a balance to be struck. I would like to focus on something that Richard Marsh said. I am not sure that there have been eight strategies, but I defer to his ability to count. Is it not true that all those strategies are the same at a high level? They say roughly the same thing—"We want the economy to grow and we want it to be inclusive." If you strip it down, there is broad agreement on what we need to do, but the flexibility to spot opportunities and go after them consistently, which lies beneath that, may be where we struggle.

Does our economic strategy need to line up absolutely with other Government policies? I will give you two examples. First, if we go for astonishing increases in productivity, that is often at the expense of jobs and therefore we ignore inclusive growth, so is the ambition to get productivity up in and of itself the right ambition? Secondly, we have signed up to a fiscal framework that focuses entirely on economic growth by way of increasing taxation as the fiscal measure. It does not look at inclusive growth. Are we pulling in two very different directions? At a strategic level, it is important for us to consider that if we are going to get this next piece of work right.

Professor Montagna: You seem to suggest that there is a trade-off between productivity and jobs. I would tend to disagree, as productivity is a

necessary condition for growth and growth is a necessary condition for the creation of jobs.

If productivity growth is driven by new technology adoption, for example, there may be some displacement of work but, again, I would be careful about thinking that all technology adoption is necessarily bad for jobs, because there is what is known as technology and skill complementarity. A development in a certain direction may generate different jobs.

However, we then go back to the issue of fairness in the model of distribution that we have in society. Ten years ago, everybody was talking about globalisation and now we talk about the fourth industrial revolution. The point is the same—dislocations are bound to happen to certain segments of the labour market; the only way to deal with those is to realise that they are happening and not to shift all the economic risk to those segments of the labour market. That is why it is important to use a holistic approach to policy.

I do not think that you should be afraid of stimulating productivity because it may damage jobs; I think that we should go for it but be aware that there are transitional periods that may require retraining, support and so on. The debate is open as to what to do. Some people talk about a universal basic income; others talk about public jobs being guaranteed jobs. These are all things that need to be explored. There are not any easy answers; they are certainly very complex issues, which require joint thinking from all the stakeholders in society.

Dr Zangelidis: I agree with Professor Montagna that there is not necessarily a trade-off and there are no clear winners or losers in this case. As she said, there is bound to be some reallocation of the workforce—that is expected. However, exactly because it is expected, the question then is what we do to facilitate that transition from one job to another. It is about the mechanisms that we put in place and whether the welfare safety net works. What proactive policies can we adopt on training to make sure that there will be a smooth transition to a new career pathway? There are alternative career pathways. The question is how efficient the labour market is in identifying those alternative pathways and making those transitions as smooth as possible.

It goes back to the mismatch issue. Sometimes, the policy agenda has overlooked that significant mismatch in the labour market. How well jobs are matched with individuals and the portfolio of skills that individuals have is a key metric for how efficiently the labour market is operating. Again, there can be policies in relation to the issue of productivity. We can identify the issues in the labour market and ask how we can make the pairing between the worker and the job as efficient

as possible and make that match good. In Scotland, the skills mismatch is around 56 per cent.

Professor Montagna: By which we mean that a lot of people are overeducated for what they are doing. The investment in their education has not translated into an increase in productivity. We need to understand why that is the case. Is it the case that people are acquiring the wrong type of skills or is it the case that firms are not making the most of the skills that they potentially have at their disposal, because of underinvestment, for example?

Dr Zangelidis: The fact that the number of overeducated people in Scotland is greater than the number of undereducated people has implications for productivity, for wages—there is a wage penalty—and for job turnover. It has many implications for the economy overall and for the movement of the labour force across jobs.

Richard Marsh: I can clarify that there have been eight strategies, frameworks or plans. As well as parts 1 and 2 of the framework for economic development in Scotland, there have been recovery plans, Government economic strategies and strategies for Scotland.

I suppose that Jackie Baillie's point is probably right, in the sense that there is a core theme running through all the strategies. Scottish Enterprise and Highlands and Islands Enterprise are given responsibility for a lot of the heavy lifting. However, I think that the strategies matter, because they have made it possible to have quite regular shifts in emphasis. When the Government economic strategy was introduced, public sector agencies in Scotland talked about GES-ifying their strategies. They would look at the Government economic strategy, identify the buzzwords in it and say, "Right—that's our strategy done."

In some senses, the strategies matter, because they say things like, "We want to be like the arc of prosperity countries; here are the characteristics that are displayed by those countries." The enterprise agencies, the local authorities and the other agencies across Scotland listen to that and take it on board; they think, "What does that mean for us?" If we were to suddenly say, "Actually, we didn't mean that; we're going in a different direction," that would put them in an awkward position, because we would be marching our men up to the top of the hill and telling them to go down the other side in quite a short space of time. If we were to do that, we would not have the policies in place for a sufficient length of time—10 or 20 years—to be sure that they were the right policies that worked well, or to find out that they did not work, in which case we could move on to something else.

On the point about a trade-off, I get what most of the other witnesses have said. One thing that we tend to fall down on in Scotland is that we tend to look at policies quite narrowly. We tend to look at them from the point of view of whether they will grow the economy, improve productivity, tackle inequality or help the environment. The discussion on air passenger duty is a good example of that. Every year, the Scottish Government produces a carbon budget, which shows the impact on the economy of the various measures that it spends its money on and how much pollution they produce. Those figures clearly show that, with the exception of coal mining, aviation is possibly the worst area in which to make a trade-off in terms of GDP per unit of pollution.

When the Parliament debates what to do on an issue such as APD, it is important for it to consider a series of questions. If APD were cut, would that boost the economy? Yes. Would it increase pollution? Yes. Would reducing the cost of airplane tickets benefit more affluent households? Probably. It is important to make it clear that there are real choices to be made about the policies in front of us that might do some of the things that we want, but which could also have significant side-effects that we do not want. We need to have a more open, evidence-based debate.

The Convener: Thank you.

The session is coming to an end. Do you have a final follow-up, Ms Baillie?

Jackie Baillie: There are further points of detail to explore, but I am happy to leave it there.

The Convener: In that case, I thank all our witnesses for coming in.

12:14

Meeting suspended.

12:18

On resuming—

Subordinate Legislation

Land Registration etc (Scotland) Act 2012 (Amendment) Order 2017 [Draft]

Registers of Scotland (Digital Registration etc) Regulations 2017 [Draft]

The Convener: We resume the meeting, and I welcome Keith Brown, Cabinet Secretary for Economy, Jobs and Fair Work, and those with him: Graham Fisher, Stephanie Brown and Chris Kerr. We will consider first the draft Land Registration etc (Scotland) Act 2012 (Amendment) Order 2017 and thereafter the draft Registers of Scotland (Digital Registration etc) Regulations 2017. I invite the cabinet secretary to make a statement on the draft land registration order.

The Cabinet Secretary for Economy, Jobs and Fair Work (Keith Brown): I will be brief and refer to both draft instruments at the same time, if that is okay. I thank the committee for the chance to appear here today to answer questions about the draft instruments.

Members will be aware that the draft land registration order makes two minor procedural amendments to the Land Registration etc (Scotland) Act 2012. The amendments are procedural and are intended to improve the process for registration of title of land.

The Scottish Government's vision for delivering user-focused, collaborative digital for its public services is a key enabler to government providing wide-ranging easily accessible digital public services for the people of Scotland. Registers of Scotland is developing a range of digital services that will provide online delivery of land registration in a way that meets the needs of its customers and provides value to the people of Scotland.

The draft regulations are designed to facilitate the new digital services, which signal another important step in Registers of Scotland's digital transformation and its aim to become a fully digital business by 2020. The draft regulations provide a framework to support the eventual mandatory use of the digital services, with a minimum six-month notice period applying and consultation with Scottish ministers being required before such mandatory use can come into effect. That will assist in ensuring that Registers of Scotland is delivering the most efficient and effective land registration services to the wider Scottish economy.

The draft regulations give effect to proposals set out in Registers of Scotland's consultation

document "Digital transformation Next steps", which set out detailed proposals for changes to the land registration requirements to facilitate the introduction of new digital registration services, including a fully digital transfer of title service. The reaction to that consultation was very positive, and respondents expressed strong support for the proposal to streamline and simplify the existing paper registration services. It is worth noting that the Registers of Scotland digital discharge service, which was launched earlier this year, has already proved popular with solicitors and lenders and has considerably reduced the processing time for dealing with applications for discharges. Given that, I am confident that the extension of the digital services will provide value for the people of Scotland.

As the convener mentioned, I am joined today by Stephanie Brown and Christopher Kerr from Registers of Scotland, and Graham Fisher from the Scottish Government legal directorate. We are happy to try to answer any questions from the committee.

The Convener: Thank you. I will start with a couple questions on the draft land registration order. To cut to the chase, the draft digital registration regulations have the effects that the cabinet secretary talked about, but regulation 8 relates to the draft land registration order. In a sense, regulation 8 relates to altering the land register rules to reflect what will be in the draft land registration order—I think that those accompanying the cabinet secretary are nodding in agreement with that.

Graham Fisher (Scottish Government): The regulation to which you refer makes the change together with the change in the order, but one in relation to the notification by the applicant for a prescriptive claimant and one in relation to notification by the keeper of the registers of Scotland. Those are two slightly different things, but they certainly work together.

The Convener: Thank you for that clarification.

The particular issue that I am interested in with regard to the draft land registration order is the 60-day period being reduced to a seven-day period. Am I correct that there has not been consultation on that aspect?

Keith Brown: There has not. The reason for that is that we think that the change is one of the minor procedural changes that I mentioned and that there are substantial safeguards in place. The 60-day period can be far longer than is necessary if those who have been given notice have already responded to say that they have no objection. It is also true that further into the process both the keeper and the Queen's and Lord Treasurer's Remembrancer are able to make checks on an

application. We therefore thought that because there are sufficient safeguards and the change is sufficiently minor and procedural, there was no need to consult on the matter.

The Convener: Might I refer back to when there was a consultation on the Land Registration etc (Scotland) Act 2012? I think that those with you, cabinet secretary, will be familiar with that consultation. The compilation of the responses to that was issued in March 2014. I am looking at that consultation report on the 2012 act, and specifically what it says about questions 42 and 43, which related to the prescriptive claimant and the 60-day notice period.

The report says that the period should be 60 days. The consultation took place in 2012 and 2013 and the report says:

“Respondents, including the Queen’s and Lord Treasurer’s Remembrancer, the Council of Mortgage Lenders and Faculty of Advocates, overwhelmingly agreed with the proposal and that 60 days is an appropriate period. The Keeper will therefore include policy to this effect in draft regulations to be considered by Scottish Ministers.”

It is clear that the consultees considered 60 days to be the appropriate period. Do you understand that I and other members of the committee are concerned about the period being altered now without a consultation?

Keith Brown: I understand that.

Given the digitisation of the records, a much reduced number are involved. As I understand it, there is substantial support for the change from the legal fraternity. Perhaps those who were involved in 2012 could comment on that.

Chris Kerr (Registers of Scotland): The reason for the 60-day period was to give people who were notified by a potential prescriptive claimant sufficient time to check their title deeds and take legal advice before responding. The change that is being proposed is applicable only in cases where the party has already done that and has responded to the prescriptive claimant to say that they have no objection.

The Convener: In this new scenario, a 14-day turnaround period could apply. Is that sufficient time to allow people to respond, react and deal with the issues?

Chris Kerr: If they need longer, the 60-day period is still there. They can take 60 days if they feel that they need 60 days. The period will be shortened if they have reached a conclusion within the 60-day period and have responded to say that they do not have any objections.

The Convener: What about others who might be affected by this change who are not aware of what is going on and have not been notified?

Chris Kerr: Our view is that there are three levels of check on that. The first is that the applicant must satisfy themselves that they have notified everyone who appears to have an interest under sections 45(1)(a) and (b), and under section 45(1)(c) where the notification to the QLTR takes place. In cases where notification goes to the QLTR, the QLTR must also satisfy itself that the applicant has not missed anyone. In the third stage, the keeper does the same. The keeper will check that no one who should have been notified has failed to be notified. In cases where anyone who it appears from the history of the title should have been notified has not been notified, the application will be rejected and it will go back to the start of the process. In cases where multiple parties are notified, each one would have to say that they were content or did not object before the 60-day period would be reduced.

The Convener: Perhaps Andy Wightman would like to come in at this point.

Andy Wightman: I have a few questions on the draft order. The prescriptive changes are contained in both the draft order and the draft regulations. I understand that the draft regulations are about applications, and the changes relating to prescriptive claimants at the application stage could probably more logically be in there, whereas provision on the keeper’s job could be in the draft order. However, it makes it difficult to consider the legislation when both draft instruments are dealing with the same policy questions. Why were the changes put in two different instruments?

Graham Fisher: That was done purely for technical reasons. It is unfortunately not possible to combine orders and regulations. The Interpretation and Legislative Reform (Scotland) Act 2010 does not accommodate that, or we would certainly have done it that way.

Andy Wightman: That is a fantastic answer. Thank you. It answers my question precisely.

On the prescriptive claimants question, where did the initiative come from to make that change? Who thought it was a good idea? Where did it start?

Chris Kerr: The issue was first observed by Registers of Scotland operational staff dealing with applications, in conjunction with the parties making the applications. The parties making the applications found it difficult to understand why there was a stand-still period when everyone who had an interest had indicated that there was no objection. Since then, the proposed changes have been discussed with the Law Society of Scotland, which had no objection to them.

Keith Brown: Registers of Scotland has an obligation, I think under the 2012 act, to maintain a constant review of the services that it provides and

to improve them. It would have looked at this matter under that kind of standing injunction.

12:30

Andy Wightman: On the substantive policy question, the 2012 act makes changes to prescription that are broadly welcomed in terms of tightening everything up, but it is, nevertheless, still an area of contention. One problem is that the applicant and the keeper both have responsibilities to make reasonable inquiries—let us put it that way—within the timescales.

However, there may be people who have an interest who have not been approached by either of those parties. There is no guarantee that either the applicant or the keeper will have full knowledge of the potential parties who may have a claim to the land. One of the reasons for having a 60-day period—albeit that that comes on the back of a year's uncontested possession—is to allow other voices to come out of the woodwork. I am a little unclear about why we would want to reduce that period, given that it was part of the original safeguards. I take the point that Chris Kerr made in response to the convener's question—that the period can be reduced only in uncontested cases—but part of reason for that period is that it is a last-gasp option, so people who have not been consulted can put their hand up and say, "What about me?"

Keith Brown: As we said earlier, further checks are made through the QLTR and subsequently the keeper to ensure that everybody who should have been has been notified. Mr Wightman is right to say that we have the year period beforehand, but there is also a 10-year period after that, when objections and challenges can come forward.

I make the point that the change applies to a reducing number of cases—It is only those in which those who have been notified have raised no objection—and we think that it is a proportionate response to that. If, over the course of that 10-year period, somebody feels that they should have been consulted or notified and was not, they have the chance to come forward. It is not a done deal as soon it is carried out.

Andy Wightman: However, anyone coming forward in that 10-year period will be coming forward afresh, against a title that has already been recorded and has precedence over their title, if there is broad equivalence in the claim.

Keith Brown: As I understand it, ownership is not achieved until that 10-year period has passed—it can still be challenged. With the different levels of checks, and given the number of cases that there are, we think that it is a proportionate position to take in relation to the risk.

Andy Wightman: Did the motivation for the change in the prescriptive provisions that are contained in the two draft instruments come from a relatively small number of people who asked why they had to wait for another 40 or 50 days?

Chris Kerr: It came from a relatively small number of people, but the number of applications has also been relatively small. Since the 2012 act came into force in December 2014, there have been 17 successful prescriptive claimant applications. The headline numbers are small and, therefore, the number of people affected is also small.

Keith Brown: That relatively small number is those people who are most involved in the process, but the change has been supported by others who are involved—not people from Registers of Scotland, but people who interact with the process. Reducing the period makes the process more efficient, so that those people do not have to wait for those extra 40 or 50 days when they know that everyone who has been notified has already said that they have no objection. With the safeguards that I have mentioned, we think that that is a proportionate way to do it.

We are trying to improve the service and make it more efficient through digitisation. I think that there is a quote somewhere that says that we move faster in these things than we have ever done before—we are never going to move as slowly again. It is a progression. We are making the change not just for the sake of it, but because it seems an efficient way to go about it. If there is a 50-day period that is not being used, when everybody who has been notified has said that they have no objection, the change seems to introduce a more efficient way to go about things. I imagine that it would naturally occur to those most involved in the process that there is the need for a change.

Jackie Baillie: I want to understand this correctly. If a relevant person is notified and says that they do not object, the keeper then notifies them, because the title is uncontested, and they then have a further seven days. However, they could change their mind. Is seven days long enough for them to instruct someone, such as a lawyer, to do something?

Chris Kerr: We think that it is. The process involves no more than telling the keeper that they object—they do not have to justify that or go into detail. When they have taken the initial decision, they will have taken sufficient legal advice and will be aware of the title position. If they change their mind in response to the keeper's notification, all they have to do is say that they object. It is a very straightforward process and they should not require any additional legal advice at that stage if they have come to a different conclusion.

Jackie Baillie: If there were rival prescriptive claimants—if, say, the local community had an interest—that seven-day period might be considered very short if people needed to be notified and allowed to lodge an alternative claim.

Chris Kerr: There can be only one prescriptive application at a time because of the year's possession requirement—multiple parties cannot be in possession at the same time unless they are looking to take title jointly and in common. There cannot really be competing applications in that respect.

John Mason: I want to ask about the digital regulations. The convener wrote to you on 7 November and you replied on 10 November. That was about the trial that ran to October 2017. You said that, by

“October 2017, almost 8% of all discharges received by RoS were submitted via the service”,

with

“81% of respondents rating it as satisfactory or very satisfactory.”

That raises the question of what the other 19 per cent of respondents thought. Did they raise any particular concerns?

Stephanie Brown (Registers of Scotland): The other 19 per cent responded that they were neither satisfied nor dissatisfied with the service. We had two further potential responses in the survey, which were “dissatisfied” and “very dissatisfied”, neither of which was selected by any of the respondents.

That feedback forms one element of the engagement activity that we undertake with our customers. We also have direct engagement. Since our service has gone live, we have attended 57 events. We spoke at 14 of those events and had stands at 21 of them. The aim of all of that was to reach as many of our users as possible in order to find out what types of service would be of value to them.

We recently introduced some additional functionality for that particular service. A change will take effect on Thursday that was made in direct response to customers' feedback that they would like a dashboard function so that they can control their work from within the service. The latest feature of the dashboard will be made available to them on Thursday.

John Mason: We are expecting Registers of Scotland to do rather a lot at the moment, because creating a land register by 2024 is a major target. Are we overloading it?

Keith Brown: As was said in answer to Andy Wightman's question, the initiative came from Registers of Scotland. That being the case, I do

not think that we are overloading it. Having visited the office, I know that land registration by 2024 is a big challenge but that the change would help with the workload rather than be a hindrance.

The Convener: As there are no further questions, we will move to the formal debate on the motion. Does any member wish to speak in the debate?

Andy Wightman: The burden of proof on changing the law always lies with those who are proposing the change. There has been no consultation on the prescriptive claimants provisions and, given the controversial nature of prescriptive claimants, I am nervous that there may be unforeseen consequences. I am not entirely happy with the notion of changing the law relating to timeframes on the basis of a very small number of cases.

I do not doubt that the change to the timetable might be valid, but I do not think that the case for the change has been made in the wider context of the potential risks that it might throw up. The prescriptive provisions in the 2012 act are a significant enhancement of what went before—I have no doubt about that. However, I am nervous about interfering with them on the back of what appear to be comments from people who just want things to go a little bit faster. Therefore, I am not minded to support the new provisions.

As Mr Fisher has identified, the prescriptive provisions are contained in both bits of legislation that we are considering today—for legal reasons, they have to be. However, that means that I am not minded to support either instrument.

I do not find the other measures in the Land Registration etc (Scotland) Act 2012 (Amendment) Order 2017 to be objectionable, and I do not find all the rest of the Registers of Scotland (Digital Registration, etc) Regulations 2017 to be objectionable either.

The Convener: Perhaps I could go back a stage. I have made a mistake—I should have asked the cabinet secretary to move the motion before inviting Mr Wightman, or anyone else, to speak in the debate.

Motion moved,

That the Economy, Jobs and Fair Work Committee recommends that the Land Registration etc (Scotland) Act 2012 (Amendment) Order 2017 [draft] be approved.—[Keith Brown]

The Convener: We now move to the debate part of the process. We will take it as read that Andy Wightman's comments form part of the debate. Does anyone else wish to speak?

John Mason: I have some sympathy with Andy Wightman's points, especially if the proposals

could lead to any disadvantage to the community. It might take a bit of time for people to get moving, and seven days seems, on the surface, to be quite a tight timeframe. On the other hand, as only 17 applications have been made since 2014, I am reassured that we are talking about only a tiny number of cases. Indeed, as there have not been a lot of problems since 2014 and the 60 days have not been required regularly, I am a bit more relaxed about the situation. Perhaps the cabinet secretary can reassure us that communities will not be disadvantaged by the proposals.

The Convener: Having heard what has been said, my concern remains that the reduction from 60 days to seven days leaves too short a period. Those with experience of dealing with the registers, and Registers of Scotland itself, will know that that is an extremely tight turnaround time. I am not sure that I have been persuaded by the efficiency argument for making the change. We are talking about a 10-year prescriptive period, so is the difference between 60 and seven days material when it comes to making efficiencies?

Keith Brown: The seven-day period will kick in only after people have had the chance to object, and I have said that Registers of Scotland would have no objection to the measure. The seven days is an additional protection. I think that that meets some of the concerns, or at least those that have been expressed by Mr Mason.

I have talked about the protections that are in place. First, a claim often goes through the QLTR and the keeper, who is an objective judge of whether the right people have been notified at that stage. In addition, there is the subsequent 10-year period in which it could become evident that someone has not been notified, if that is the case. Those layers of protection for what is not only a small number but a decreasing number of prescriptive claims, as digitisation progresses, are a proportionate way in which to ensure that there is increased efficiency. We regularly, and rightly, look to increase efficiency in public services, although not at the expense of people's rights—and the proposal does not infringe on people's rights.

Given the protections that are in place and the fact that no one will be confronted with a seven-day period in isolation—it will apply only to those who have made their views known—this is a proportionate way in which to improve public services and to make them more efficient.

The Convener: The question is, that motion S5M-08842 be agreed to. Are we agreed?

Members: No.

The Convener: There will be a division.

For

Arthur, Tom (Renfrewshire South) (SNP)
Beattie, Colin (Midlothian North and Musselburgh) (SNP)
Martin, Gillian (Aberdeenshire East) (SNP)
Mason, John (Glasgow Shettleston) (SNP)

Against

Baillie, Jackie (Dumbarton) (Lab)
Halcro Johnston, Jamie (North East Scotland) (Con)
Lindhurst, Gordon (Lothian) (Con)
Lockhart, Dean (Mid Scotland and Fife) (Con)
Wightman, Andy (Lothian) (Green)

The Convener: The result of the division is: For 4, Against 5, Abstentions 0.

Motion disagreed to.

12:45

The Convener: We move to the debate on the next instrument. The cabinet secretary has already spoken on the draft Registers of Scotland (Digital Registration etc) Regulations 2017.

Motion moved,

That the Economy, Jobs and Fair Work Committee recommends that the Registers of Scotland (Digital Registration, etc) Regulations 2017 [draft] be approved.—
[Keith Brown]

The Convener: Does anyone wish to comment?

Andy Wightman: I very much welcome the regulations. Digitisation is the future, notwithstanding some of the problems that there have been in the public sector with digital projects. Digitisation helps to speed things up and provides better-quality information to everyone who uses public sources of information, such as Registers of Scotland.

I am content with the regulations, but my problem is with legislative drafting issues. Regulation 8 relates to prescriptive claimants. As I indicated in the previous debate on the first instrument, I am not convinced that a sufficient case has been made to change the law. Again, the change may be perfectly innocent, but I do not see what the case is and I am concerned about unforeseen consequences. I am minded not to support the motion, but only because of the drafting of regulation 8.

The Convener: That is my concern, too. As has been indicated, the proposed changes have been placed in the same instrument for technical reasons. If it had been possible to separate out the changes, that might have resulted in a different approach to matters. Does the cabinet secretary wish to respond?

Keith Brown: No. I have made my arguments for the proposals.

The Convener: The question is, that motion S5M-08844 be agreed to. Are we agreed?

Members: No.

The Convener: There will be a division.

For

Arthur, Tom (Renfrewshire South) (SNP)
Beattie, Colin (Midlothian North and Musselburgh) (SNP)
Martin, Gillian (Aberdeenshire East) (SNP)
Mason, John (Glasgow Shettleston) (SNP)

Against

Baillie, Jackie (Dumbarton) (Lab)
Halcro Johnston, Jamie (North East Scotland) (Con)
Lindhurst, Gordon (Lothian) (Con)
Lockhart, Dean (Mid Scotland and Fife) (Con)
Wightman, Andy (Lothian) (Green)

The Convener: The result of the division is: For 4, Against 5, Abstentions 0.

Motion disagreed to.

The Convener: I thank the cabinet secretary and those who have come with him.

12:48

Meeting continued in private until 12:58.

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