

SCOTTISH BUSINESS GROWTH GROUP

Minutes of previous meeting

Date: 21 April 2022

Venue: Virtual meeting (hosted on MS Teams)

Attendees:

Tracy Black, Scotland Director, CBI

Colin Borland, Director of Devolved Nations, FSB

Aidan O'Carroll, Chair, IoD Scotland

Louise Macdonald, National Director Scotland, IoD

Joanna Boag-Thomson, Chair, SCDI

Sandy Begbie, Chief Executive, SFE

UK Government

Iain Stewart MP, Parliamentary Under Secretary of State for Scotland

Lauren Bruce, Deputy Director Scotland - Department for Levelling Up, Housing and Communities

Jonathan Darby, OSSS - Strategic Engagement

Steve Thompson, OSSS - Business and Trade

Alison Macleod, BEIS

Scottish Government

Kate Forbes MSP, Cabinet Secretary for the Economy and Finance

Joe Brown, SG – Strategic Business Engagement and Events

Welcome and Introductions

The Cabinet Secretary and Parliamentary Under Secretary of State for Scotland welcomed members to the Scottish Business Growth Group (SBGG) meeting, noting the late change from a hybrid to online meeting.

Minutes of meeting on 7 October 2021

Members agreed the minutes as drafted and that they could now be published on the UK and Scottish Government websites.

Revised Terms of Reference

The Cabinet Secretary and Under Secretary of State for Scotland welcomed the updated version of the Terms of Reference to reflect discussion at the Group's last meeting. Colin Borland noted that in terms of membership, they should reference the Policy Chair and Director of Devolved Nations for FSB. Members were otherwise content. The revised ToR will now be published on UK and Scottish Government websites.

Current challenges facing business

The Cabinet Secretary noted the impact of inflation and rising costs of doing business and also that there had been a focus on helping households and those on low incomes but less on business. She invited members to share key issues of concern being raised by their members and any proposed actions to address them.

The Under Secretary of State for Scotland highlighted the Chancellor's Spring statement and noted that funding had been held in reserve to allow flexibility in the run up to the Autumn Budget and to address possible issues emerging as a consequence of war in Ukraine.

Colin Borland confirmed that from an FSB perspective the main issues were:

- Rising costs – a 2021 survey of members found 75% felt costs had risen significantly. Consumer-facing businesses were finding it particularly difficult, often as a result of tighter margins, and there continued to be increased costs and delays associated with bringing goods/materials from China although this was sector dependent and not as bad as the situation at end of 2021;
- Staff shortage issues – problems were becoming acute, particularly in rural areas and in northern Scotland; and
- The property market – significant rent increases, particularly for office space, were now causing concern.

In terms of business confidence, the FSB Small Business Index would be published in the next couple of weeks and on a more positive note, there was optimism re Covid, as restrictions were lifted, the summer/holiday season was approaching and members had a sense that Scotland was open for business.

Tracy Black reported that inflation, energy price rises and labour market issues - particularly attracting and retaining staff - were also the main issues of concern for CBI together with China, where they were starting to see supply chain disruption and negative impact across a diverse range of businesses.

On Energy, there is considerable concern about the autumn and a sense the UK Government should go further to provide support to business. CBI will feed in views to SG and UKG. On energy market reform, she called for more positive Government signalling on the big projects and opportunities for investment and growth as well as the need to look at planning and simplifying regulation. She said current messaging from Government was inhibiting investment and growth. She also suggested exploring some form of round table with planning officials focused on innovation rather than any reduction in standards, and noted that there is considerable interest and a desire to invest in Scotland from their global members. She said that sharing intelligence is key to ensuring the full supply chain opportunities for Net Zero/Scotwind are not missed.

On business confidence, there were some positives in terms of full order books and positive prospects but she noted diminishing confidence and G7 growth headlines. CBI is supporting peer to peer coaching, drawing on those with experience of previous periods of high inflation and was also delivering a joint session with SDS on workforce, recruitment and skills issues.

The Under-Secretary of State for Scotland noted that the Chancellor had recently signalled some major initiatives for example around hydrogen and the apprenticeship levy. He also noted the complexity of supply chains and agreed there may be more that could be done together to build in greater resilience.

The Cabinet Secretary noted the need to ensure the Green Freeports are ready to launch in June and also welcomed any concrete suggestions from members around simplifying the planning process.

Joanna Boag-Thomson said their members were facing similar issues to those already discussed. She highlighted international issues in particular, as there remained a lot of challenges around the end of the transition period including:

- Increased paperwork and delays;
- High cost of exports to EEA and Switzerland;
- Lack of detail around financial services;
- Uncertainty around Future Horizon funding for research;
- Loss of EU customers; and
- The impact on recruitment and retention.

Joanna said she would share a paper on the impact of the UK/EU Trade and Co-operation Agreement (TCA) with both Ministers, highlighting 6 key actions: work with industry to capture and act on trade frictions; work with EU counterparts to close gaps in the TCA; deliver secure and efficient digital borders; secure future Horizon Europe access; engage positively with the EU on policy development and impact; and increase industry/ civic engagement with EU counterparts.

The Under-Secretary of State for Scotland said he would be happy to speak to colleagues about the specifics in the SCDI paper. On the Horizon Projects he noted that the delays were attributable to the EU as UKG has been asking for membership to be extended and remain keen that this issue is resolved as soon as possible.

Louise Macdonald noted that IoD members were raising the same issues as those discussed already and that access to talent was the number one issue. In terms of business confidence, their tracker had seen a dramatic drop in March (from -4 to around -34) coinciding with the crisis in Ukraine. Other key issues were:

- Businesses pausing investment – she was happy to share their Scottish data set around this;
- Hybrid working - members were starting to find their way into and around this as part of a purposeful return to offices;
- Ukraine - IoD are working on governance issues as Directors step back from positions in/involvement with Russian companies;
- P&O - IoD has been critical of the company's actions;
- Shinkwin Commission – they have been working on this re talent pipeline/skills; and
- IoD tracker currently has a question out re online sales tax.

Aidan O'Carroll added that there were a number of specific examples which highlight the impact of the current environment on their members. For example some have said that the current inflation figures c 7-8% do not relate to the increases they are actually seeing in raw material costs. In particular, bitumen has increased by 400%, and similarly with concrete-related products. He acknowledged some of these costs can be passed on but not where there are pre-existing fixed-price contracts and there is evidence that some companies are now becoming more risk-averse and pulling back from contracts with a potential impact on future growth. A similar impact was being felt in terms of getting products from Europe.

He stressed the vital importance of Green Freeports starting as soon as possible. He noted business interest in the supply chain around hydrogen – production and storage - and suggested there is an opportunity for Government to generate infrastructure across Scotland, not just in the central belt.

The Under-Secretary of State for Scotland asked whether it would be possible to share some of the detail around raw material prices and to understand whether there are trends in particular sectors. On the IoD's consultation on sales tax he noted his

interest in the results from the field work, and any connections to commercial rents and whether companies would look to reduce costs and promote more working from home. He also welcomed any feedback on the UK Government's Energy Strategy.

Aidan O'Carroll noted that in terms of the Energy Strategy, Scotland is a significant exporter and the issues may be around how to better promote use of solar, wind etc. as well as the building of infrastructure for large and small providers of hydrogen. He suggested partnership between government and business could deliver that in the short term. He also noted the IoD's response to the Government's Energy Strategy.

The Cabinet Secretary suggested that in terms of talent, one of the biggest challenges is around expanding the talent pool to include those currently not participating in the employment market as currently the demand from business could not be met. This more inclusive approach is a challenging policy issue which can only be addressed through an innovative and creative partnership with business.

Building on that **Sandy Begbie** highlighted a pilot which was currently being finalised and which would use Young Person's Guarantee funding to support young people on the cusp of the criminal justice system. A further proposal would be submitted to Scottish Ministers in the next couple of weeks which would aim to tackle hard to reach groups.

On SFE member issues he noted record levels of deposits, at both a personal and business level, but also early indicators of financial pressure around unsecured borrowing, credit card applications and cancellation of insurance policies. Discretionary spend, on things like holidays and pension contributions, were reducing.

He also highlighted that consumer spend in the second half of the year is holding up but there are reductions in certain demographic groups. High cost inflation is feeding through to business leading to reduced hours, closure and redundancies and hospitality and low margin/low cost/low wage employers were at greatest risk in the coming months.

In terms of the financial services sector, he noted a degree of confidence in terms of jobs and job creation in Scotland.

The Under-Secretary of State for Scotland asked about the scale of the problem and Sandy Begbie agreed to share the latest data, noting that FCS had reported a 15% increase in credit card applications and a reduction in mortgage applications in the last quarter of 2021. The banking barometer showed an increase in the number of life insurance policies being cancelled and a reduction in home cover. Banks also reported that there was little appetite for fresh borrowing.

The Cabinet Secretary expressed her appreciation of the feedback and intelligence provided in that section of the meeting, and that the next agenda item would focus on ambitious actions to deliver long-term inclusive and sustainable growth.

National Strategy for Economic Transformation and UKG Levelling Up Agenda

The Cabinet Secretary noted that members were all familiar with NSET having contributed to policy development, and she stressed the importance of partnership working to delivery. People would be key to achieving transformational change and the work was ongoing to finalise membership of the new NSET Delivery Board which will include delivery experts across the 5 main programmes. They will hold Government accountable as well as providing support and advice. A Chief Entrepreneurship Officer, drawn from the private sector will also be appointed and the Scottish Government is also looking at how it might use more secondments from business to bring different experience and talents into government.

The Under-Secretary of State for Scotland noted that NSET and the UKG share common ambitions around economic growth, productivity and pay and attracting overseas partnerships. The Prospectus for Levelling Up is an element of this and the UKG now have the second round of bids from local authorities. He noted the agenda can be delivered in different ways, building on successful partnerships, but is essentially about local flexibility. He cited the Glasgow City Region as a pilot for innovation and a successful model for joint working between the UKG, SG, sectors and local government.

In response **Tracy Black** said the delivery piece, and not ambition, was key and it was important when talking about Levelling Up in Scotland to recognise the distinctiveness of different areas and the need to focus support where most needed. **The Under-Secretary of State for Scotland** agreed that it was important to allow areas to design

what they want and noted the extension of Edinburgh Growth Deal hub into healthcare and the satellite and space cluster in Glasgow.

Members agreed evaluation and assessment would also be important and **Joanna Boag-Thomson** said it would be helpful to understand how and where UKG and SG policy joined up.

Lauren Bruce noted the work of her team and their willingness to act as a 'critical friend', working with partners in local areas and across UK Government to secure successful end delivery.

The Cabinet Secretary stressed there was real scope for improvements in joint working, underpinned by early, sustained and full joint working by officials in economy roles, and would welcome agreement on a specific action to achieve that goal.

Sandy Begbie noted the importance of ensuring NSET and Levelling Up are inclusive to ensure there is a broader ripple effect with opportunities for everyone as far as possible. The Chief Entrepreneurship Officer should help re-balance the economy, and the contribution of employment and self-employment. **The Under-Secretary of State for Scotland** agreed and suggested Barclays Bank, as part of the Glasgow Growth deal is a positive example of the benefits when government and the private sector work together.

Aidan O'Carroll suggested that the team working with the Chief Entrepreneurship Officer should have experience of agile business models to ensure there is a focus on delivering efficiently and ensuring value for money.

Tracy Black stressed the importance of 2-way communication and the role for UKG and SG in promoting local, national and potentially global opportunities and not just focusing on what had been achieved or areas of strength.

AOB

No further issues were raised by members and **the Cabinet Secretary** brought the meeting to a close.

SG/OSSS

April 2022