



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Energy and Fair Work Committee

Tuesday 16 February 2021

Session 5



The Scottish Parliament
Pàrlamaid na h-Alba

© Parliamentary copyright. Scottish Parliamentary Corporate Body
Information on the Scottish Parliament's copyright policy can be found on the website -
www.parliament.scot or by contacting Public Information on 0131 348 5000

Tuesday 16 February 2021

CONTENTS

	Col.
DECISION ON TAKING BUSINESS IN PRIVATE	1
CLIMATE CHANGE PLAN	2
SUBORDINATE LEGISLATION	27
Companies Act 2006 (Scottish public sector companies to be audited by the Auditor General for Scotland) Order 2021 [Draft]	27
BUDGET SCRUTINY 2021-22	29

ECONOMY, ENERGY AND FAIR WORK COMMITTEE
5th Meeting 2021, Session 5

CONVENER

*Gordon Lindhurst (Lothian) (Con)

DEPUTY CONVENER

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

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)

*Maurice Golden (West Scotland) (Con)

*Richard Lyle (Uddingston and Bellshill) (SNP)

*Gordon MacDonald (Edinburgh Pentlands) (SNP)

*Alex Rowley (Mid Scotland and Fife) (Lab)

*Graham Simpson (Central Scotland) (Con)

Andy Wightman (Lothian) (Ind)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Fiona Hyslop (Cabinet Secretary for Economy, Fair Work and Culture)

Richard Rollison (Scottish Government)

Paul Wheelhouse (Minister for Energy, Connectivity and the Islands)

David Wilson (Scottish Government)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

Virtual Meeting

Scottish Parliament

Economy, Energy and Fair Work Committee

Tuesday 16 February 2021

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Gordon Lindhurst): Good morning, and welcome to the fifth meeting of the Economy, Energy and Fair Work Committee in 2021. We have received apologies from Andy Wightman.

Under agenda item 1, the committee will decide whether to take items 6 and 7 in private. Do we agree to take those items in private?

As no members have indicated otherwise, we agree to take items 6 and 7 in private.

Climate Change Plan

09:31

The Convener: Item 2 is an evidence session on the climate change plan. Our witnesses are Paul Wheelhouse, the Minister for Energy, Connectivity and the Islands, and his Scottish Government officials Ragne Low, team leader in heat policy; Neal Rafferty, head of electricity policy and large-scale renewables; Sasha Maguire, senior economic adviser; Scott Bradley, head of oil and gas and industrial decarbonisation unit; and David Mallon, head of unit in the climate change division.

I invite the minister to make a brief opening statement.

The Minister for Energy, Connectivity and the Islands (Paul Wheelhouse): Thank you, convener. Good morning, colleagues.

I welcome the opportunity to discuss the energy sector content of the climate change plan update. Although the targets in the plan are undoubtedly challenging, it is worth remembering that the policies that it contains set us on the right pathway towards achieving them. The CCPU will help to ensure that our transition to net zero is geared to being a just one that creates jobs and enables a green economic recovery from Covid-19.

Although we can achieve much through devolved policies, progress towards our ambitious net zero targets will be at risk without the right policy and regulatory action on the part of the United Kingdom Government in some key areas. That is why we have committed to continuing to push the UK Government on the many barriers that currently prevent Scotland from reaching our full potential. We have a positive working relationship at ministerial and official levels, but we have had to force the pace in some areas.

I will take each CCPU chapter in turn. The first is electricity generation, in which we have made excellent progress. In 2019, Scotland's renewable electricity output was equivalent to 90 per cent of our gross electricity consumption. However, the growth that we have seen in recent years—with the exception of the first half of 2020, when Covid-19 disrupted projects—will need to continue and accelerate if electricity is to play its full part in decarbonising our energy-intensive industries, heat in buildings and, of course, transport.

All legislation on the regulation of electricity markets is a reserved policy area, which means that we need the UK Government to play its part and deliver the required radical policies and changes to regulation. Issues include support for new pumped storage hydro capacity, for which

some key projects are already consented and waiting for a route to market; approaches to network charging and investment; and the right market incentives for renewable and zero carbon electricity.

Heat accounts for more than half of the electricity that Scotland consumes. As outlined in the CCPU, our vision for heat in buildings and energy efficiency is the transformation of more than 1 million homes and an estimated 50,000 non-domestic buildings to use of low or zero emissions heating systems by 2030. That level of investment is without precedent in modern times, and it presents a clear green recovery opportunity as well.

Our recently published draft heat and buildings strategy provides more detail on the near-term actions that the Scottish Government is taking to deliver the pathway for achieving that target. We estimate that we will require a whole-economy investment in the region of £17 billion over the next decade. Those actions and investments will support thousands of green jobs across the energy efficiency and heat sector and the wider supply chain, reflecting our ambition for a just transition to net zero.

Industry has a role to play in achieving our net zero ambitions. That issue is often overlooked, so I am pleased that the committee has taken time to look at it. To meet the pathway that is set out in the CCPU, by 2032, industrial emissions must decrease by more than 40 per cent compared with 2018 levels, while Scottish industry is kept globally competitive and sustainable.

We know that negative emission technologies—known as NETs—such as bioenergy with carbon capture and storage and direct air capture with carbon storage will be vital. The plan update sets out our ambitions to research and develop NETs while recognising the major challenges and the need for constant review.

There is a significant risk that decarbonising faster than the rest of the UK and Europe could lead to carbon leakage. Support for investment and a level regulatory playing field are both required. That is why a strategic, whole-system approach to decarbonising industry offers the opportunity for Scottish business to expand into global markets and to deliver long-term carbon growth.

I appreciate the opportunity to make those opening remarks. I am happy to take questions.

The Convener: Thank you, minister.

The goal is net zero. Has the Scottish Government made a detailed assessment of renewable capacity and set a clear pathway

towards 2045? The Climate Change Committee has said that that will be necessary.

Paul Wheelhouse: That is a good point. I often say that we must, in effect, double the amount of renewable electricity that we generate in Scotland to achieve our wider decarbonisation goals. There will always be uncertainty about precisely how much renewable electricity will be required, and from which technologies we will require it. Much will depend on the choices that we make about the decarbonisation of heat, transport and industry, and on the degree to which there is technological innovation.

Our strong expectation is that Scotland will need significant and accelerated growth in renewable electricity capacity. That is also true for the UK as a whole. Our initial assessment, as set out in the climate change plan update, is that we will require between 11GW and 16GW of capacity by 2032. We currently have just under 12GW of renewable electricity capacity. We will carry out more detailed analysis in the coming year. If we are re-elected, we intend to refresh Scotland's energy strategy later this year and develop an electricity generation policy statement.

We will also look at the range of sources of electricity. We estimate the quantum as being between 11GW and 16GW of new capacity over the lifetime of the net zero strategy.

The Convener: What about the factors that could stand in the way of achieving those goals? Some people would say that planning procedures are too cumbersome and slow things down; others would be concerned that any consenting process that moved too quickly could lead to undesirable development that might have negative environmental impacts in other ways. What is the Government doing to assess those practical issues?

Paul Wheelhouse: That is a fair comment. The consenting process has a key role to play in enabling the delivery of new onshore and offshore capacity and in the provision of overhead and underground electricity transmission cables and distribution networks. Those are all vital parts of the system that we are trying to create.

There has been steady progress in improving the speed of consideration of consenting decisions. The time that is taken has gone from more than 50 weeks some years ago to between 26 and 29 weeks now—I will come back to the committee with detailed figures. That is an important part of the process.

You are right to focus on the need for rigour. We are doing all that we can to improve the speed of the process, but we need help from developers. They are required to take many steps, and that can have a negative impact on the pace at which

decisions are taken. There is a balance to strike, and we need developers to play their part. We should work together, as we have done in the past to meet option round deadlines for contracts for difference. We have worked back from deadlines with developers to let them know when we need key pieces of information to be in place, so that they can have consent—if we are able to give it—in time for participation in option rounds.

There are things that we can do, but you are right that we must do them in a way that does not throw the baby out with the bath water—the process must have rigour and ensure the right of communities to be engaged.

The process has key steps. If a statutory consultee such as a local authority maintains an objection, a public local inquiry will be required, which can add significant time. Such things are mandatory and we cannot circumvent them; we must allow the time to be taken. However, we are working hard in the energy consents unit under Marine Scotland to do all that we can to work with the industry and speed up the process where we can.

I look to you to see whether you want to pick up on other key barriers later, convener. In relation to the transmission and distribution networks, procedures that involve the regulator—the Office of Gas and Electricity Markets—govern the needs case for interconnectors to our islands, for example, which can unlock the potential of island groups. Progress has been made in relation to Shetland, but we still await positive decisions for the Western Isles and Orkney.

We are increasingly concerned not so much about Ofgem's policy position as about its capacity to deal with what is likely to be a large quantum of decisions on grid investment around the UK, including in Scotland, as we seek to connect offshore wind sites that we wish to develop. As you might know, we have a target of 11GW of offshore wind capacity by 2030, and significant investment will be required in the grid to enable such projects to connect to the grid and transmit their power to the Great Britain network.

A number of barriers are in place. Some are physical, such as the grid, and others involve the route to market, which affects pumped hydro storage and marine energy. Until recently, the lack of access to the CFD option process for onshore wind presented a challenge to that sector, but I am pleased that the UK Government has opened up pot 1 for onshore wind projects again.

I could talk for quite a while on the barriers that we face, but I will take your guidance, convener.

The Convener: Perhaps we can all keep our questions focused and to the point; I ask the minister to do the same with his answers.

Alex Rowley (Mid Scotland and Fife) (Lab): I will stick with planning. The committee has heard from people who say that the planning process is fairly cumbersome and takes a long time. They feel that, if we are to hit the targets, something needs to be done. I will come back to that.

A linked issue is community and local ownership. The Government did not hit the target that it was aiming for in 2020. Do you believe that there is a link? My experience is that many community organisations have seen the success of community ownership on land but find that developers do not necessarily want to engage with them and that accessing resources is difficult. Has the Government looked at that? Is community ownership a key part of your strategy?

Paul Wheelhouse: That question is important. On your latter point, our aspirations absolutely are to increase the share of projects that have a community or local ownership component or are entirely community or locally owned, and to have more shared revenue options.

We have an aspiration for about half of all planning decisions to involve a shared revenue model or community or local ownership. That is important because it helps to regenerate communities and empowers them with their own revenue stream, which gives them the freedom to do what they wish locally. We have great examples from the Western Isles and other parts of Scotland—for example, Stòras Uibhist in South Uist, which Mr Rowley might be aware of, has a project to unlock £20 million-plus of net revenue for the community, which will allow it to invest in business facilities, upgraded harbour facilities, an access road and social housing.

Berwickshire Housing Association, in my area, has invested in three turbines—known as the fisherman three—and has generated more than £20 million through its feed-in tariff contract to invest in what is believed to be up to 500 affordable homes in the Berwickshire area of the Scottish Borders, which is about a third of the Borders social housing requirement. Those are all great opportunities.

09:45

Obviously, it can be daunting when communities are faced with several applications in their area, and engaging with developers can be challenging. We give support to communities in those circumstances through the community and renewable energy scheme—CARES—fund, which is administered by Local Energy Scotland on our behalf. That can provide professional support to local communities to help them to negotiate with developers. It can be quite challenging to reach out to developers around community benefit

decisions that might be taken at a local level by the developer, and it can be daunting for volunteers in that context to take on discussions with what can often be large companies, so the communities are helped to engage with that process.

We are aware of the need to help communities to cope with all that—hence CARES’ successful support for communities around Cumnock, for example, with a number of projects that they faced simultaneously. I stress that not all projects will necessarily go through planning, because decisions are made on a case-by-case basis. It is not presumed that all projects will go through, but communities have a bit of professional support to engage with developers. Through CARES, we can also help the community to develop its own community energy project and then provide support to it to obtain commercial finance to fund the project. I am happy to give more details to the committee, if that would be of interest, about the support that we have in place for communities.

Alex Rowley: Thank you. It is an important area, because community ownership of renewables also creates community buy-in. My experience is that there are barriers to that, so perhaps the minister can give me some information on it. I link that to planning, because if there is community buy-in, developments will move much faster.

Will the delay to the national planning framework 4 impact on the ability to tackle climate change and achieve net zero emissions? Will it make achieving net zero emissions a material consideration in the planning process? If so, what would that be?

Paul Wheelhouse: It is important to identify NPF4. Mr Rowley is correct that it will be a key policy document that will be used extensively in planning. Our NPF4 position statement is explicit about the shift that is needed to achieve net zero and about the “significant choices” that must be made. It highlights the need to support renewable developments—including the repowering of existing sites when new technology allows sites to have more efficient technology—and the extension of existing developments, and the need for new and upgraded grid capacity and carbon capture and storage, which will provide a good opportunity for Scotland to achieve a just transition, too.

We continue to engage closely with stakeholders ahead of the fuller consultation in the autumn, following the election. The position statement was produced to try to set out the key principles that will be applied in NPF4. One that we have definitely set out is that we believe that a shift is needed to achieve net zero, and that will be reflected in NPF4, subject to the consultation, of course.

Alex Rowley: What work is the Scottish Government undertaking to ensure that the offshore grid connections are co-ordinated and are not just point to point?

Paul Wheelhouse: Again, that is an extremely important question, for two reasons. First, the more complex the grids that are required for connecting offshore wind sites, the more challenges there are with other marine users, such as the fishing community, given their static gear and interactions with their fishing grounds. We are mindful of that and have had good engagement with the Scottish Fishermen’s Federation through Mr Ewing, Mairi Gougeon previously and now Mr Macpherson, and me.

We are also aware of the cost grounds. Obviously, it makes a huge difference to the viability of projects if reductions can be made in the cost of the transmission infrastructure that is required to take the power from the offshore site to shore. If we can use that more efficiently, we will be able to save significant funding and make it more cost effective to develop new offshore wind sites.

In the years to come, as we look to develop our ability to produce green hydrogen offshore, that will also be helpful to the likes of the oil and gas sector and other—*[Interruption.]*

Bless you, convener.

The Convener: Thank you.

Paul Wheelhouse: That will be helpful in trying to develop the infrastructure that is required.

The current approach needs to be reformed. We had positive discussions with Kwasi Kwarteng before he was promoted to Secretary of State for Business, Energy and Industrial Strategy, and I am sure that he will maintain his interest in the area. We will now look to engage and work with Anne-Marie Trevelyan, who is the new UK Minister for Business, Energy and Clean Growth. Work was initially started at UK level, but the Scottish Government is now an important contributor to those discussions. We will also engage with Scottish stakeholders on what we can do to ensure that co-ordination is as good as possible.

This morning, I drove past the infrastructure works that are currently under way at Torness power station to connect the Neart na Gaoithe offshore wind site just off the coast of Fife. That is a sign that investment is already taking place. We need to ensure that those connections are timely, because there is a risk that, if we do not get that investment, the projects that are currently going through the ScotWind process might be delayed because of lack of access to grids in the early 2030s. That is a concern that we have to address.

We need to engage with local communities to get buy-in from them on the importance of the projects and do what we can to mitigate any concerns that they have. We think that there is a strong case to have much of the grid development and auctioneering take place in parallel with the leasing process, rather than subsequently, because it sometimes seems to be a bit of an afterthought. That is one of the key issues that we will look at in more detail.

Gordon MacDonald (Edinburgh Pentlands) (SNP): You have just spoken about the need for grid connections and for renewables to have access to grids. Another aspect to consider is grid charging. In evidence, SSE told the committee that

“the Office of Gas and Electricity Markets uses a ... complicated methodology”

that is

“heavily skewed towards southern projects and away from Scottish projects, for which the cost in energy terms has a premium of about £3 per megawatt hour.”—[*Official Report, Economy, Energy and Fair Work Committee*, 19 January 2021; c 3.]

In your opening remarks, you mentioned that the UK Government has to change some policies and regulations. What needs to change in order that we can continue the investment in renewable generation?

Paul Wheelhouse: That is a hugely important point. The Scottish Offshore Wind Energy Council, the energy networks strategic leadership group and the Scottish energy advisory board have regularly discussed not only the need for decisions around good investment but the fairness of the charging regime. Unfortunately, developers are charged a premium when they connect into the north of Scotland in particular, which is one of the most expensive parts of the network in that regard. Of course, that area of policy is reserved. We respect that but, nevertheless, we have for many years been pressing for a fairer system that works with, rather than against, Scotland’s huge renewables potential.

It is obviously in the interests of the UK Government—and, we believe, in the interests of customers in Great Britain—for wind energy to be produced in the most efficient locations. Scotland is a wonderful country but, as we all know to our cost, we have a very strong wind regime. That is positive, as it generates energy, and negative, in terms of the weather that we face as individuals. We have a good wind regime with strong average wind speeds, which means that we have in Scotland some of the most efficient wind energy sites anywhere in the world. For many years, we have been pressing for the transmission charging regime to reflect that.

You mentioned SSE. This week, Scottish and Southern Electricity Networks Transmission and Scottish Renewables published a new analysis that supports our concern that transmission charges in the north of Scotland

“are higher than the rest of GB”

and remain “volatile and unpredictable”, which does not help developers in securing finance. The consequences of that are perhaps a disincentive to invest in renewable generation at a time when the need for such investment could not be greater—we have talked about the net zero emissions target and the climate emergency. It will be vital not just for us in Scotland but for the UK Government.

In addition, there are clear concerns that the investment risks that are inherent in such a system could result in higher costs for consumers, rather than delivering benefits. We appear to have a charging system that acts against the renewables development that the Scottish Government and the UK Government want to see much more of.

If we are to develop hydrogen technology in Scotland, for example—taking advantage of the opportunities to generate green hydrogen, for which there is strong support across the Parliament—we need to consider the current system under which, as I understand it, a facility is charged full whack for connecting to the grid, regardless of how much power is used to produce green hydrogen at that site. It may be that most of the power for a site could theoretically be used to generate green hydrogen, but full transmission charges will apply if 100 per cent of the power goes through the transmission network. To my mind, that does not really stack up as fair, and we need to put in place a more dynamic and nuanced system.

We have had discussions with Jonathan Brearley of Ofgem, and Frances Warburton from Ofgem is on our energy networks strategic leadership group. It is helpful to have that dialogue with the regulator. We believe that that is a key step that the UK Government could take to help, giving direction to Ofgem to address that perceived and actual unfairness. I would be loth to use specific developers’ figures but we know that, in the most recent option round, some developers felt that transmission charging alone was sufficient to knock them out of the option.

There is also a risk that charges under the transmission network use of system—TNUOS—charging regime are distorting the market for offshore wind, and I do not imagine that UK ministers would be happy with that, either.

Gordon MacDonald: The Scottish Government has called for Ofgem’s function to change so that it has a statutory objective to support the delivery of

net zero. What changes in governance would you like to help to deliver net zero?

Paul Wheelhouse: You are absolutely right that we have called on UK ministers to formally change Ofgem's remit. That is for a very practical reason. In a recent discussion on the RII0-2 determination with Ofgem—under the revenue = incentives + innovation + outputs model—on the transmission infrastructure investment needs of the GB network in future, it was obvious that Ofgem is fulfilling its statutory remit and is closely examining the impact of costs on consumers.

We know that Ofgem is sympathetic to the points that we are making on the need to target net zero, but decisions could have taken place in the July draft determination that would have had a significant impact in delaying Government investment and the Government's achievement of targets in areas such as transport decarbonisation through an impact on specific projects. For example, at least one of the distribution network operators was concerned about the impact on rail electrification of a draft decision that Ofgem had put in place that would have prevented the operator from investing in a timely way to facilitate Mr Matheson's objectives for rail decarbonisation. Some very practical things arose in discussion.

I suppose that some things are largely based on the slightly risk-averse approach that Ofgem has to take in protecting consumers against short-term increases in cost. We argue that doing that potentially locks in higher costs for consumers down the line by not allowing investment to happen in a timely way. We have tried to encourage Ofgem to take a view on allowing greater investment to take place in grid, ahead of investment in wind generation and other renewable generation sites. That is a key area.

We have had some encouragement, and I am pleased to note that the UK Government appears to be listening to that kind of logic. The UK energy white paper acknowledged that the governance of the system needs to change and to shift away from a model that perhaps reflects what would fairly have been the situation 30 years ago, say, rather than reflecting what it needs to reflect now to target the net zero goals and to achieve the targets that we have in place for 2045 and 2050 for Scotland and the UK respectively.

We need that to be recognised, and we need to support local energy markets and systems, which are a new feature of decarbonisation, ensuring that the bodies concerned are best placed to oversee those systems and that they are geared up to do that in the context of a climate emergency.

We are keen to see further detail on what the UK Government will propose, but we are

supportive of the direction of travel, and we will continue to press for Scottish interests and ambitions to be fully taken into account. I should stress that that is no criticism of the personnel at Ofgem. Ofgem is doing what it is set up to do in statutory terms, but we want the statutory terms to change to formally reflect the need to tackle the climate emergency.

10:00

Gordon MacDonald: SSE has proposed a net zero delivery plan to monitor progress with an update each year. What improvements could be made to the annual energy statement and climate change delivery plans to show clear progress in the relevant sectors?

Paul Wheelhouse: We recognise those calls. There is an old saying that what gets measured gets done. The annual energy statement is important to enable us to monitor progress on our targets, particularly in areas where we have faced challenges, such as heat. We need to up our game on that as a society and our targets need to be chased hard. We intend to do that.

There is uncertainty because the Scottish Parliament elections are coming, and I do not want to take anything for granted but, if we are re-elected, we intend to refresh the energy strategy later this year. That would take on board the climate change plan update and the new pathways such as industrial decarbonisation, and would ensure that we are up to date on policy developments in areas such as hydrogen. There have been changing market conditions in the renewables sector and huge progress has been made in areas such as solar energy, which is much cheaper than it used to be.

We will need to carry out appropriate consultation with stakeholders, the Scottish energy advisory board and all the strategic leadership groups and other ministerial groups that sit under that so that we take as much advice from the professionals and stakeholders as we can. We will then develop a clear route map for the energy sector's transition to net zero.

If changes are needed to the annual energy statement to provide a monitoring tool for that, we will make those changes to reflect the shape of the energy strategy as it then sits. We will also take guidance from the committee on areas that members would welcome being considered as part of the annual energy statement to add to what we already have.

Colin Beattie (Midlothian North and Musselburgh) (SNP): What work has the Scottish Government undertaken to quantify and mitigate emissions from products that are consumed

domestically, rather than just from their production?

Paul Wheelhouse: That is an important area. I am sure that the committee is aware that we monitor our carbon footprint as well as our production emissions in Scotland. Most of the focus is, naturally, on Scotland's production emissions—the greenhouse gas targets that we tend to refer to with the net zero target for 2045. However, it is clear that we also need to monitor our footprint, including internationally, because we consume many products from around the world.

A research study is under way to identify policy opportunities for the Scottish Government to influence domestic demand from consumers, businesses and the public sector for a range of manufactured goods that can demonstrate lower carbon intensity than their competitor products. It frustrates me that we often see imported products supplanting those that have been manufactured in Scotland, with the buyer not taking into account what may in some cases be hideously higher CO₂ emissions from producing those goods abroad than our domestic producers create at home.

We need to find a way to incentivise investment to decarbonise Scotland's existing energy-intensive and manufacturing industries, to prevent carbon leakage so that they do not lose their competitive edge compared with others elsewhere and to support the development of new low-carbon products and industries. A net zero report from the Climate Change Committee in 2019 emphasised the need for the Government to implement an approach that incentivises domestic industries to reduce their emissions in ways that do not adversely affect their competitiveness.

We understand that driving end-user demand for lower-carbon products in Scottish public procurement and consumer decisions can help to create a level playing field for industries that invest in decarbonising their process. In effect, that will reward them for doing what we need to do to improve the climate change mitigation performance of the Scottish economy while helping to safeguard manufacturing jobs and skills in Scotland as a consequence. It is not easy to do that, but we are mindful that we need to do it.

We need to look at public procurement as well as behaviour change by individuals and businesses to make them more conscious of where they procure their products so that they consider that actively. Whether it is through labelling or other means, we want to help them to buy products that, in their manufacturing and operation, are lower carbon than products that they have bought previously. In those ways, we can help businesses in Scotland, the rest of the UK and Europe that are more progressive in that

respect—compared with other markets where the issues are taken less seriously—to win the work.

Colin Beattie: Consumers tend to purchase goods based as much on price as anything else. If, as is implied here, costs are simply being passed on to consumers, what will be the implications for a just transition?

Paul Wheelhouse: That is a hugely significant issue, because we are mindful of our strong push towards decarbonisation, but not everybody can afford that. Therefore, we have to put in place mechanisms that, as well as supporting consumers, support businesses to take on the task of investing in retooling for lower-carbon production methods.

There are some targeted measures. Domestic heating is a good example. For those who face the most severe fuel poverty, we have area-based schemes to provide not loan funding but grant funding of up to £12,000 per premises to help people to decarbonise their heating systems. That reflects the fact that those people are challenged financially. They might want to do the right thing, but they cannot afford to do it, and we need to help them.

We are also putting in place a range of measures such as cashback payments for households with higher incomes who can afford to invest in loan finance from the Scottish Government, through Home Energy Scotland. To incentivise investment, we can provide them with cashback of up to 75 per cent of the amount that they are borrowing. It is an important area, and, if it would be of interest, we could provide more information to the committee on the range of schemes available to help different target groups.

The member is right that behaviour change is a huge part of achieving the targets in our draft climate change plan update. We need to engage consumers, whether they are businesses or individuals, to help us with that task. Not everybody can afford to make the changes, so one target is to incentivise those who can afford to do that, and providing financial support to those who cannot afford it is another.

Colin Beattie: Timescales are exceptionally tight for decarbonising the industrial sector. Given that the Chemical Industries Association and the Mineral Products Association have raised concerns about operating costs and the lack of a business case for decarbonisation, is it realistic to expect emissions to reduce by 43 per cent by 2032?

Paul Wheelhouse: It is a huge challenge—you are absolutely right—and we certainly understand that. We recently published research on deep decarbonisation pathways for Scottish industries, which found, more positively, that it would be

technically feasible to reduce industrial emissions in Scotland by more than 80 per cent compared with 2018 levels by 2045. However, that would require additional efforts to tackle residual emissions, potentially through negative emissions technologies as well as through action in other sectors consistent with a net zero pathway. As the committee might know, in its sixth carbon budget, the Climate Change Committee said that the industry could, in effect, be zero carbon by 2045, so it believes that we can go beyond the 80 per cent reduction.

It is clear that we need to go further and faster if we are to meet the interim targets by 2032. Policy intervention is required to address those key challenges, so I agree with stakeholders' comments on operating costs and the lack of a business case for decarbonisation. However, as a starting point, our 2020-21 programme for government committed us to an additional £60 million to overcome the challenges for industrial manufacturing in Scotland in transitioning to a low-carbon economy.

I draw your attention to two specific funds within that figure of £60 million. First, there is £34 million for the Scottish industrial energy transformation fund, supporting the deployment of industrial energy efficiency technologies and feasibility studies on sub-sector deep decarbonisation. That fund is in parallel with the UK Government's industrial energy transformation fund. We got an agreement from the UK minister to carve out funding for Scotland so that we could create our own fund, which gives us the freedom to operate at a faster pace, should we need to, to achieve our targets, which are earlier targets than the UK's. We also set up the £26 million low-carbon manufacturing challenge fund, which will support innovation in low-carbon technology processes and infrastructure.

We have to reflect on the fact that there is a mix, or balance, of devolved powers and responsibilities. That means that there is a significant risk that decarbonising faster than the rest of the UK could lead to carbon leakage. We therefore need to work closely with the UK Government. We need to support investment on a level regulatory playing field for Scottish businesses.

We are trying to ensure that the industrial sector understands its role in decarbonisation, the opportunities that it can bring and the support that is being offered to manage the transition. It will not be easy, but we are engaging closely with industry on how best it can use the Scottish industrial energy transformation fund and the manufacturing fund to best effect.

Colin Beattie: Given the concerns that have been raised, what are the implications if the sector is slow to decarbonise?

Paul Wheelhouse: If that were to happen, there would be a risk. For example, if energy-intensive industries were slow to decarbonise because the uptake of fuel-switching technologies was delayed by slower development timelines or by a lack of available infrastructure or economic incentives—which, in some cases, might need to be provided by the UK Government—the number of sites finding themselves locked in to fossil fuel technologies until after 2045 could become significant. If that were to happen, it would be very challenging to meet Scotland's net zero target.

The industrial energy transformation fund and the low-carbon manufacturing challenge fund have been provided to help us get that ball rolling and to encourage, through the climate change plan update, the prompt development of the required technologies and deployment of the enabling infrastructure, to avoid that lock-in outcome. In addition, you might be aware that we have launched the £180 million emerging energy technologies fund, which will support development of Scottish hydrogen. About £100 million of that is allocated for hydrogen technologies and £80 million for other technologies, including carbon capture and storage.

That is all to be spent over the next five years. We are trying to pump prime the investment by business. We are working with individual businesses and through Neccus, which is the cluster for carbon capture in Scotland, to ensure that money is targeted in the most effective way to bring forward projects where we can do so.

Colin Beattie: This is my final question. Does the Scottish Government support the CCC's proposal for carbon border tariffs and minimum carbon standards to enable decarbonisation while ensuring that jobs are not offshored?

Paul Wheelhouse: It is an important point. We have a new framework in place with the devolved and UK Governments to discuss matters relating to net zero through a ministerial group, which met recently.

As a Parliament, we have implemented the UK emissions trading scheme with the UK Government and other devolved Administrations, which means that we introduced the statutory instruments to allow that to happen before Brexit took place. As I understand it, the aim of the scheme is to mirror the European Union ETS and to level out the playing field, as recommended by the Climate Change Committee in its carbon budget advice. In particular, the UK ETS would include protections for sectors that are at high risk of carbon leakage, to help them to maintain their

competitiveness with companies outwith the UK that do not face equivalent carbon costs.

We support linking the UK ETS to other carbon markets internationally, to create a more effective global carbon market, and we have supported the move towards a level playing field internationally, in negotiations that have taken place under article 6 of the Paris agreement. We will work with the UK Government on the evolution of the UK ETS—it will be a standing item for the ministerial group that I referenced. Work will include reforms to ensure that there genuinely is a level playing field internationally and that our businesses are not disadvantaged.

We can also help to avoid carbon leakage through the funding interventions that I mentioned in answer to the previous question. Our approach is a mixture that includes getting carbon pricing correct as well as giving the right support to business to invest early in new technology.

Colin Beattie: Thank you.

The Convener: Minister, I do not wish to dampen your enthusiasm, but we have limited time. You are welcome, of course, to send further detail in writing on any of the matters that have been raised, for the committee's benefit.

10:15

Graham Simpson (Central Scotland) (Con): With those words ringing in my ears, I will ask just one question. Minister, it is good to see you.

I will follow on from Colin Beattie's questions. In its written evidence to the committee on the CCPU, Scottish Carbon Capture & Storage said that it had "significant concerns" that the infrastructure investment plan might not be "fit for purpose".

Its main contention was that the plan does not consider industrial decarbonisation. We have just talked about that. It said that the plan

"does not adequately consider infrastructure needs relating to CCS and hydrogen, and risks hampering their deployment."

Scottish Carbon Capture & Storage went on to say:

"We urge the Scottish Parliament"—

not the Scottish Government; those were its words—

"to ensure that infrastructure investment in Scotland aligns fully with Scotland's climate change targets."

It said quite a bit more but, in the interests of time, I will not go into that. What is your response to those comments?

Paul Wheelhouse: Thank you for your opening remarks: I am glad to be here, and I, too, hear the convener's words ringing in my ears.

We can supply more detail, but clearly I recognise the challenge of achieving what is a really exciting opportunity for Scotland in carbon capture and storage. I have spoken to Professor Stuart Haszeldine and to others who have spoken to you very much on that issue. We need to get the infrastructure and the regulatory framework right. We are working as closely as we can with the UK Government on that, as we have a common interest and goal when it comes to developing the technology.

In Scotland, the Acorn project at the St Fergus gas terminal is a hugely exciting opportunity for us. We are very optimistic that that could be up and running by as early as 2024. If we are able to achieve and accelerate the deployment timescale for the project, which has the potential to store up to 10 megatonnes of CO₂ annually, that would be a huge contribution to decarbonising not only Scotland but potentially the rest of the UK and our European neighbours. It is really important to get that right. We are trying to encourage existing players in the oil and gas sector to invest in the area, which seems to be an opportunity that the industry is really embracing as important to it. It is an important opportunity in the context of the just transition.

I will happily write to the committee, convener, to give Mr Simpson some more detail on what steps we are taking, and about any awareness that we have that the UK Government is taking steps on the regulatory framework. That might best lend itself to being put in a letter, because of the detail that is involved.

I recognise the concern that Mr Simpson has raised. We have to get this right. It is too big an opportunity to miss, and it could do a heck of a lot of good in helping us to decarbonise the Scottish economy and help others to do likewise.

Graham Simpson: Thank you. That was nice and quick. We can move on, convener.

The Convener: In that case, I call Richard Lyle.

Richard Lyle (Uddingston and Bellshill) (SNP): I, too, will be quick. I will group my questions together. Good morning, minister.

Scotland has a significant advantage, in terms of engineering expertise and geological storage, when it comes to carbon capture and storage, but how can Scotland capture the economic and transition benefits? In addition, although the evidence is, broadly, that new jobs can be created, what do you consider to be a green job, and how will we ensure that workers are reskilled?

Paul Wheelhouse: That is a hugely important point. I recognise the need to do more to define what a good green job is; I might come on to that.

When it comes to carbon capture, we believe that Scotland has a potential comparative advantage, not only in a huge and important just transition opportunity because we have a mature oil and gas industry, and not just in our skills base because we have hugely talented individuals in the industry, but because we also have the assets, such as completed reservoirs. I am thinking in particular of the Goldeneye reservoir, which is thought to be the best candidate, albeit not the only one, for the storage of CO₂. Carbon capture offers a great opportunity to sustain economic growth in Scotland, particularly as it would provide support to parts of the Scottish economy and Scottish communities that currently depend on oil and gas jobs.

Our climate emergency skills action plan is a key document. It seeks to support reskilling and retraining of skilled workers so that they can access the new, good-quality jobs that will become available. We have a talented oil and gas sector and a world-class supply chain that wins work around the world. We are aware of the challenges that we have in the offshore wind sector. However, our oil and gas sector supply chain ships substantial amounts of capital goods from Scotland to other markets, which provides us with a great foundation to harness the benefits of our energy transition. We want to ensure that projects such as Acorn are successful and that we can reuse legacy oil and gas pipeline infrastructure and assets to store CO₂ safely and permanently.

I replied to Mr Simpson's earlier points about timescales and the potential scale of the impacts, so I will not repeat those answers. The centre for energy policy at the University of Strathclyde has suggested that, by 2030, anywhere between 7,000 and 45,000 UK jobs could be associated with Scotland's securing just 40 per cent of the carbon storage element of a European CO₂ management market. We have reason to believe that that is achievable. By 2050, that figure could rise to between 22,000 and 105,000 jobs. I know that there is a lot of scepticism about job numbers. However, those are not the Scottish Government's numbers; they have been produced by economists. They show the potential prize that exists. For the oil and gas sector in Scotland and its supply chain, that would amount to between 105,000 and 110,000 jobs. That should give the committee a sense of the scale of the potential to provide a just transition for people working in the industry—on top of the benefits of hydrogen, offshore wind and other technologies that generate good green jobs.

To answer Mr Lyle's question further, I turn to the definition of what makes a good green job. The climate emergency skills action plan covers three categories of job, including new and emerging jobs that relate directly to the transition to net zero—for example, hydrogen cell technicians, carbon monitoring technicians and urban miners. Jobs affected by the transition to net zero that will need enhanced skills or competencies include architects and environmental consultants. Existing jobs that will be needed in greater numbers as a result of the transition include installers, energy assessors, designers and multiskilled on-site operatives. People with other skill sets, such as plumbers and electricians, will increasingly move into such areas. Even in the oil and gas sector, we are likely to see considerable change in the role profiles of individuals who might be working almost entirely in that sector now but who might work part-time or increasingly in other areas, such as offshore wind or electrification of offshore infrastructure, to reduce emissions there.

We could provide more detail if the committee would like us to do so, but I hope that that helps to give a sense of the different types of green job that we are referring to.

Richard Lyle: That is an excellent insight into what a green job is.

Maurice Golden (West Scotland) (Con): Welcome, minister. The committee took evidence from Professor Haszeldine, who said:

"in Scotland we do not have a clear industrial road map for the circularity of our heat or carbon".—[*Official Report, Economy, Energy and Fair Work Committee*, 2 February 2021; c 23.]

How will the Scottish Government ensure that negative emissions technologies remove nearly 25 per cent of gross emissions from our 2032 total without such a plan?

Paul Wheelhouse: That is an important point. I greatly respect Professor Haszeldine, whose expertise is well recognised not only domestically but internationally. As for the charges that he made—and your legitimate question—about how NETs will remove a quarter of gross emissions over that timescale, that is an important ask. We are confident that it will be technically possible to deliver NETs by the late 2020s, including pilot demonstration projects by 2029 and large-scale installations by 2030.

That is not to say that the process will not be challenging—not least because, in some cases, it will involve new technologies and the need to get significant projects through the planning system, potentially in the face of opposition—[*Inaudible.*]—anticipate that local communities will see this. In delivering all that, there will be a need to identify and make concrete proposals for NETs quickly

and ensure that funding is available for feasibility work and early-stage design, so that we can get things moving quickly and not have barriers in that regard. In advance of the market being ready for such projects, we perhaps need to try to stimulate things early—I know that Mr Golden has a lot of experience in the area of migration.

Much of the responsibility is reserved to the UK Government. We are working with the UK Government on the areas on which it still holds responsibility—for example, policies that relate to the structure of the electricity market, including support mechanisms such as contracts for difference, which could be broadened to pick up some of the new technologies. I am sure that Kwasi Kwarteng, Secretary of State for Business, Energy and Industrial Strategy and Anne-Marie Trevelyan, Minister of State for Business, Energy and Clean Growth, will be considering those things.

Carbon capture and storage will be essential to reach net zero emissions and will be key to industrial decarbonisation. Although it is not a negative carbon emissions technology on its own, CCS enables NETs such as bioenergy, BECS—bioenergy with carbon storage—and direct air capture, which I mentioned earlier. We continue to support the Acorn CCS project at St Fergus, which we hope will be operational by 2024 and able to store more than 5 million tonnes per annum by 2030.

There are also UK funds; the UK Government has a £1 billion carbon capture and storage infrastructure fund. We will support the sector in Scotland to try to access that and we will encourage UK ministers to look kindly on projects in Scotland that could help to move things on. As I mentioned, the £180 million emerging energy technologies fund can support the development of hydrogen and CCS, which might also help.

I appreciate Professor Haszeldine's concern, which you are voicing. We will seek to pull together much of the information in the updated energy strategy, later this year.

Maurice Golden: On a slightly separate but related topic, what are your thoughts on the conflict between the burning of wood for biomass and the use of wood by the wood panel sector? In the UK, that sector contributes almost £850 million in gross value added and supports 7,500 jobs. Three of the six sites are in Scotland, but 25 per cent of the UK's annual basket of wood is used as fuel rather than in manufacturing.

Paul Wheelhouse: That is an important point, Mr Golden. We have had to do quite a bit of work on that. The United Kingdom forest products industry and fibre panel board industry, along with the Confederation of Forest Industries, which is an

interested body in the context of the supply of timber and wood fibre, have raised concerns about the competition between the bioenergy and construction sectors. Fergus Ewing, the Cabinet Secretary for Rural Economy and Tourism, who covers the interests of the timber sector, has engaged with me and we have put out consultations in that regard.

The use of other products, such as draff from distillers, is also a potential concern. If too much draff were used for bioenergy, that might disadvantage farmers who need it for livestock feed, for example—it is a highly nutritious, protein-rich product, which is used to supplement agricultural feed.

We are trying to get those things right and have been considering the development of a bioenergy action plan. That will probably take the form of a position statement, in due course, which will set out some of those concerns. You are right that as we come to develop BECS, for example, we will need to be sure of the feed stock that will be required and that we are planning for it. Otherwise, we will end up with supply shortages that will impact on more than one sector, which will be in nobody's interest.

We are considering other bioenergy alternatives, including the use of animal byproducts such as slurry and other products that are used for anaerobic digestion—that is another way in which energy can be generated from what would otherwise have been a waste product.

If it would be helpful, we can provide more detail to the committee on the evidence that we have taken so far about those challenges and the steps that we are taking to develop our bioenergy policy. That will feed into the updated energy strategy later in the year.

Maurice Golden: Do you plan on making a statement on the bioenergy action plan before the end of the current session of the Parliament?

10:30

Paul Wheelhouse: I do not think that that is planned, given the constraints on parliamentary time, but we can look to engage with the committee if it would be helpful for us to set out where we are with the plan. It is not yet finalised, but I am conscious of the strong interest in it. We can certainly let the committee know where we are with the policy, and the rough timing of when it will be finalised. That will presumably be after the election—the incoming Government will be able to take on the work at that point. We will get the detail of that to you and to the committee.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Good morning. I have a few questions. A

moment ago, you spoke about the industrial decarbonisation issue that we face. Can you say a few words on how we will balance the risks and rewards between Government, industry and consumers, so that everybody gets a slice of the action?

Paul Wheelhouse: Of course—that is a hugely significant point. A just transition will be an essential core part of any green recovery for the industry sector, and that means supporting industry to transition in a way that is fair and ensures that no one is left behind. We also need to avoid carbon leakage, which can cost people their jobs. As an important part of a just transition, we need to support businesses to migrate across to lower carbon opportunities without losing jobs in the process. We need to position industry to capture what we hope will be growth opportunities from net zero—that could be a positive aspect.

We, as a Government, want to deliver the transition in partnership with industry, as well as with individual places—taking a place-based approach—including regions and, at the micro level, communities. Such a partnership approach has been demonstrated through initiatives such as the Grangemouth future industry board, the Scottish industrial decarbonisation partnership and the Neccus initiative, which are all set out as examples in the current climate change plan update.

Without putting in place substantial economic incentives via the appropriate policies, we cannot expect significant investment in deep decarbonisation. All the industries in scope can expect to incur additional costs of approximately £0.8 billion to £1 billion per year by 2045. We are trying to help businesses to avoid those costs in the future, or at least to manage them earlier.

We can look at what has happened in Scotland so far, and what we have managed to do. The committee might recall Lord Stern's report, which talked about keeping the costs of decarbonisation to between 1 and 2 per cent of gross domestic product by acting early. That is what we are trying to do as a Parliament and as a society, and we have had some degree of success so far. Nevertheless, we need to try to get early adoption and, over a longer period of time, to bring things in rather than have a project crash and save everything until the last minute.

Where we are criticised for going too slowly, it is—with most of our policies—because we need to allow the supply chain to respond in order to secure jobs locally in Scotland, so that products do not have to be imported from elsewhere, and to allow a planned pipeline of projects to develop so that the industry can respond and build up. Where we have had problems, in areas such as offshore wind, it is because the market has been very

lumpy, which has not allowed the industry to respond. That is an example of the just transition not working well and where we need to do better; that is what the Scottish Offshore Wind Energy Council is trying to do for the offshore wind sector.

Just transition principles are important, and I am glad that you raised that point. We have to get the balance right between the prices that the consumer pays for electricity and gas, and the cost to consumers, in terms of their jobs. We need to think about how we protect those jobs—it is no comfort to people if we manage to keep the price of electricity down but they lose their jobs. We have to try to get the balance right across all the different groups: consumers, households, industry and business.

Willie Coffey: On the back of that answer, I make my usual shameless plug for Ayrshire. How do we ensure that various communities and parts of Scotland benefit from the development of these new industries? I would hate to think that Ayrshire, because it has not traditionally been part of them in the past, will not be part of the new industries of the future. How will the Government ensure that the benefits of the development of new industries will be shared reasonably fairly across Scotland?

Paul Wheelhouse: It is a huge issue. We have some major investment programmes under way. Very publicly, as members will know, we have committed £1.6 billion to domestic energy efficiency and heating in the next session of Parliament. That is a significant sum but, as I said earlier, it is a subset of the total spend that will be required just for heating and energy efficiency; up to £17 billion might be needed over the next decade to achieve our decarbonisation goals. That means everybody—owner-occupiers, social landlords, Government and public sector bodies—investing in energy-efficient heating. We cannot predict what the funding will be after 2025, but we have committed £1.6 billion of Scottish Government funds so far.

That is one example. That investment should create local jobs. One of the best sectors for creating local jobs is construction and particularly, in this context, construction in the form of retrofitting properties and putting in renewable heating systems. That can generate local jobs; it is also important, in doing so, to build up the supply chain.

As a society, we have let down coal-mining communities such as Ayrshire, Lanarkshire and the Lothians. Such communities were pretty much abandoned by all forms of government during the de-coaling period. Our last coal-fired power station, Longannet, disappeared from the Scottish landscape literally in the past couple of weeks. We need to do better as we transition other sectors into a net zero future.

There are some exciting opportunities, though. If wind farms are going to develop in Scotland, let us ensure that local communities benefit from such developments, for example through developers working with them on shared revenue opportunities. Let us ensure that communities that have aspirations for local energy projects of their own are supported to do that. There are some challenges with the loss of the feed-in tariffs regime, which was important to such projects. Through Local Energy Scotland and other routes, we are trying to find alternative ways to lower the costs for projects to make them viable, perhaps through low-cost finance for the capital expenditure to offset the loss of the revenue support mechanisms. This is all very important. Our local energy policy statement set out some of the issues. These are all aspects of helping communities to win in the green recovery and ensuring that they get the jobs that will come from that. As I said in my previous answer, we want to protect jobs that are already there and allow existing businesses to survive and thrive in a new low-carbon world.

Willie Coffey: I think that, in response to a question from Colin Beattie, you mentioned a £26 million innovation challenge fund. It is among a number of funds that exist. Could you say a few words about that? I have a company in my constituency that finds it difficult to bring its idea forward to the Government because it is concerned about the loss of intellectual property. Can you see any way to make that process a bit smoother? Might that fund help emerging new companies to get a slice of the action?

Paul Wheelhouse: That is a good point. I have met one or two companies that have tried to engage with our work on wave energy and have been deterred because they have been unable to guarantee that their intellectual property would be protected. It is not intentional, but there can sometimes be barriers like that that deter companies from engaging with the financial support that we have made available to develop green technology. That is an issue that I could pick up with Ms Hyslop and Mr Ewing, as the cabinet secretaries that cover all three enterprise networks, to see what we can do on research and development funding and other routes to support technology development and small and medium-sized enterprises. If there is a bright potential product for a company in somewhere such as East Ayrshire or North Ayrshire, where we know that we need to stimulate the local economy, it is important that we do everything that we can to support it, within whatever state aid or subsidy control mechanisms now prevail.

The strategic innovation challenge fund is not the fund that I referred to earlier, which is a new fund that is aimed at manufacturing. The proposal

for the SICF did not proceed; it was dropped because we developed a number of other funds that we think achieve the same policy objectives, such as the emerging energy technologies fund and the low-carbon manufacturing challenge fund. As I said, I can set out the detail of the funds if that would be helpful.

Willie Coffey: Thank you.

The Convener: I thank the minister and his team. The officials were not called on to speak on this occasion, but thank you for being there.

10:40

Meeting suspended.

10:46

On resuming—

Subordinate Legislation

Companies Act 2006 (Scottish public sector companies to be audited by the Auditor General for Scotland) Order 2021 [Draft]

The Convener: Item 3 relates to the Companies Act 2006 (Scottish public sector companies to be audited by the Auditor General for Scotland) Order 2021. I welcome Fiona Hyslop, Cabinet Secretary for Economy, Fair Work and Culture; and Gary Jones, finance business partner, Scottish Government.

I invite the cabinet secretary to make her opening statement on the instrument.

The Cabinet Secretary for Economy, Fair Work and Culture (Fiona Hyslop): I thank the committee for taking the time to consider the draft legislation.

Ferguson Marine (Port Glasgow) Holdings Ltd is a new public body that was established in December 2019 when the Ferguson Marine business was brought into public ownership. My team has engaged closely with Audit Scotland on the appropriate approach to the audit of the business accounts and the role of the Auditor General for Scotland in that. In February last year, my team agreed with Audit Scotland that the audit of Ferguson Marine's accounts for the year ending 31 March 2020 would be undertaken by an external auditor appointed by Ferguson Marine's board of directors, rather than by the Auditor General. That is because there was insufficient time between the business entering public ownership on 2 December 2019 and its financial year end to allow the audit order process to complete with the necessary consultations.

The Auditor General and I are keen that Ferguson Marine falls within the scope of his audit oversight, which has always been the intention. If approved, the proposed legislation will enable the accounts of Ferguson Marine to be audited by an auditor who is appointed by the Auditor General. That will provide the Auditor General with greater oversight of the finances of the shipyard, and it will increase the transparency of progress that is being made in the business.

The proposed legislation will also bring Ferguson Marine in line with other Scottish public bodies that are under the scope of the Auditor General. It has been developed in consultation with Audit Scotland, and the Auditor General has welcomed the ability to appoint an external auditor to the organisation.

I hope that the committee will support the move to align Ferguson Marine with other Scottish public bodies, and allow the Auditor General to appoint its external auditor.

The Convener: Members do not appear to have any questions on the order. Therefore, we move to the next item on the agenda, which is the formal debate on the motion to approve the affirmative instrument.

Motion moved,

That the Economy, Energy and Fair Work Committee recommends that the Companies Act 2006 (Scottish public sector companies to be audited by the Auditor General for Scotland) Order 2021 [draft] be approved.—[*Fiona Hyslop*]

The Convener: As no member wishes to speak in the debate, I will put the question on the motion. The question is, that motion S5M-23994 be agreed to.

Motion agreed to.

The Convener: In light of the timing, I invite the committee to agree to the clerks and me producing a short factual report of the committee's decision and arranging to publish it.

As no member has indicated otherwise, that is agreed.

Budget Scrutiny 2021-22

10:49

The Convener: Item 5 of the agenda is consideration of the 2021-22 budget and the impact of Covid-19 on businesses, workers and the economy. We are joined by Fiona Hyslop, the Cabinet Secretary for Economy, Fair Work and Culture. We are also meant to be joined by Richard Rollison, so I must suspend briefly to allow a changeover of witnesses. Gary Jones is to be replaced, so to speak, by other officials, although the cabinet secretary will remain with us.

10:50

Meeting suspended.

10:53

On resuming—

The Convener: I welcome to the meeting Fiona Hyslop, the Cabinet Secretary for Economy, Fair Work and Culture. With her from the Scottish Government are Richard Rollison, deputy director of the directorate for economic development; Mary McAllan, director for economic development; and David Wilson, interim director for fair work, employability and skills.

I invite the cabinet secretary to give a brief opening statement before we move to questions from members of the committee.

The Cabinet Secretary for Economy, Fair Work and Culture (Fiona Hyslop): This is my first budget as the Cabinet Secretary for Economy, Fair Work and Culture. My absolute priority is supporting economic recovery while we continue to do all that we can to suppress Covid-19 and ensure the safety of Scotland's workforce.

We have an opportunity to invest for the future and design an economic recovery that works for all of Scotland's people. Crucially, our plans are to rebuild our economy with wellbeing, sustainability and fair work at its heart. The budget allows us to make further progress by investing in policies that support our national mission to create new green and good jobs to ensure that no one is left behind as a result of the economic crisis. The total economy, fair work and culture portfolio budget allocation for 2021-22 increases by 10.5 per cent, which is £98.5 million, to £1.036 billion. That includes a £170.3 million increase in resource funding plus a £27.2 million increase in capital.

I advise the committee that the Cabinet is currently agreeing the budget allocation following yesterday's confirmation by the UK Treasury of £1.1 billion of Covid-19 support. That will provide

an additional £21.5 million financial transaction funding to Scottish Enterprise, which will bring Scottish Enterprise's financial transaction spending power to the same levels as in the current financial year, at £48.5 million. That welcome development means that Scottish Enterprise will see a significant overall rise in its budget allocation, of £42.2 million, which will include £12 million for resource and £30.2 million for capital—including £8.4 million for the green jobs fund—with FTs maintained at the 2020-21 level, rather than a £21.5 million reduction, as reflected in the budget.

That additional investment is in the face of the on-going economic challenges arising from Covid-19 and the UK's exit from the European Union. The budget underpins our plans to renew and rebalance our economy. It will support the work that Scottish Enterprise is doing to help companies to withstand the challenges, to protect and create jobs and to help deliver an economic recovery that is fair, sustainable and green.

Central to our plans for economic recovery is our commitment to doing everything that we can to protect existing jobs, to support workers to upskill and reskill and to create good-quality jobs for the future. We must protect and create opportunities for our young people, many of whom are being hit the hardest by the economic impacts of the pandemic.

The budget includes an additional £125 million for employability and skills provision relating to the young persons guarantee, which will support delivery of continued investment in employability, training and skills opportunities, such as the national transition training fund and the flexible workforce development fund. The additional £125 million in 2021-22 will be allocated as follows: £70 million to deliver the young persons guarantee and achieve our ambition of supporting every young person; £35 million to strengthen skills interventions, including the national transition training fund, the flexible workforce development fund and the talent attraction service; and £20 million for the no one left behind programme, which demonstrates our commitment to person-centred and place-based employability support.

For 2021-22, the budget includes funding of £27 million for our devolved employment service, Fair Start Scotland. The funding underpins a two-year extension of the service, which we expect to support up to 29,000 people, and represents a £5.8 million increase on 2020-21, based on the forecast of expenditure that has been assessed by the Scottish Fiscal Commission.

The Government's commitment to employability and skills is reflected in the education and skills portfolio allocations for 2021-22. The grant in aid for Skills Development Scotland has been

increased by £6 million to £230 million, and additional funding of £21 million has been made available to the Scottish Funding Council to support foundation apprenticeships in the college sector and graduate apprenticeships in higher education.

We are supporting local authority environmental health officers and trading standards officers with extra resources of £2.9 million in this financial year and next, to reflect the increased asks of them and to allow them to step up their inspection and enforcement where necessary.

The budget builds on our already significant investments in employability and skills in relation to the young persons guarantee, and recognises the increasing challenges that we are likely to see in the labour market this year while contributing to our national mission for new green and good jobs, alongside our fair work commitments.

Over the next session of Parliament, we will deliver a new £100 million green jobs fund, which will invest £50 million through our enterprise agencies to help businesses that provide sustainable and/or low-carbon products and services to develop, grow and create jobs.

A further £50 million will support businesses and supply chains to take advantage of public and private investment in low-carbon infrastructure and in the transition to a low-carbon economy, which should boost green employment. In 2021-22, we will allocate an initial £14 million from the green jobs fund.

11:00

We will continue our investment in the Scottish National Investment Bank, which represents the single biggest economic development in the history of the Scottish Parliament—it is also the UK's first development bank. We have committed to bank capitalisation of £2 billion, and we will provide £200 million of fresh capital for investment in 2021-22. The bank is mission led, with a primary mission to help to provide the investment needed to put businesses at the forefront of driving forward our net zero ambitions. Its investments will provide finance and catalyse private investment to achieve a step change in economic growth, by powering innovation and accelerating the move to a net-zero-emissions, high-tech, connected, globally competitive and inclusive economy.

We will provide £36.7 million for the continued development and build of the National Manufacturing Institute Scotland. Through our inward investment plan and “A Trading Nation—a plan for growing Scotland's exports”, we aim to attract more foreign investment and to help our exporters to be more successful. We are working

to support more strategic investments, with up to £20 million per annum, and to grow exports from 20 per cent to 25 per cent of gross domestic product by 2029. Our capital investment plan is planned for launch in March. It will set out a strategy based on Scotland's future strengths and opportunities, with a set of actions to improve our performance in attracting internationally mobile private capital.

Following the outcome of the capital spending review, we will invest £26 million of capital funding over five years in a low-carbon manufacturing challenge fund, which will support innovation in low-carbon technology, processes and infrastructure. We will also provide £25 million of investment over five years to support the Clyde mission low-carbon heating project.

The Scottish budget commits to extending the current non-domestic rates relief available to properties in the retail, hospitality, aviation and leisure sectors for at least the first three months of the financial year.

The latest GDP statistics, published on 12 February, show that the UK economy grew by 1.2 per cent in December but shrank by 9.9 per cent in 2020 as a whole—more than twice the previous largest annual fall on record. We recognise how difficult the challenge ahead is, but this budget and the portfolio priorities will help to lead our economic recovery and to rebuild a stronger, more resilient and sustainable economy for Scotland. I look forward to engaging with the committee on the budget.

The Convener: Cabinet secretary, you mentioned GDP. The pace of recovery has slowed markedly, including in Scotland, since the summer months, due to the Covid restrictions. The Scottish Fiscal Commission does not expect GDP to return to pre-pandemic levels until around the beginning of 2024. The report by the advisory group on economic recovery was published in June 2020, but it had obviously been in preparation prior to the pandemic, so what is realistic with regard to planning or an approach? Is that report still relevant? What research has been done to allow us to adjust to this rapidly changing situation, given falling GDP and the need for recovery as soon as possible? What adjustments have been made?

Fiona Hyslop: The Scottish Fiscal Commission has forecast that Scottish GDP will grow by 1.8 per cent in 2021—but that it will not return to pre-pandemic levels until later—and by 7.5 per cent in 2022. You referred to the advisory group on economic recovery. I moved swiftly to set up that group, in recognition of the importance of planning for economic recovery. A great deal of that report absolutely still stands. The advisory group took a considered, long view of how we can all come

through what will have been considerable disruption, and we responded to that by adding, sector by sector, industry-led recovery plans—that has been done for tourism and construction and we are currently consulting on the recovery plan for manufacturing.

The response, not just in Scotland and the United Kingdom but globally, cannot be dealt with immediately and quickly. However, an immediate and quick response to unemployment will be needed. Prior to the extension of furlough, we had anticipated that there would be a cliff edge in October; then we thought that that would happen in December. Now we think that that might come at the end of April, given that furlough has been extended—that is very welcome and is protecting many jobs. We anticipate that the immediate response will relate to employability, which is why I stressed issues to do with the young persons guarantee and the increasing focus on employability.

A lot of companies and organisations are in survival mode so that they can get through this period. As the advisory group on economic recovery said, we need a green recovery and a focus on digital activity. You will have seen what the Logan report said about tech scalars and investment, which is part of the support in the budget, and about the importance of growing green and low-carbon jobs. The growth agenda is therefore critical. That is why I have focused on the work that Scottish Enterprise can do to grow the companies that will develop the jobs of the future.

We cannot be completely confident about where things will go—nobody can forecast that—but we can plant those seeds. We expect entrepreneurial interest. We set out a range of areas in “A Trading Nation”, which I mentioned, and in the inward investment plan. No single measure will lead to economic recovery; we have to function in a range of areas. I hope that you can see from the budget and from my opening remarks that we want to build recovery through a variety of measures, whether we are talking about immediate sustainability of businesses or the need to grow the sectors that will be important in future.

The Convener: I suppose that your point is that, in light of changing circumstances and where we are, the report and some of its recommendations—albeit that they remain relevant—have perhaps had to be adjusted. Can you update the committee on progress when it comes to delivering on or adjusting the recommendations?

Fiona Hyslop: I have commissioned work to plot progress on delivery against the recommendations and against the Scottish Government’s response. I can assure the

committee that all the recommendations are being taken forward. A lot of work in that regard took place in the summer and throughout October, with energy now going into delivery, and I will be more than happy to share the finalised work with the committee. I absolutely assure the committee that I want progress and am pleased to see that it is being made. As I said, the report was quite far sighted in looking to the longer term and not just the immediate issues that need to be addressed.

The Convener: Would it be possible to give the committee an interim update? You commissioned research that, given where we are in the election cycle, might not be available later, so a written update of some sort would be useful to the committee. I appreciate that you cannot give us that here, off the cuff.

Fiona Hyslop: I am more than happy to work with the committee to provide some sort of interim indication to you—bearing in mind what state the work is currently in. I am pleased with the progress.

The Convener: Thank you.

Alex Rowley: I am always curious about how joined up budgets are when it comes to achieving outcomes across Government departments. I want to focus on housing, which is not mentioned in the cabinet secretary’s budget but is one of the greatest needs in near enough every community in Scotland. There is a lack of houses, and councils and housing associations have record waiting lists, but there is no plan for a 15 to 20-year house-building programme, which is what we need if we are to tackle Scotland’s housing crisis.

The issue has clear links with your brief, cabinet secretary, because if we had such a programme in place it would generate thousands upon thousands of apprenticeships and tens of thousands of jobs. The other day, I asked Fergus Ewing about the rural economy and housing, and he referred to the need to have housing available for workers who we are trying to attract here through migration. It seems that there is not a joined-up approach to the issue. Do you see housing as an economic development opportunity? Would a 15 to 20-year house-building programme create tens of thousands of sustainable jobs?

Fiona Hyslop: I agree that having such a programme is important, which is why we are developing our housing 2040 programme. As Mr Rowley mentioned, I am not the minister who is responsible for housing and nor am I the infrastructure secretary. However, I can tell the committee that, in recent weeks, I have had a few meetings about the 2040 housing programme, which is exactly the type of proposal that Alex Rowley refers to. However, he might not be aware

of it, so I will happily ask my officials in the relevant department to share details of it with him.

The programme is important because, as Mr Rowley will know, housing and construction will be vital to our recovery. That is why, right at the beginning of the pandemic, I supported the construction sector and prioritised its route to reopening. It was the first to establish an industry, union and public sector recovery task force. It also published its recovery report, which covered such aspects. Mr Rowley will also know that private sector capital is important for market stimulation. It forms part of the discussions that I have had not only with Aileen Campbell, who is the cabinet secretary with responsibility for housing, but with the Scottish National Investment Bank, which will take a keen interest in the issue.

Housing has not been helped by the collapse of the financial transactions funding that was in the budget. There was a 60 per cent reduction in such funding, and Mr Rowley will be aware that housing particularly relies on that. I am hopeful that, following today's discussions, there might be additional funding for housing, but I will leave it to the Cabinet Secretary for Finance to set out those aspects.

I am conscious that I have said a lot in response to Mr Rowley, but I will make a final point that might also reflect what Fergus Ewing will have said. I have been in charge of producing a population task force. If we want not only to attract people to move into our country from elsewhere but to ensure that we repopulate our rural and island communities, our housing strategy will be a vital part of our approach.

Mr Rowley is absolutely right that housing is everybody's business, whether we consider it from the point of view of employability, repopulation or a variety of other areas. I am more than happy to send information about the housing 2040 plan to him when it has reached the stage when that can be done. At the least, I will provide him with an update on its progress. I know that Aileen Campbell has been pursuing it vigorously in recent months.

Alex Rowley: Thank you.

This week, ahead of the chancellor's budget, I wrote to him to make exactly the point that you have just made about the furlough scheme. I raised with him the fact that the Scottish Fiscal Commission forecasts that unemployment will reach 7.6 per cent in the second quarter of 2021. Should the chancellor consider extending the furlough scheme beyond April? Should he be considering the issue sector by sector, because some sectors will not be able to return by that time? Are you doing anything about that, such as putting pressure on the chancellor? What can the

Scottish Government do, given that some sectors will not be able to recover by April? If the furlough scheme goes, we could see a massive fall in employment and businesses collapsing.

11:15

Fiona Hyslop: Alex Rowley is absolutely correct about that. I welcome the fact that the furlough scheme is protecting a lot of jobs. The underlying unemployment rate would be much higher if the scheme was not there. However, it is worth emphasising that most companies want to open and want their employees to be actively doing work. Rather than being some kind of subsidy that is desirable, the furlough scheme is essential for the economy and for individuals.

From a cost benefit analysis perspective, it is clear that it will be worth the UK Treasury's financial outlay to continue a broader scheme of the kind that other countries have had right to the end of this year. It should be recognised that furlough is a tool in the fiscal armoury, not just in preventing the big bills that the Department for Work and Pensions would face in paying out unemployment benefit in its various guises, but in stimulating economic growth by enabling people to be re-employed.

The furlough scheme can provide smooth continuity through a period of economic growth; it is not just a useful tool in enabling businesses to survive and keep people on their books but an important bridge to what comes next. If the chancellor wants to limit the furlough provision in some way, he must look at the sectors that will be most seriously impacted for longer. Even if those sectors can reopen at some point, it will be a long slow haul, as the First Minister will say this afternoon. In reopening, they might not be able to get to the levels of profitability that they previously had, so there must be a bridge. The role of furlough as a bridge, as well as the lifeline that it has been in the most recent period, is the context in which the chancellor should consider extending the scheme.

We have pressed the UK Government on that. We did so as recently as last week in a quad meeting, in which the business minister was involved. Colleagues from Wales and Northern Ireland are supportive of that position.

Alex Rowley: Thank you.

Fiona Hyslop: I am sorry, convener, but if Alex Rowley is asking another question, I cannot hear him.

The Convener: I am afraid that I cannot, either. Alex, do you have a further question?

Alex Rowley: No. I have finished. I thanked the cabinet secretary.

The Convener: That would explain the absence of a question.

Colin Beattie: I would like to touch on the economic development and enterprise budget. I would be happy for you to update us on any aspect of this that is out of date, but it was originally proposed that the innovation and industries budget would decrease by 39 per cent from £30 million to around £18 million. That budget is to cultivate a culture of innovation, entrepreneurship and global ambition among Scotland's innovators. Given the Government's future ambitions on economic recovery, how can the proposed decrease be explained?

Fiona Hyslop: It can be explained by the 60 per cent collapse in financial transactions funding that the Scottish Government received. That had an impact on the areas that had previously been supported by financial transactions. However, that does not mean that we will not be providing investment support for innovation and technology, which, as Colin Beattie said, are essential to growth and development.

The good news is that the cut in financial transactions to the Scottish Enterprise budget has been replaced—that happened as recently as this morning, and will form part of the announcement that Kate Forbes will make this afternoon. That is extremely helpful.

The innovation and research budget had previously been ring fenced in order to drive business enterprise research and development, which we knew had faced some challenges. More broadly, the intention had been to double that level of investment—obviously, that included external investment.

In 2017, the target had been to double the business enterprise research and development investment. In terms of the targets and where we are now, that figure has been revised up, and there has been significant investment in the area. I do not have an issue with the question of whether we are stimulating enough investment and whether there will be resources available to continue that investment, because the answer is yes.

When the committee carried out its pre-budget scrutiny, it said that Scottish Enterprise's budget perhaps lacked the flexibility to manoeuvre. With regard to the convener's remarks at the beginning of the session about the extent to which we need to change tack and adjust depending on what is required in economic development over the next period, providing flexibility for Scottish Enterprise to position that investment will be important. Given our work through the National Manufacturing Institute Scotland, our aerospace low-carbon investment and what we are doing in the space

sector, and what we are doing with the strategic board by working with the Scottish Funding Council and our universities, we anticipate that that drive, and our good experience of stimulating business enterprise research and development, can continue and be more flexible. Rather than it being ring fenced, the investment will be capable of being identified and used in the most appropriate way.

The good news is that the reduction has been removed. To recap, Scottish Enterprise has a £12 million increase in resource and a £30 million increase in capital. Much of that capital could be, and is being, used on innovation investment, as Colin Beattie mentioned. It is the area of the budget that has moved the most, so I thought it appropriate to get permission from the Cabinet Secretary for Finance to discuss with you that, although we had seen a reduction in financial transactions funding, as of today, we have managed to restore it. In fact, Scottish Enterprise is in a stronger position to help to meet the challenges that the convener laid out earlier.

Colin Beattie: Can I therefore take reassurance from what you say that the support for early stage businesses is restored and, I hope, enhanced?

Fiona Hyslop: Yes, indeed. As part of this year's £1.2 billion economic recovery activity, in the summer of 2020, I specifically provided funding for early stage growth companies, because we thought that there would be restrictions on the levels of investment in that area of the market. If you judge on the track record of the past year, I hope that you will be reassured that the budget for this year not only has the appropriate resources but takes an economic approach that recognises that supporting early stage growth companies is part of creating jobs in areas whose economies will benefit from them, and providing jobs for the future. That involves balancing support for and protection of the jobs of today, and growing the jobs of the future. Innovative early stage growth companies are absolutely part of Scotland's future.

Colin Beattie: A few minutes ago, you picked up on the committee's recommendations that more flexibility be built into Scottish Enterprise's budget. The committee actually recommended flexibility and contingency. How exactly have you responded to that recommendation?

Fiona Hyslop: There are different aspects to the issue of contingency. I am clear that, with business support, it has been important to provide contingency to ensure that we can adapt, depending on our experience of the virus.

The new variant is far more transmissible, and it has caused real issues and disruption in December and January. The Cabinet Secretary for

Finance has made sure that we have enough funding to support people at the highest level. Back in November and December, when she was putting together the strategic framework business support, who would have known that, in February, most of Scotland would be sitting in level 4 and that the businesses that are required by law to close would all require the highest level of business support? That would not necessarily have been forecast in November, so that is a contingency.

The issue with Scottish Enterprise is to ensure that it has enough FT capital to support equity and loans for companies that might have difficulties due to Covid-19 pressures or EU exit. My worry now concerns companies that were viable before Covid and which have managed to use their working capital and loans facilities to deal with the situation so far.

That is where I expect the support to be required as we move forward. Their business is currently restricted, and for many of them, demand has collapsed as well, but in some areas we would expect demand to go back up. However, we are finding that Brexit could be the final straw for such companies if, for example, they are facing difficulties with exporting.

One of the recommendations from the advisory group on economic recovery—the Benny Higgins report to which the convener referred—was that we look at cash-flow issues and opportunities for equity and loans. Contingency for the enterprise agencies to help companies in that space is very much needed, and the capital support that we have provided is very much a part of economic recovery. Contingency can operate in different ways, including in relation to basic business closures and those businesses that are facing a real struggle.

We expect support from the UK Government in the areas that are impacted by European Union exit. Michael Gove has made it clear that the UK Government will support businesses, and the seafood sector support—however limited it is—is part of that. However, I do not think that the seafood sector will be the only sector that will face problems because of EU exit. A lot of the issues are unwinding and are becoming more apparent just now. The issue is to what extent exporting is part of the business plan and the operation of many companies. For many years, we have been calling on small and medium-sized enterprises in particular to innovate and export. We know that the companies that export are more likely to innovate, and we want them to continue to do that.

Do we know, and can we anticipate, the level of cash-flow issues as we move forward? That is hard to predict. Scottish Enterprise is currently revisiting the slightly more than 1,400 companies

that were previously identified as—dare I say it—Brexit vulnerable, in order to find out their current situation. SE stands ready to support those businesses as and when that support is required. However, we cannot simply hold on to that funding and therefore not invest in innovative early stage growth companies or the low-carbon sector that was mentioned previously. As you might appreciate, it is a balancing act.

Colin Beattie: I will move on to the Scottish National Investment Bank. Previously, with the decline in financial transactions funding, there was a concern about the future funding of the SNIB. Obviously, there has been a restoration of financial transactions. Does that mean that that source of capital will now fund the SNIB, as was anticipated?

Fiona Hyslop: There is £200 million in the budget for Scottish National Investment Bank financial transactions. Even before the 60 per cent reduction in financial transactions, we were clear that the commitment to the SNIB and its funding levels must be honoured as part of the patient, long-term recovery funding that it will be able to help supply. The SNIB was always a priority; it remains a priority, and its funding is secured this year. Obviously, we need to anticipate what will happen in future. Financial transactions are now at the stage where we are starting to get incoming revenue in different areas, which needs to be factored in.

Scottish Enterprise will also benefit from the returns that it was getting from financial transactions. We will keep a close eye on that area with regard to financial transactions and the potential for more capital investment in the future. We will set out our plans. We have launched the Scottish National Investment Bank, the first investments have been made, and the bank has been capitalised to the level that will be required. The £2 billion over a 10-year period is a strong commitment, and there is £200 million in the budget that is before the committee now.

Colin Beattie: So it is not anticipated that there will be a need to source capital from other portfolio areas.

Fiona Hyslop: The capital investment plan was set out at roughly the same time as the budget; you will see the plan for public capital investment over a period of time. At this stage, we do not anticipate the need that you mention. Obviously, we have to look at the year-on-year developments of capital and FTs. Because of the reductions in FTs from the UK Government—not just to the Scottish Government but to other devolved Administrations and within the UK Government—we will keep a close eye on the issue. I can reassure the member and the committee that we

have confidence that our funding for the Scottish National Investment Bank is strong and secure.

11:30

The Convener: The deputy convener has questions now.

Willie Coffey: I want to talk about support for young people. Earlier you mentioned £125 million, and you broke it down to £70 million for the young persons guarantee, £35 million for skills and training and £20 million for the no one left behind fund.

You will probably be aware of the committee's recent work that focuses on young people and, in particular, on Covid's impact on employment opportunities for them. Do any of the schemes that are in place reach out to graduates who are coming out of university and looking for their first opportunity to get into the world of work? How might we assist employers to get them into that first job, which they are desperately keen to have? A number of committee members have been very concerned about that, so your thoughts on it would be greatly welcomed.

Fiona Hyslop: With regard to the young persons guarantee, the recommendation of the advisory group on economic recovery is for 16 to 24-year-olds, and that range covers the age group that you are referring to.

There is obviously a lot of focus on young people who are leaving school. There has been progress there, even in these challenging times. We should remember that we are still closed, but 18,000 new opportunities were identified during the past year, as well as 10,000 for transition training. The real demand will be in the second or third quarter of this year, unless, to go back to my answer to Alex Rowley, some other solution using the furlough scheme can be identified.

However, recent graduates are one of the target areas that we will work on with the colleges and universities, but also with employers who are looking to take on people who are in that position. We recognise—and I will go back to the additional funding that the Scottish Funding Council and Skills Development Scotland have—that young people are going to be a priority. That is why there is additional funding for graduate apprenticeships and foundation apprenticeships. Even the experience that someone can get from an internship or, preferably, paid employment is going to be really important.

That is why we are also very keen to work with the UK Government to ensure that our provision, which we hope will provide some kind of two-year round package for young people, can use the kickstart scheme as part of that package. It also

provides—[Inaudible.]—between that and the subsidies that might be available through local authorities. That can help companies take some of them on. A number of businesses want to do their bit to take on people in their own communities; they know that they have a responsibility. They also know that doing so can help them grow, particularly in new areas, such as marketing and other areas where we know that there has been a step change.

Those groups are really important to providing regional leadership in relation to developing the young workforce. It is employer led, and they will be fundamental to helping the local authorities identify subsidy schemes for businesses to enable them to take on the sort of people you identify.

There is also a website portal, which I ask all MSPs to promote in their local areas. It is a single portal that young people and employers can go to, and we have made it user friendly to help them to identify the available opportunities.

Willie Coffey: That is helpful. If you provide more details on that, I would be obliged, cabinet secretary.

What are employers saying to Government? The feeling that we got from the young people who gave us evidence was that the recruitment process has basically dried up during Covid, particularly for graduates. They are looking for that little bit of additional help to enable employers to bring graduates in for a time just to get us through the awful time that we are in. Are you aware of graduate recruitment tightening and drying up a bit?

Fiona Hyslop: The recruitment process generally is in a challenging state. On the school side, for example, the employment in each school of a developing the young workforce co-ordinator will be important. The pilot scheme in Fife proved successful and provided a good link between schools and employers, precisely for that reason. It is more challenging for universities and colleges, but I will speak to Sandy Begbie, who has kindly agreed to lead on the young persons guarantee, about how colleges and universities can form those links. Again, that is on the education side rather than in my area, but I will ask Richard Lochhead about what is happening on that. Colleges and universities keep in close contact with recent graduates, so they could use that system to make the connections with employers that are seeking employees. It is difficult to take someone on remotely. I have had to do that—I have a member of staff who I have not physically met. It is, however, the reality of the challenge we face, so we must be realistic.

We will soon be able to announce more of the new companies that are graduate recruiters that

want to be part of the young persons guarantee scheme. In the areas in which we want to develop, particularly on the digital side and in green energy, there will be a strong need for that workforce. The same is true in the financial services sector, which has been successful in this period—and very busy, as one can imagine. There are opportunities, but we need that collective national mission for jobs, and that is not a mission just for the Scottish Government but for everybody. Employers know that, as part of that economic recovery, we need to focus on this generation of young people. I will get more information about how we can create that interaction between recent graduates and the young persons guarantee, and I will share that with the member and the committee.

Willie Coffey: The cabinet secretary mentioned the digital aspect several times. One of the messages that the committee has picked up from young people is that, because of Covid, we are seeing much more online and distributed work going on. It was always possible to do that, but Covid has prompted it to gather pace. Are we thinking about encouraging employers to distribute their employment opportunities more widely within communities, so that young people in Scotland's more rural communities in particular can have a realistic prospect of working in the community in which they live, rather than us all flooding into the cities in Scotland, as we have done for many years? There is a real opportunity now to use digital technology to encourage employers to offer employment opportunities in a much more distributed way.

Fiona Hyslop: The member has valiantly advocated the digital economy and its opportunities for many years. The reality that everyone is facing means that people have rethought how they operate and what they do. The opportunities to work in a virtual way in any place are now evident. I speak to companies regularly, and many are rethinking what they will do, even when, at some point in the future, physical distancing is not required. That sort of hybrid operation is being seriously considered by everybody. What the member suggests was the subject of the discussion that I had with the leadership of the Convention of Scottish Local Authorities, and I spoke to council leaders last week, when we discussed the ministerial work that I have been leading with the population task force. I hope to publish that in the next few weeks. It is an opportunity to think differently.

People might remember, with some pain, the issues around Scottish Natural Heritage, when, in the very early days of the Parliament, there were proposals to move the whole agency, lock, stock and barrel. You would not necessarily need to do that now. We could have people living and working

in more rural and remote areas and, importantly, as Willie Coffey said, enabling people to live and work in the communities in which they grew up.

In Scotland last year, eight local authorities lost population, and a third of local authorities lost population the year before, so this would be a good way of addressing that. That goes back to a point that I made about housing. We need joined-up thinking about regeneration and how to have a place-based approach to economic recovery, and we need to encourage that and find ways to do it.

Even before the pandemic, I was discussing co-location with major organisations because banks had closed branches up and down the country. Could we use vacant properties to have sponsored work spaces with hot desking and so on in remote and rural areas? I have also had those discussions with the information technology sector in relation to delivery. We are all human, so we know that living and working on your own is a lonely place to be even though it is great to see colleagues on screen.

Having physical places in remote localities that people can go to and still work for their companies and still have the option to work at home, not having to travel but instead spending money in the local community, is one of the ways that we can tackle one of the most serious long-term economic challenges that Scotland faces, which is the loss in percentage terms of working-age population. As you can probably tell from my answer, I am enthusiastic about that idea.

Willie Coffey: That is appreciated.

Maurice Golden: The extra £1.1 billion of funding that was announced yesterday takes total UK Government cash delivered to the Scottish Government to almost £10 billion. Will some of that funding go towards a 100 per cent rates relief for businesses in the leisure, retail, hospitality, newspaper and aviation industries?

Fiona Hyslop: Prior to the announcement yesterday, around a third of the investment had already been spent on business support and, as I said in a previous answer, £1.2 billion of economic recovery. Our response to yesterday's announcement is symptomatic of the speed at which we have to respond without anticipating what is coming in terms of our share of consequential. I am tempted to say, convener, that had you not invited me to this meeting, I would have been able to take in the full discussion at Cabinet on the decision making around that and been able to tell you what the answer is to Maurice Golden's question.

We know that rates relief is important, which is why without any of the additional funding from the UK Government that we anticipate, we have already committed to that first three months'

support for different sectors. Aviation, you will recall, is being supported only by the Scottish Government, which is why I have called on the UK Government to work on a task force along with the Welsh Government on the aviation sector in particular, because it is facing real challenges. Scotland can be low-carbon manufacturing in that innovation space, but clearly the collapse in demand in the aviation sector is having major effects, so any support that we can give it would be welcomed.

In relation to the deployment of the funding, as you might appreciate, I am the cabinet secretary for the economy, not finance, so I want to give Kate Forbes her place; she will make her announcements at the appropriate time.

Maurice Golden: The most recent statistics for the strategic framework business fund show that 24 per cent of applications were rejected and 11 per cent were awaiting processing. Can you explain or provide further insight on the reasons behind the rejections and any issues that are causing delays?

Fiona Hyslop: We are keeping a close eye on the issues that local authorities face. For example, local authorities that had previously been in level 4 in December can move much more quickly on distribution. I commend councils' work; we are expecting a lot from them in relation to targeted as well as general funding provision. My understanding is that those applications were rejected because the businesses are not eligible. The guidance is clear that you had to be either legally required to close or the hours during which you can work had to be restricted, and clearly at level 3 that latter requirement was important.

That is why we have now doubled the discretionary fund for local authorities from £60 million to £120 million. A lot of companies that were applying through the strategic framework were companies where demand had collapsed but they were not legally required to close. That is where the discretionary fund can step in—for example, supply chains are in that category.

Some of the 11 per cent might relate to councils that have just moved into level 4. Not all businesses provided the required information in the given time. Some businesses did not apply until near the end of January, as opposed to doing so at the beginning of the month.

Councils are doing well—we know that £270 million was distributed in January and slightly before then. Kate Forbes has committed to keeping Parliament informed about progress. The decision to extend level 4 funding until February has been welcome and important.

11:45

Gordon MacDonald: Much of what I was going to ask has been covered, but I am keen to understand one point. Scotland has 350,000 SMEs, many of which are concerned about defaulting on loans, retaining employees, paying their supply chains and postponing their growth projects because of the uncertainty. As we look forward and start to put Covid behind us thanks to the vaccination programme, we will aim for a bit of growth in the economy in the next few years. How do we support those companies through the transition period? As the economy starts to grow, how do we gradually phase out support such as non-domestic rates relief? Has that been thought about?

Fiona Hyslop: I am afraid that the concept of putting Covid behind us is challenging—we will be living with the health and economic consequences for some time. However, Gordon MacDonald is right to think about how we ease out of the period of loans and debt and get into a period of investment and growth, which is a challenge. That is not all about the public sector.

With the backing of the extensive borrowing and other financial mechanisms that the UK Government has, we established a comprehensive system of loans, including the coronavirus business interruption loan scheme. The UK Government's recent announcement of the pay-as-you-grow approach to repaying such debt is welcome and is a good prospect. We cannot have a sudden cliff edge when the tax burden and loan repayments all come in at the same time.

The watchword for the foreseeable period is forbearance—that applies to the Government and the banks. It is in the banks' interests for businesses to survive and grow and to be their customers of the future. I have had an increasing interest in the issue. We will shortly publish a piece of work on financing the recovery that I asked Benny Higgins to do, which came out of the advisory group on economic recovery's report. That includes financing from the private sector, and there are asks of and challenges for banks in how they behave.

Scotland has many businesses—perhaps family businesses—that did not previously want to get into debt, perhaps because they had an adverse experience 10 years ago in the financial crash. There are also companies that have taken on low-cost loans because of their availability but not used them completely. We need to encourage those companies to consider investment for growth rather than just repayments—it works two ways.

I recently spoke to UK Finance and I just signed off a letter to John Glen of the UK Treasury to

ensure that we have a strong and robust agenda. We have a national mission for jobs, but helping the companies that we are talking about must be a mission for everybody, so that we do not have a cliff edge. We must have a smoother approach so that companies do not focus so much on their debt that they do not think about investment for growth.

That is quite a paradigm shift, particularly for a lot of SMEs in Scotland. The idea is to use equity and loans effectively. We will work with the business banking sector in particular, because it has a role and a responsibility. That will be a focus for me. I cannot share too much but, when I have the report on financing the recovery, I will share it with Gordon MacDonald, the convener and the wider committee.

Graham Simpson: Good morning, cabinet secretary—it is good to see you. I want to mop up some of the areas that we have covered.

Willie Coffey asked about graduates. Am I right in thinking that there is no specific help for people who graduated last year? Of course, we will have a new cohort graduating this year. From what I heard, although you want to do stuff, that has not yet happened. If I am right in thinking that, when help appears, should the universities that people graduated from let them know about it? Should they be keeping in touch with graduates who have been sent out there with no prospect of getting jobs?

I will also touch on a couple of other areas that have been mentioned. Will there be extra help for the aviation sector? You are well aware of the problems that it is encountering at the moment. Maurice Golden mentioned the newspaper sector. Will there be a business rates relief extension, as Parliament voted for last week?

Fiona Hyslop: The latter point is an issue for the budget discussions; I am sure that the Conservative Party is actively engaging with the Cabinet Secretary for Finance on those issues in the formal negotiation process.

On aviation, I agree—it is a big challenge, and it is not an issue only for Scotland. As regards what we can do in Scotland, Jamie Hepburn has been leading a group to look at recovery in aviation and the aerospace sector more generally. However, that requires UK input and co-ordination. We have an official who sits on the task force, but we think that there should be a more collective ministerial approach. The Welsh and the Northern Irish are extremely keen for the UK Government to establish more work on aerospace and aviation more generally so that there can be a more co-ordinated response.

On investment, I have talked about our focus on the work of the National Manufacturing Institute Scotland, its partnership with Rolls-Royce and its

research funding and activity in that area. There is an opportunity for Scotland to take the lead in the area of low-carbon manufacturing in particular.

Does the budget reflect our ambitions for aerospace and aviation? Yes, it does, but I think that Graham Simpson is probably referring more to survivability and coping, which is an issue that is widespread across the UK.

On graduates, I do not want to give the impression that there is not any proposal. There is support for graduates, which continues; indeed, the portal that I mentioned allows any young person to access the young persons guarantee and to link up with opportunities that exist. As to whether more needs to be done for graduates, I suspect that the answer to that is yes. As the committee might be aware, this is not necessarily my area of responsibility, but I know that universities are strong on keeping track of young people's employability experiences.

This past year in particular has been a real challenge; I will not pretend that it has been easy. I do not anticipate that there will have been extensive opportunities for last year's graduates. Even in areas where there is temporary work, people have obviously had to fall into whatever they can, a lot of which might be remote working or work in call centres. People are having to get income from whatever source of employment they can at this stage. Areas such as retail and hospitality that many young people would traditionally have gone into while trying to follow their long-term career path have closed, which has caused an issue as well.

We do not want to lose out when it comes to graduates. One of Scotland's economic strengths is the level of our graduates' capability. We have among the highest numbers of higher education graduates of any part of Europe. We need to ensure that we can maximise productivity by using their skills.

The committee obviously has an interest in graduate unemployment, and I will be more than happy to work with colleagues—Richard Lochhead, in particular—to ensure that we can give you a proper briefing about graduate opportunities and what has happened over the past year. In schools, the developing the young workforce co-ordinators are the link to employers. The issue is how we can work with universities and colleges to provide something similar—there will be people who already do that, but I do not have that information at my fingertips; I will share it with the committee when I can.

Graham Simpson: My strong impression is that the universities are not keeping in touch with the people who graduated last year and that many young people out there have little prospect of

finding jobs in the immediate future. That is nobody's fault. However, my view is that there needs to be on-going contact.

You mentioned a portal. What is that? Can you remember its name?

Fiona Hyslop: It relates to the young persons guarantee—I hope that someone will put its name up on my screen.

I know that members have been getting letters from lots of cabinet secretaries, not least from the health secretary about the vaccination programme. I wrote to you with all the links when we launched, back in November, and I am more than happy to send you those links again. As you said, we all need to work collectively to spread the word about what is available and where the access points are for young people.

Graham Simpson: Okay. That is it from me, convener.

The Convener: Thank you. Richard Lyle is last but not least.

Richard Lyle: Always, convener.

Cabinet secretary, can we clear up a wee myth? Do you agree that any money that we get from the UK Government, including the £1.1 billion, is not a gift or a hand-out—as some people portray it—but our cashback?

Fiona Hyslop: Consequentials are our share of the funding—“cashback consequentials” is an interesting phrase, which you should perhaps trademark and take the credit for. Every Government in the world is having to put an enormous amount of funding into tackling the Covid challenges. A recommendation of the advisory group on economic recovery was that we consider the Scottish fiscal framework with a view to ascertaining how the Scottish Government could get the levers that it would need—including increased borrowing—if it was to provide the required funding. A state has far more extensive powers than a devolved Administration.

The funding is our share. We are talking about debt of £2 trillion, which is massive, and many other countries have massive debt. That is why a lot of today's discussion has been about not just what we do over the next year in the budget that the committee is scrutinising, but transition and the ideas, ingenuity and ambition that will be needed for recovery, which will be every Government's focus over the next period.

Yes, the £1.1 billion is funding that is due to Scotland as part of the regular settlement. I have no doubt that you will hear Ms Forbes say that trying to plan when we have a couple of days' notice is always a challenge, however welcome the funding is. Richard Lyle has done some myth

busting, and I expect to hear the phrase “cashback consequentials” for some time.

Richard Lyle: Thank you.

In the budget documents, the Scottish Government says:

“we will extend Fair Work criteria to as many funding streams, business support grants and public contracts as we can”.

Can you provide more detail on that? Will adherence to the fair work criteria become a condition of Covid support?

Fiona Hyslop: Conditionality is part of how we become a fair work and wellbeing economy, which is important. In the context of the funding streams that we provide, we have been asking companies to demonstrate their fair work credentials. I talk to many companies, and I think that they recognise the importance of staff wellbeing. They know that having good, well-paid, motivated staff—especially when staff are working from home, as they are doing just now, which has been difficult—is important.

There is now an opportunity for the fair work agenda, and I will talk to the fair work convention this week. Fair work needs to be the hallmark of how Scotland conducts business. That was already a commitment made by Scottish Enterprise in the funding programmes for this year. However, the committee can imagine the volume of cases that we have been dealing with. With around 300,000 businesses applying for funding support, there had to be simplicity in many of the programmes and in the processing of applications but, increasingly, fair work conditionality must be part of the society that we want to be and the economy that we want to have. It is a case of bringing both those things together. We cannot compete on low-wage, low-skilled activity; we must have high-wage, high-value businesses. If members look at the business focus on economic growth in the budget, they will see that that is the direction that we want to travel in.

12:00

Richard Lyle: I have not personally thanked you for the help that you gave to showpeople, and I want to take this opportunity to publicly thank you for that.

In the light of the pandemic, does the Government intend to review any of the statistical measures for performance or to develop any new measures in the national performance framework indicators?

Fiona Hyslop: The national performance framework is increasingly important. It was established with the sustainable development goals and so on, and it will be increasingly

important in measuring how successful we have been in becoming a wellbeing economy. At its January meeting, the Enterprise and Skills Strategic Board examined some of the initial work on the performance framework analysis, and I understand that it will give that further consideration in March. I am happy to share where we are with that, along with information on our achievement against the recommendations in the economic recovery report and in relation to the national performance framework.

One of my officials might want to give further detail on that. While we identify who that should be, another official has kindly given me the details of the website portal on the young persons guarantee, which it is probably worth me advertising:
www.myworldofwork.co.uk/youngpersonsguarantee. I hope that all members will publicise that after the meeting.

Richard Rollison will come in on the important question about monitoring the national performance framework and the changes in the analytics.

Richard Rollison (Scottish Government): The national performance framework and its outcomes and indicators are long-term measurements that look beyond the pandemic and on towards recovery. Other work is happening across the Government, especially in the economy space, to monitor the impacts of the pandemic and how we might supplement some of the NPF indicators at this point, to take account of the current circumstances, because, as Ms Hyslop said, we are in for a longer haul. That analytical work is also taking place.

Richard Lyle: I think that David Wilson wants to come in on the young persons guarantee.

David Wilson (Scottish Government): One of the commitments that we made as part of the launch of the young persons guarantee last November was to develop a performance and measurement framework. That will be framed and developed in the context of the national performance framework. One of the specific indicators in the national performance framework is on participation in employment, education and training by young people. Skills Development Scotland publishes an annual assessment of participation and that will be the principal indicator.

We are also seeking to develop a wider range of qualitative and quantitative indicators to help us to monitor the progress of the young persons guarantee and to evaluate its longer-term impact. Although participation is the principal element—after all, it is a guarantee that seeks to ensure that there are places for young people in education, employment or training—we also want to assess

how the guarantee is contributing to the wider issues that young people face in the labour market, including the impact on women in employment, those with disabilities and the wider equalities concept. We are developing that performance framework, and we intend to publish it later in the spring.

The Convener: As there are no further questions, I thank the cabinet secretary and her team for attending this morning's meeting.

12:05

Meeting continued in private until 12:46.

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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

All documents are available on
the Scottish Parliament website at:

www.parliament.scot

Information on non-endorsed print suppliers
is available here:

www.parliament.scot/documents

For information on the Scottish Parliament contact
Public Information on:

Telephone: 0131 348 5000

Textphone: 0800 092 7100

Email: sp.info@parliament.scot



The Scottish Parliament
Pàrlamaid na h-Alba