

Scottish Affairs Committee

Oral evidence: [Coronavirus and Scotland follow-up, HC 1394](#)

Monday 26 June 2023

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Members present: Pete Wishart (Chair); Deidre Brock; David Duguid; Sally-Ann Hart; Christine Jardine; Douglas Ross; Dr Philippa Whitford.

Questions 1 - 51

Witnesses

I: Professor Mairi Spowage, Director, Fraser of Allander Institute, and Garry Clark, Development Manager (East of Scotland), Federation of Small Businesses.

Examination of witnesses

Witnesses: Professor Mairi Spowage and Garry Clark.

Q1 **Chair:** Welcome to the Scottish Affairs Committee and our session on the coronavirus in Scotland follow-up. We did an inquiry and report—it seems such a long time ago—and we are interested now to find out exactly how things have progressed and where we are with catch-up work. We have two people to help us out today and I will let them introduce themselves.

Professor Spowage: Thank you for inviting me to speak today. I am Professor Mairi Spowage. I am the Director of the Fraser of Allander Institute at the University of Strathclyde.

Garry Clark: I am Garry Clark and I am a development manager with the Federation of Small Businesses, covering mainly our members in the east of Scotland but probably taking on a slightly wider role in giving evidence on this subject.

Q2 **Chair:** Thank you for those concise introductions. Let's get right into it. Where are we exactly with the situation post-Covid? We did a lot of work on this. We have talked to a lot of sectors, trying to solicit their views for this very short report and inquiry. What is your impression and view about exactly where we are? When you are responding, tell us about the ongoing challenges that we need to think about and address.

Professor Spowage: Economically, the recovery from Covid has been a challenging period and, as we all know, other global factors have also impacted the recovery from the pandemic. The sorts of growth rates that people were hoping for as we emerged from the pandemic have not materialised in practice and various factors have been involved in driving that. As for where are right now, broadly the Scottish and UK economies have just got back to the position we were in pre-Covid, which after several years is not brilliant.

The very latest data suggest that Scotland is a little bit ahead of the UK on recovery but that sort of aggregate picture hides a lot of sectoral variation. For example, it looks as if the manufacturing sector in Scotland is well behind how the manufacturing sector in the UK has recovered. Current data show the public sector in Scotland has done better. It looks as if the retail sector in Scotland has done a bit better but Scotland is lagging behind business services and finance. There is quite a lot of sectoral variation. You will see from some of the evidence in our submission that there are also some regional concerns and variations, particularly around the north-east of Scotland.

Overall, we are back to where we were pre-Covid in economic output but it was a long time in which to have lost the kind of growth we would have expected to have seen in the economy. Global factors and high inflation in the UK economy are limiting the growth we can expect to see in the UK.



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Q3 **Chair:** I am looking at the quite current Ernst & Young report. E&Y looked at GVA and the report suggests that there is a bit of a lag between Scotland and the rest of the UK in the GVA index. Does that concern you at all?

Professor Spowage: Over the medium to long term it has generally been the case that Scotland has grown more slowly than the UK as a whole. The UK as a whole is quite a blunt comparator because whenever we look at comparisons across the UK, London and the south-east are big outliers from the other regions of the UK so in a way it is slightly unfair to compare Scotland with the UK.

Q4 **Chair:** We always look at this in this Committee, considering Scotland versus the rest of the UK and with London being part of the other-UK statistics, do we tend to overemphasise that?

Professor Spowage: Scottish Government produce a lot of statistics about the economy and have invested quite a lot in that over the last 20 years or so. Quite often when the Scottish Government produce statistics on GDP, the only comparator is the whole of the UK because statistics are not produced in the same way for the other regions of the UK or in such a timely manner. It is a little unfair. For example, you will see and will have seen huge growth in financial services in London since the emergence from the pandemic and that will be driving some of the UK-level growth. To a certain extent, it is because sometimes there are not those other comparators from within the UK to be able to make up-to-date comparisons.

Q5 **Chair:** Mr Clark, what is your view of where we are, the challenges we face and your general impression of the current situation?

Garry Clark: It is fair to say that the recovery has been pretty lumpy in how businesses have recovered from the pandemic. Recovery has not been very smooth.

We recently surveyed just over 600 businesses in Scotland. One of the questions we asked was, "Of the past three years 2020, 2021 and 2022, which has been the most difficult and troublesome for your business?" Not surprisingly, 2020 came out top in that list, with 44% of businesses saying 2020 was their difficult moment in the middle of the pandemic. You would expect that. What may be more surprising, however, is that 2022 was a very close second—37% said that 2022, last year, was their most difficult year yet.

Of course, there are many reasons for that. We have come from the pandemic into a cost of living crisis and a cost of doing business crisis that have impacted businesses in many ways. That could be through the availability of staffing and the cost of paying back debt that businesses had taken on during Covid and could be, probably predominantly, due to consumer demand not being where it was in pre-Covid times. Taking one very short anecdotal example, I was speaking to a retailer in Edinburgh just a few weeks ago who said that April this year was the first month he



had had the same turnover as he had had pre-pandemic; it was the first time in four years that he had reached the same level of turnover.

Chair: That paints a full picture. I think Philippa Whitford wants to come in.

Q6 **Dr Philippa Whitford:** We have been given some other information, ONS comparators of GVA across the four nations. One thing that struck me was that, pre-pandemic, Northern Ireland was the bottom line but post-pandemic has moved very quickly to the top. We are hearing that in the post-Brexit settlement, when Northern Ireland has different market access. Of course there are energy issues and Ukraine, but how much is Brexit adding to the damage of Covid?

Professor Spowage: It is quite difficult to tell and unpick. We are asked to try to decompose the impact a lot at the institute—the impact of the war in Ukraine on prices, of proper Brexit in January 2021 when the TCA was in place, and of the pandemic. All these things happened and overlapped, so it is difficult to decompose the impact.

For example on trade flows, we can see that for the UK as a whole the volume and value of trade have rebounded and recovered from the initial shock of the transition period coming to an end, but there are some interesting things going on there. There is some evidence that, for example, the variety of goods that are being traded is less and has become more concentrated in particular goods. We have also heard evidence through our business surveys that some of the businesses in our sample that are trading with the EU have found difficulties in trading. I am sure we have all heard anecdotal evidence of businesses that have decided it is no longer worth the bother anymore.

But it is so difficult to unpick the different impacts. It is undoubtedly the case from looking at the inflationary environment in the UK—and we all know it—that the very tight labour market is contributing quite a lot. The increase in core inflation is probably one of the most concerning things about the latest inflation data. Obviously, if you have less of a release valve of EU labour coming in, that could potentially be an issue.

Chair: The Scottish Government put out a paper today about the impact. You may have had a chance to look at it. You have? The headline figure is an expected loss of £3 billion each year to the public revenues in Scotland, based on a calculation on projections from the Office of Budget Responsibility. The Centre for European Reform paints an even gloomier picture, finding that the UK's GDP was 5.5% lower by the second quarter of 2022 because of Brexit. Brexit has had an impact, hasn't it? It is a huge driver of some of these issues.

Q7 **Dr Philippa Whitford:** In the graph of ONS data we have been given, the other three nations are not far apart, but Northern Ireland, which has not had a government for quite a while, is sitting considerably higher for GVA and growth. The only advantage Northern Ireland has, you would



think, that would make it significantly different from the other shocks is that it still has much better access to the single market than the GB countries.

Professor Spowage: What I would say about the sorts of the projections that you are talking about is that many of them compare a scenario where we did not leave the EU. We did modelling as well, prior to the EU referendum and after it, about the long-run impacts of different forms of Brexit—the different flavours you could have had at the time, compared with what we have ended up with, in a fairly hard Brexit but not a no-deal Brexit. We looked at all those different scenarios. The scenario of the UK remaining in the EU is not there any more. We are out. We have left the EU.

These are comparisons with what would have happened if we had stayed in the EU. It is important to say that it is a loss compared with that, so that growth will be more muted than it would have been. The reason is that if you introduce costs or frictions to trade, trade will go down, which will mean that over the long run the productive capacity of our economy is not as big as it would have been. I have sometimes heard these figures described as a loss to GDP—a 3% or 4% contraction—but it is not; it is just compared to what would have happened. It is important to recognise that.

Q8 **Chair:** The IMF has shown that we have the worst-performing growth of the G7, although the projections look a bit more positive as we go forward. So what is it? Is the mini-Budget last year? High inflation? What would you put our sluggish economic growth down to? What are the reasons for the UK doing so—I hate to use the word “badly” because it is all relevant, but there is certainly an issue with economic growth now. Could you help us to understand what that is?

Professor Spowage: Yes, and I might come back to the Northern Ireland point in a bit as well.

Concerning what is happening in the UK compared with other countries, I would first give just a slight warning about international comparisons of GDP growth, particularly during the pandemic. There are slight differences in the way that particularly the public sector is captured in the UK. There is what I would say is a better measure: they try to account for things such as not just the number of employees in the public sector, but also contract time and how many operations are happening and those sorts of things. We saw a bigger contraction in the UK during the pandemic, because lots of services were shut down, but it is not quite a fair comparison.

Having said that, if you accept that, there is no doubt that the UK, compared with other G7 countries, has performed more poorly in recent years and is forecast to perform more poorly. Also, if you compare the UK pre-pandemic, with the exception of Germany, it is not looking great with



respect to how much growth we have seen, in comparison with the US for example.

What are the reasons? We have seen that business investment in the UK, which is not great by international standards, flatlined after the EU referendum. If you have a lack of confidence in the economic environment, businesses are less likely to invest, and investment is what will increase our productive capacity over the long term. We have had quite a poor investment environment since 2016 in comparison with other G7 countries, and we would expect that means that the economy will perform more poorly.

One of my concerns about the current situation—although it looks as if we will avoid a technical recession in 2023—is that all we hear from businesses is that, although they think they will muddle through and will probably be okay, mostly, their investment intentions are terrible because they just do not feel confident about investing. That means that they will bumble along and grow quite slowly, and that is concerning when we look at the long-term capacity of our economy to grow.

Q9 Chair: What about you, Mr Clark? What is your view about why we are in such a situation, why economic growth is so sluggish and about the comparators, the rest of the G7 countries?

Garry Clark: I am not sure I can comment with any degree of expert knowledge about the macroeconomics of it, but from talking to our members, I think that we are seeing stronger ambitions to grow at the moment. About 60% of the businesses we asked this year about their plans for growth are looking to grow. There are potential barriers to that growth and I have already mentioned some of them. Can they get the right staff? Can they access finance? Can they afford to do that while still having a bit of debt, perhaps, from Covid times?

I cannot comment too much on Brexit because relatively few of our members are exporters—round about 16% or so—but we see a meaningful impact for businesses that buy goods in from abroad. They are seeing difficulties when distribution centres are not within the UK. One business, a fashion retailer, stopped selling a particular brand of clothing because its distribution centre is in the Republic of Ireland and the business encountered too many problems with the logistics.

Chair: Before we move on, you said you would answer Dr Whitford's Northern Irish question.

Dr Philippa Whitford: It is not a prediction. It was the ONS looking back at a few years, when Northern Ireland went from the bottom to the top.

Professor Spowage: That data can be quite volatile. While I do not want to cast aspersions on the ONS, real-terms growth figures in particular can be quite volatile.



We have done a lot of work with the Northern Ireland Department for the Economy on trying to understand the recovery during Covid in the Northern Ireland economy and what might be happening there. We saw a really strong recovery in Northern Ireland, particularly in things such as the retail sector, which is much bigger in Northern Ireland than the UK average. It is just much bigger. They had some different policy initiatives in Northern Ireland—vouchers to spend in shops and things like that. They took some interesting, slightly different policy approaches. We do not know for sure if that was what was driving it, but I am sure there will be quite a lot of interesting academic research to be done on the extent to which those different policy choices might have led to that better recovery of the retail sector. It is a very interesting example of where we saw that much stronger growth in Northern Ireland in the early days of the recovery from the pandemic.

Q10 Christine Jardine: Before we leave that point, I notice that you said that the retail sector in Scotland had done better.

Professor Spowage: Yes.

Christine Jardine: If you have a much larger retail sector in Northern Ireland that was performing better in the same way that the retail sector was performing in Scotland, does that have an impact on the figures and how they look because of the retail sector? Have we seen that across the UK—the bigger the retail sector, the better it will have done?

Professor Spowage: No, they are just performing differently. I have not looked in detail at the Northern Ireland figures before this session but I can have a look afterwards. However, in the early days of the recovery the modelling we were doing for the Northern Ireland Department for the Economy suggested that the Northern Ireland retail sector was doing pretty well.

We have figures on the separate retail sectors for Scotland and the UK. Not only is the retail sector bigger in Scotland than it is in the UK, but it is also performing better. As I think I said in the paper, this is a relative thing. The retail sector in Scotland is not at pre-pandemic levels; the UK retail sector is just further behind. That is something to bear in mind. There is a differential but the retail sector is struggling compared with pre-pandemic levels.

Some of the interesting things that I tried to pull out in our submission were the impact on things such as city centres from homeworking and these sorts of structural changes in our economy, not all of which have completely settled down yet. As somebody who works in central Glasgow, I can tell you that during the week it does not feel like it did pre-pandemic. It is quite interesting what the long-term impacts might be on retailers who were used to having that commuter spend in the city centre.

Q11 Christine Jardine: Edinburgh is the same. Back to Scotland, though.



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One of the things that we wanted to look at was how the UK Government's financial assistance helped, the extent to which it did, and how effectively the money was spent. Estimates have it that between £310 billion to £410 billion was spent across the UK, and something like £11 billion of that was in Scotland. Do you think the correct balance between reacting quickly and reacting accurately was found to get financial support to the right places?

Garry Clark: That is the big question. One thing to say at the outset is that, when I look back on the timeline of all of this, as everything happened from 23 March 2020 on, it sometimes seemed at the time as if there was a bigger gap between some of the actions coming through than it maybe seems in retrospect. Government at all levels did a reasonable job, given the tools available, in getting support to business, but the Government did not have a lot of tools in the box in the first few weeks of the pandemic.

Take furlough, for example. That is interesting. I have done some research on that, and 60%-odd of businesses said that it was in their top three best, most popular, Government supports during the pandemic. One-third, however, said that it was one of the most difficult supports to negotiate, access and get to work for the businesses. We saw some improvement over time, and some of that was around the cut-off dates, when an employee could be furloughed or not, and the fact that it was almost all or nothing in those early stages. Once that became a bit more flexible, it was seen as a very positive go-to method of support.

Looking at the other methods of support—largely using the non-domestic rates valuation roll as a way of reaching businesses—in the survey we recently carried out something like 48% of our members operate either from home, from a public space or from a vehicle, so it was not reaching any of them. Then we found that we were very quickly moving into a phase of, “Okay, how do we plug these gaps? How do we reach those types of businesses and those sectors?” It was an iterative process. We helped Government to identify businesses that were coming to us, saying, “Why am I not getting support?” It could be something as simple as self-employed income support. It should have been a simple solution for directors as well, but the Government did not go for that one.

Even filling in some of those gaps in different sectors that for one reason or another were not receiving support from the initial tranche—getting that amount of money out of the door to businesses as quickly as Government did on either side of the border was absolutely super, but it was very imperfect.

Q12 **Christine Jardine:** Professor, do you agree with that assessment of imperfection?

Professor Spowage: Yes, I agree. If you look at the timeline of the policy announcements that were happening in March and April 2020, I have never seen Government policy happen at that speed. With the sorts



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of measures that were being announced, the thought of that being done in the UK was quite difficult, particularly for things such as furlough. This word is used a lot in anything to do with Covid, but it was completely unprecedented. The number of different schemes that were put in place over the period of the pandemic for Scotland and the UK—there were hundreds of them, and it was quite complicated.

Kudos to the National Audit Office and Audit Scotland for bringing all these data together and trying to make sense of what was spent on the different schemes. It is very complicated. However, it certainly highlights a weakness in both the UK and Scotland in targeting support for businesses. If we want to support businesses in a particular sector or of a particular size, we have no way of doing it because essentially we defaulted to using the valuation roll for business rates, which is about the rateable value for the properties that businesses happen to inhabit. We know this because we have done the evaluation of non-domestic rates relief and so on for Scotland, but businesses that inhabit rateable-value properties of £10,000, £15,000 are so heterogeneous; they are not similar to each other at all. Even charitable organisations were getting help through the rateable value system. It all depended on whether they were on the valuation roll and what their rateable value was, which bore no relation to their need.

This highlights a huge weakness that we should try to address before something like this happens again, which it might. If we wanted to help small businesses in a particular sector, how would we target that support without it being a hugely bureaucratic process or a process costing a lot of money to put in place? It highlighted a massive weakness that we should try to address.

I am not sure what the UK Government are doing or even if they are looking at this. I know that the Scottish Government are thinking about it and about how they can better understand the population of businesses in Scotland and how you could potentially target support better in future. Even with current policies, such as the small business bonus scheme—the evaluation we did in the last few years—small businesses are those with a rateable value of under £50,000, but they are hugely heterogeneous. They are not necessarily small businesses in turnover or in particular sectors. The system is very imperfect for targeting business support, and I think that highlights a huge problem on the data side that we need to address.

Christine Jardine: Perhaps we need a scheme designed to enable us to target support in a way that we do not have at the moment.

Professor Spowage: Indeed. It was also flagged up to a certain extent for individuals and households when the Government wanted to give support to households and chose to do through the council tax system. That is completely imperfect as well, because in no way does the fact that you live in an A to D property mean that you might need support.



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Similarly, you might have been in a higher-rated property but needed support.

The UK Government could have chosen to do something through the benefits system but given that they chose not to do that, both the UK and Scottish Governments opted for the council tax system, which, again, is very imperfect. Understanding good ways to target support for individuals was not perfect although there is the option of the benefits system for individuals, but we do not have anything for businesses to allow us to target support. I think that we need to address that before we get it into another crisis when this might need to be done again.

Christine Jardine: It will happen again.

Professor Spowage: The Covid inquiry has just started and will run for the next few years, and who knows if the public health response to something like we saw would be the same as it was. I guess the point of the inquiry is to learn those lessons, but we need to be able to target support to businesses. In all sorts of economic policy approaches, you can see why that might be an attractive thing to have. Whether it is supporting businesses to invest in net zero or other incentives that the Government are trying to put in place for different businesses, you can see why this would make policy better targeted and more effective. As somebody who does policy evaluations, it would be much easier to evaluate as well, because it is tricky to evaluate whether policies have their intended outcomes, because the data to do that are just not there.

Q13 **Christine Jardine:** Moving on from that, you touched on the furlough scheme, which has been credited with saving jobs across many industries, but there are questions about the administration of the scheme. You have talked about the imperfections in being able to target support for businesses. What do you think are the long-term consequences of the furlough scheme for the UK economy? If we did need to use it again, which we almost certainly will in some way, what aspects would you like to keep and what do you think should be improved?

Professor Spowage: There is no doubt that the scheme was effective in that we have not seen the rise in unemployment that absolutely everybody was forecasting would be the result of the pandemic. Some of those forecasts were made before the Government announced the scheme, but there is no doubt that it helped to reduce the impact on unemployment.

Right from the off, it was clear, as Garry mentioned, that the inflexibility of the scheme was causing issues, and when flexible furlough was introduced, it was welcomed by employers as a much better way of doing it.

Some interesting academic studies have been done and are being done in other countries about the long-term impacts on workers' mental health,



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their dislocation from the labour market, and the lack of investment in their human capital during that period. Learning lessons from that through research is important, so that we understand what kind of support and touchpoints should be put in place for employees if they are on furlough. Human capital will atrophy over time if you do not invest in it. There are those sorts of things.

The flexibility was definitely welcome, but we should also be thinking about the impacts on people who were furloughed. I mentioned this in my submission, but in the current crisis of inactivity in the labour market due to ill health and disability, some of these things have been driven by long Covid or mental health impacts of the pandemic. We do not know yet to what extent furloughed workers were more likely to feel those sorts of impacts. That is the sort of research question that would be interesting to understand, so that we know how to better design a scheme in the future.

Garry Clark: I will add that, while we did not see the increase in unemployment that we had all expected, none the less furlough and particularly the relatively inflexible furlough at the beginning of the pandemic possibly—I don't have any broader evidence of this so this is anecdotal—contributed to skills shortages in certain sectors. In the hospitality sector, people were furloughed because there wasn't any work for them to do, but they could do something else instead. They often did something that might have been a hobby or voluntary work, or they might have got another job somewhere else, working in an essential job, and then often did not go back to hospitality. Therefore, when everything began to open up again, hospitality businesses suddenly found that they had no staff. The staff had gone somewhere else; they had found other work. About that time as well we saw what everyone calls "the great resignation". People were moving around in the labour market. It became very volatile, and furlough no doubt played a part in that.

The flexibility in the latter part of furlough was exceptionally welcome. It may not have been appropriate in the very early stages but none the less, the greater the flexibility, which we did begin to see, the better it worked for many businesses—businesses that wanted to keep going, make sure that their staff were looked after and retain skills.

Q14 Christine Jardine: A lot of businesses in my constituency have reflected anecdotally exactly what you say. People moved on during Covid, particularly from the hospitality sector, and it has been very difficult to replace them.

Moving to the Scottish Government, which spent £14.5 billion on their pandemic response, how effectively was that money spent? There was a number of funds available. How easy was it for businesses to navigate these funds, how effective were they, and what lessons do you think we can learn?



Garry Clark: We counted about 180 funds that we assisted businesses with—I think there were more than that across the UK, but there were about 180 Scottish Government business support funds. One sector we looked at in our response was bed and breakfast, and you would think that would be relatively straightforward, but there were three funds. There was one for B&Bs that were on the non-domestic rates evaluation roll. There was one for B&Bs that paid council tax but had a business bank account. There was yet another one for businesses that had paid council tax and did not have a business bank account. That was fine. Over three or four months, all those businesses eventually got support, but it took time.

When the Government tried to rerun that scheme, they found that they couldn't, because they were rerunning the very last fund, which did not take account of the businesses that had received support from the middle fund. There was a group—not large, but over 100 B&Bs across Scotland—that were going to get no support, because the Scottish Government did not look back and ask what were the three funds that supported those businesses. They looked back at one fund that had B&B on it, and then there was the non-domestic rates fund and repeated those two, but did not think about Creative Tourism and Hospitality, which helped B&B owners but also helped, for example, one of my members who was a guy who ran a remote camera vehicle for shooting films. There were some very broad funds in some cases, and when you have broad funds as well as some very specific funds, it is sometimes very difficult to rerun them.

It was very complex and very reliant on being tech-savvy. I remember in particular at the very end of large-scale business support in the spring of 2021, businesses were coming to me for the first time, mainly older people, and saying, "What's all this about business support? I didn't know anything about that," and we had to work through the process with them. How do people find out if they are not on the internet? How do they find out about very specific forms of grant support? A lot of them were touched upon in the regular press briefings that were held during Covid, both north and south of the border, but they could not possibly touch on the 180 different methods of support and for a B&B owner could not possibly touch on all three methods of support that they might be entitled to at the time of needing to have that information.

Q15 **Christine Jardine:** Do you think a significant percentage of people missed out because of the complications, or maybe did not get everything they could have had?

Garry Clark: That is a difficult one. Another factor of the schemes was that they tended to become more complex as they went on, because they became more specific as they went on. There was a greater need for the public sector to look at how this money was being spent and whether it was being spent properly. They became a bit more strict about how people could go about applying for and evidencing their need for some of these supports.



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A classic example of that is the business ventilation fund towards the end of the autumn of 2021, when the £25 million fund was announced. I had a member who had to apply three times to try to get £200 for a carbon dioxide measuring device for the gym he owned and was rejected three times. They were told all they needed was why they needed the piece of equipment, so they supplied measurements of the CO₂ within the gym studio environment saying, "This could be better, so that is why I want this piece of equipment." Then they were asked to provide evidence of purchase, which they did, but after three times of applying they were still rejected. We had to intervene and eventually he got the £200.

Less than £1 million of the £25 million fund was spent. That was because it was a system that councils thought the Scottish Government were doing all the back-office stuff on, and when it was handed over to councils, it became apparent that they were having to do all the back-office stuff. At the same time, they were being asked by the Scottish Government to ask for very specific information, for example, "What is your rateable value?" The council knows this and could fill that in, but they had to go to the business owners for that information, which they might not know. Many business owners come to me and say, "What is my rateable value?" The amount of time I had the Scottish Assessors Association website open in those two years was incredible.

Christine Jardine: Just listening to you now, it sounds head-spinningly complicated.

Garry Clark: Multiply that by, in many cases, 32 local authorities doing it in 32 different ways.

Professor Spowage: That is what we heard as well. These funds were being administered by local government, because in most cases the schemes were linked to the valuation roll and the non-domestic rates system—not in all cases, but in many cases and even if they were not, they were relying on local authorities to deliver them. They were already quite stretched before the pandemic. A lot of staff were redeployed to help administer these funds within local government. Anecdotally, we heard that a lot of calls were being made in different local authorities potentially on the rules around these different funds where there were grey areas. That was an issue. None of us wants to think about this, but if something like this were to happen again, there is the data issue of being able to identify the businesses in need and also a question of the administration of the funds and the consistency or lack thereof, and the judgment calls that were being made about who to pay out to and who not to pay.

To a certain extent, we have to remember that the reason why there were so many funds was because they grew. There was a whack-a-mole sort of thing going on. As one fund was put in place and it was clear that it did not cover certain businesses, another fund was put in place. In that sort of an evolving situation it was understandable. As Garry said,



towards the end of the pandemic, the Government—and fair enough—wanted to ensure that public money was focused on the businesses that needed it the most, and then the criteria became stricter, along with the sort of information that the Government needed.

I was running a charity and talking to lots of businesses and we experienced differential treatment from different councils. That is an area of administration of the funds that should be looked at.

Garry Clark: The point about sharing data is a good one. One of the issues with the B&B funds was that when we told Government that 150 needed to be included, Government said to the councils, “Okay, just add them into this new grant,” and the councils came back to us and said, “Yes, but that grant was administered by Scottish Enterprise, and we don’t have a data sharing agreement with Scottish Enterprise so we can’t find out who these businesses are.” A lot of that information was publicly available. I looked at the spreadsheet and identified all the 120 or so businesses from that spreadsheet, but it was not an exact science and they needed to go deeper into that data to be able to support those businesses.

Q16 Dr Philippa Whitford: I was about to pick up exactly the same two topics, data on businesses and communication about schemes. I don’t need to ask my opening questions, because you have already answered them. Starting with the data, it is quite clear that there were no robust data to know what businesses were there. What would you say were the barriers for the UK and Scottish Governments and local authorities? What would you like to see them doing about it? You have mentioned that they were trying to use all sorts of tools that came to hand, but that still does not reflect the nature of businesses. Should businesses register? People who work pay NI, but not all businesses are VAT-registered or have rateable values.

Should there be some other scheme? It is said that the chance of something like this happening again in 25 years is 50%. We are thinking there of pandemics, but it could happen again because of cyber-attack, flooding—any kind of crisis. What kind of approach should we take and what are the barriers that make it hard to gather data?

Garry Clark: It is very difficult to say what the solution is. Clearly, even where the Government did have data—for example, the valuation roll—you could say that that was good data on a huge number of businesses—a couple of hundred thousand businesses on the valuation roll, I think—but how accurate were some of that data? You are talking about data that were not designed to be used in the administration of a grant scheme. The way the initial grants were based on rateable value said that businesses would get support unless the property fell into one of a range of types. That was the thing: it was about the property not the business. In some categories businesses would not get support; otherwise, they would get support.



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You can see what the intention of Government was there. It was intended to rule out support for the types of property that tend to be non-productive—the types of property that tend to sit there and do nothing. Descriptions such as “a yard” were excluded from support, but a lot of car garages are in properties that are described as yards. That very quickly threw up questions—“What about all these car yards?” There is a big difference between a piece of waste ground sitting there with a rateable value on it and that stuff is occasionally stored on, passively, and an area where trade is conducted, for example the buying and selling of vehicles. Eventually an exception was put in: if there was a car sales facility on site—and there were various definitions of what that might look like—yes, that counted.

The same with stances. They could be taxi stands, somewhere where a taxi would wait to pick up customers but of course there were no customers to pick up during the pandemic. We had businesses that operated from those small kiosks inside shopping centres, in the centre of the aisles—nail bars, bubble tea, those sorts of things. Those properties were down in the registers as “stances” so somebody sitting in an NDR office somewhere is saying, “No grant for you”. But how can that be the case? This is a working business, or it would be if it were not for Covid.

Q17 Dr Philippa Whitford: We don’t know what shocks could be ahead. We are told that there are significant future risks of other pandemics, epidemics and so on, but there could be other shocks. Do you think businesses would accept the idea that businesses had to be registered and that we could design something that was about resilience in crisis? You mentioned that there were lots of bits of public information that people struggled with, and although gradually through the pandemic we did bring things together, it was difficult, but nothing was designed for this. Should we be looking at saying, “I know we are asking you to register, but it is worth doing that because at some point you might need something”?

Garry Clark: That is difficult. It depends very much on what such a register could look like. Many businesses, for example, do not want to trade to a level where they are VAT-registered.

Dr Philippa Whitford: I was not suggesting VAT.

Garry Clark: It might be a lifestyle business or people might want to do something but not go through as rigorous a process, and there might be some pushback.

Dr Philippa Whitford: That is why I mean something quite separate from the VAT register.

Garry Clark: Where grant systems eventually began to work, and where applying those systems worked well, was where you had the kind of knowledge of, “If it walks like a duck and quacks like a duck—”, and in this case, it’s a business. That is why I think that those local authorities—



I am using local authorities as an example—that put the administration of grants largely into the hands of business development professionals within the local authority were often quicker and better at getting the money out to businesses. The local authorities that viewed the grant schemes as an extension of NDR—used their NDR teams, that maybe were very skilled and knowledgeable about property and how various properties are designed, where they are, and what they look like, but do not necessarily think in business terms—got it right eventually, but it just took longer to work with those local authorities.

Dr Philippa Whitford: It must be quite important to share the successful models rather than the slower models to give some forethought

Garry Clark: I don't know what that would look like, but it would need to be something that is very soft-touch. I can see the attraction of having better knowledge. One thing that Covid threw up is that nobody has a great understanding of what our business community looks like.

Professor Spowage: This is a frustration of mine. A lot of the data sort of exist. We have an issue with businesses below the VAT-registration threshold, but the ONS has a business register that it uses to conduct business surveys. It is only for businesses that are PAYE-registered, but that register is in place. There are research datasets available through Companies House information, for example, which can give quite a lot of information on the universe of businesses in the UK.

Other countries do this much better than the UK. The sorts of data you can get on Belgian businesses, for example, are excellent. You can not only get all the data about businesses, but also the information that is collected, for example, through VAT returns is much more detailed, so you can understand the supply chains of the businesses much better. That means that a lot more academic research is done on the Belgian business base than the UK business base because the data are much better and much more accessible.

This is what I was talking about earlier. I think that we need to understand much better the universe of businesses and not only should it be linked to things such as whether they are occupying a property and what their rateable value is, but also the business outcomes—how many people they employ, what size they are. From the NDR register, we do not even know necessarily what sector businesses are in because that information is not collected. “How are you registered at Companies House?” That is not collected on the valuation roll because it is not needed to administer NDR. Not even knowing that is quite frustrating. There are lots of categorisations but none of them link up with industrial codes.

Q18 **Dr Philippa Whitford:** Broader data would contribute more to understanding any economy and bring some benefit in the short term, as opposed to just being keeping it up to date for when an asteroid hits



Scotland.

Professor Spowage: Absolutely, better understanding of the business base, and what happens to businesses that do not get an intervention, so that we can isolate the impact of an intervention in understanding a causal link, would mean that policy was better designed in general. Improving data on businesses would mean that we would be much better able to target policy and evaluate it, not just in an emergency setting, but in general in the business and enterprise policies that Governments introduce.

I mentioned this earlier. I know that the Scottish Government are thinking quite hard about this and I understand they are doing an initiative with the enterprise agencies and others to try to identify when people come for different forms of business support, so that everything is linked. They are doing some interesting things on this, because they realise there is a gap, but I feel that if it was invested in within the UK, we could get to a much better position of really understanding the business base and be able not just to deploy funds in emergencies, but to design and evaluate policies much better.

Dr Philippa Whitford: Evaluate what works?

Professor Spowage: Absolutely.

Q19

Dr Philippa Whitford: As for what follows on from that, you have both mentioned the sheer complexity. I am sure that all the MPs around this table know how many of our emails in 2020 were about help, literally hundreds every day, and we were trying to keep up ourselves to say, "Go here, go there". That changed over time and it gradually came down to, "Follow this link. It has a one-stop shop and will start pointing you towards where you are". Even with that, as you were highlighting, there were then screeds and screeds, but even that was not there at the very beginning. What do you feel about the communications? Obviously the bodies that were running these schemes were dealing with different eligibilities. What was their communication like? You mentioned that stuff was mentioned in the daily briefings, but how did people get from that to even submitting a form and getting something back?

Garry Clark: As you say, we were pretty much the same at the FSB at that time. The first month or so after Covid struck, the number of people who said I had been the first person to pick up the phone to them, because they had been trying everywhere for help and nobody was around—yes, there was certainly an appetite from businesses to understand what was available and from where. Things did improve over time. Things such as the Find Business Support website were pretty good, but that was still a vehicle for the 100-odd different grants that were available at that time, plus everything else that would normally be available to businesses. As communication became more specific, it was in some ways easier, but in some ways more difficult.



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If you are talking about mega-specific schemes, sometimes trade bodies had good routes into the types of businesses that would benefit, but there was a difficulty with some of the areas we have already touched on, such as where a person thinks they are eligible for a scheme, but it is not working for them—they are getting rejections from the people they are going to and they are not necessarily signposting them to someone else.

We have mentioned local authorities. The grants system went on for two and half years, into the middle part of 2022. By that time, local authorities were back doing their day jobs. At first, they had teams of people. The City of Edinburgh Council, for example, started off with about a dozen people dealing with grants. They quickly moved that up to about 100. Those people were pulled off from doing the other things that they would normally be doing but were not doing because those functions had closed down. Then those people went back to their day jobs and it became more difficult for local authorities to communicate. They became more reliant on trade bodies and more general business organisations such as FSB to reach out and find out who needed support, where and how they could access it.

Many problems emerged where businesses found out about something, applied for it, did not get what they wanted and said, “Where do I go from here? Is there a different grant that I should be applying for? Is there something wrong with the way the organisation that I applied to has handled my application?” In some cases, a few of the grants were contracted out to a third-party organiser and their website crashed. “What do I do then? Does this company have my details? Am I going to get my grant or not?” We had to go in through the Scottish Government to find that information.

Communication? Yes, it was almost impossible to communicate 180 different schemes. It did improve in the ultra-sectoral schemes, because trade bodies were able to get down and reach their members—

Q20 Dr Philippa Whitford: Would they be a route for better communication in future? You were saying that the Scottish Government are thinking about what worked, what didn’t work. How do we make sure of that communication, regardless of what it is about, whether it is regional, for all of Scotland, for all of the UK, the whole world?

Garry Clark: There is no one method. Having something like Find Business Support is absolutely essential, but it will not solve all the problems. You will not necessarily find what you want there, because it is clunky and there are many menus to go through and so on. But you need to rely on every single form of business organisation, and trade body—how do I reach these hard-to-reach people?

Q21 Dr Philippa Whitford: Do you want to add anything about how to communicate, Professor?



Professor Spowage: On lessons learned, some of the communication challenges came when something was announced by the UK Government but did not necessarily apply in Scotland. Then the Scottish Government had to decide how to respond but they only got the details of the scheme when everybody else did. There were some communication difficulties there.

Q22 **Chair:** Unless there is something else pressing on that, I want to deal with how the UK and Scottish Governments got on and the relationship they had. Significant sums were spent by both.

Garry Clark: Could I make one other point on communication, which has just occurred to me? It is about websites and the number of times websites are updated. Grant support guidance was updated on the website but there was nothing to say what had changed and sometimes it was a quite fundamental change. That needs to be done in a timely way and accurately. There were a number of occasions that I could point to but I am not going to spend time doing that.

Q23 **Chair:** I am conscious of time and I want to be sure that all my colleagues get an opportunity. This is good stuff that we are getting from you.

I am interested in how the two Governments worked together when we were spending these significant amounts of money. Did you get the sense that they were complementing each other? I think you said in your submission, Mr Clark, that Scottish Government support filled many of the gaps that were left behind in the UK schemes. Is that the general sense of your experience through all this? What is your view and perception of how all this came together?

Garry Clark: What would the average business be looking at? In UK schemes, they would be looking at furlough, self-employed income support and loan funds. Those are the main areas where a business, certainly a small business, would often be looking for UK Government support.

On filling in the gaps, yes, the Scottish Government were administering a pile of money underneath to reach some of those areas, as were UK Government Departments in England and local authorities in England. They were all filling these gaps but these gaps were being filled in Scotland by the Scottish Government initially and then devolving that further.

Q24 **Chair:** Who was doing that for the UK if the Scottish Government were picking up that particular task and function?

Garry Clark: I can't speak with any great knowledge on that because I was dealing with Scotland, the boroughs, but local governments in England were certainly administering a lot of the support funds, or similar support funds, that were being used in Scotland.



- Q25 **Chair:** Can I ask Professor Spowage about how the two Governments worked together? Did you see this as complementary and maybe even over and above? How would you characterise it?

Professor Spowage: It was moving at a very fast pace. Often there can be issues with announcements made at the UK level that will then, as they did, generate consequential for the devolved Governments, and devolved Governments have to respond very quickly. Businesses in particular sectors that would be impacted if the fund was available in Scotland would be pushing for the scheme to be replicated, but it is up to the devolved Government to make the decision about to what extent that is the case or to what extent it might be different in Scotland, Northern Ireland or Wales.

We have said a number of times that in general it would be helpful if there was more communication between the UK Government and devolved Governments about policy announcements that might generate consequential, meaning that they have to respond quickly, once announced, about whether they will be following suit or doing something differently.

- Q26 **Chair:** We looked at this in detail during the coronavirus emergency and one of the things that we heard back was that this was working well, communication was good and both Governments were fully engaged in this exercise. There was a general satisfaction with what was being delivered. However, there was a consequential issue that tended to dominate the political—I would not say fighting around this, but certainly some of the conversations around this. Is that the best we could do? Is there anything else that you could suggest that we could use in the future to try to ensure that we do not get these particular difficulties?

Professor Spowage: We did an interesting bit of research, along with the IFS, into the way that the fiscal frameworks across the UK operated under Covid, because any spending that the UK Government did in England, or business support, generated consequential. It was not on the basis of how much Scottish or Welsh or Northern Ireland sectors or businesses needed money. It was just on the fact that it was spent in England and, therefore, it generates this amount of money. If there had been a much bigger impact in Scotland or if there had been a much bigger impact in particular sectors, the UK Government could not say that they wanted all the money to be spent in this sector or in this part of the country, because it was being administered through Barnett and devolved functions.

It turned out that that was not really the case. The impacts were spread pretty evenly, so the framework probably functioned okay, but only by accident because there were not very differential impacts in different parts of the country or in different sectors. It is a question for something like this in the future. If there was a future crisis like Covid but it impacted very much on particular sectors and, say, the UK Government



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had the new business register that we all want so that they were able to target support—

- Q27 **Chair:** I remember one particular example, and colleagues will probably correct me on this. Was there an example where the Scottish Government wanted to continue with some sort of furlough scheme or exercise and they came into conflict with the UK Government, which were in the process of winding it down and there was dispute? Scotland had higher Covid rates at that point and there was a particular difficulty with addressing it. That, therefore, suggests an inflexibility built into how this was going to be done and getting the resources to deal with this.

Professor Spowage: From memory, yes, that was the case. There were tighter restrictions in place in Scotland and the Scottish Government had made it clear that they would have wanted to continue with these for longer if furlough had been in place, but furlough was being removed by the UK Government, so they were not able to do that. Obviously the UK Government were spending a lot of money on furlough as well. At some point this break on movements in the labour market did need to be rolled back and removed to ensure that the economy could start to recover, so it is a difficult one. Yes, we were in that situation where devolved Governments were in charge of public health restrictions but were not necessarily in charge of the economic levers to be able to offset the negative economic consequences of that.

- Q28 **Sally-Ann Hart:** Good afternoon to our panel. I am going to ask a few questions about inflation and the impact it has on cost of living. Taking inflation, we know that the driving factors of inflation include a number of things, sometimes out of Government control, whether it is central banks, Bank of England, using too much quantitative easing, not increasing interest rates, supply constraints sometimes, energy shortages driving prices up, or wage increases, to name a few examples. Professor Spowage, what do you think are the driving factors of inflation, and have those drivers come about as a result of the pandemic?

Professor Spowage: The factors driving inflation are numerous, as you say, and complicated, and they interact with each other in various ways. First and foremost, there are the issues around the emergence from the pandemic. The Bank of England obviously chose to do more quantitative easing towards the start of the pandemic and also cut rates. That means that it increases the money supply in the economy. As economies around the world emerged from the pandemic, there was always predicted to be the spectre of inflation, but the extent to which that happened was greater than many had expected. There was always going to be too much money chasing too few goods as we emerged from the pandemic, particularly as particular parts of the world emerged at different times and we saw supply chain shortages from economies like China.

There is also the energy price spike that we have seen. We all have to remember that gas prices were rising hugely before the Russian invasion



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of Ukraine, but that exacerbated the situation significantly and meant that we had an oil price shock as well. That has contributed to inflation.

The shortage of goods and services definitely drove up input price inflation for UK businesses and we can see that in the data. Last year the input price inflation for businesses was running at almost 20%, which meant that there are price rises built into the system. Our evidence suggests that businesses have absorbed a lot of those costs. Some have passed them on but mostly the data suggests that they have absorbed those costs, which means that sooner or later they will have to feed through into prices that consumers are seeing. That will mean probably that as those input costs come down for businesses, they will still be passed through to consumers because consumer prices lag that particular thing.

We are also seeing in the UK the inflation that has been generated by the tight labour market. We are hearing from businesses now that, as input costs are starting to ease, which they are, their biggest issue is what they have to pay for wages. That is their biggest cost pressure. We have also seen in the UK and across the world rising prices for some commodities and that has pushed up food prices significantly. The UK is a huge importer of food, which means that we are quite exposed to these global prices.

It is a combination of all of these different things that have happened and it is quite difficult to decompose all of them into how much they are impacting and how much they are contributing to inflation, but we have a lot of them in the UK all at once. We have the tight labour market, we are a big importer of food and commodities and we generate a lot of our electricity from gas, which means that our electricity prices are linked to the gas price, which has been very high. All of those things combine in the UK and that is why we have a higher inflation rate than other countries.

Q29 Sally-Ann Hart: Mr Clark, with the Federation of Small Businesses, how has inflation affected business recovery in Scotland? As an example, picking up on what Professor Spowage said, in England we have seen, particularly in hospitality, businesses are paying very high prices for energy. Many businesses are locked into energy supply contracts for a long time, long-term energy supply, so they are still paying a lot of high energy prices. Is this something that you have come across in Scotland, and how is inflation affecting recovery of businesses in Scotland?

Garry Clark: The energy point is an important one. Certainly last year, when energy was becoming a huge issue for many businesses, unlike Covid it did not all happen at once. Sometimes they were locked into lower-cost energy contracts, and it was only when those contracts came up for renewal that they began to experience the real hit of energy costs. It did not happen for every business at the same time. Now we are in a position where that is not necessarily unwinding at the same time.



If I look at the impact on our members, we asked our members a couple of months ago whether their turnover had increased or decreased over the last 12 months: 45% said that it had increased and 41% said that it had decreased. However, of the ones who saw an increase in their turnover, 47.4% saw an increase of between 0% and 10%. That was running below inflation so most of those businesses have probably not seen much of impact on their business at all. It is a very difficult time for businesses.

As I said earlier, I have spoken to businesses who said that they are beginning to get back turnover-wise to where they were before Covid, but of course their cost base is way higher than it was before Covid. Therefore, while they maybe be getting the headline figure back, the impact on the business goes on and inflation absolutely continues to be a big issue for businesses. As Mairi has already said, a lot of the input costs have been absorbed by businesses that felt that they needed to be competitive otherwise they will close down. They have kept prices artificially low for a period to try to still get some traction out of a market that is very difficult with the cost of living crisis that has gone on for quite some time.

Professor Spowage: I want to say as well that we should not forget about charitable organisations in all of this. In some work that we have done, which will be published later this week, we have tried to segment the population into those who consider them to be third sector or social enterprises. They are much more worried about energy costs because it tends to be a bigger part of their cost base, and they do not necessarily have some of the positive expectations about their turnover or their income. Evidence from household surveys suggests that people are cutting back on charitable donations because of their experience. They are seeing a hit to their income at the same time as their costs are very high. That sector is struggling right now as well.

Q30 **Sally-Ann Hart:** You said earlier that a lot of businesses are absorbing additional costs and have not passed them on to the consumer yet. If they do start passing them on to the consumer, that will spiral inflation again, won't it?

Professor Spowage: Potentially. I think that costs for consumers will not come down as fast or to the same extent as input costs have because businesses have absorbed a lot of the costs that we saw. When input price inflation was running at 20%, the inflation rate for consumers was around 10% last summer when that was happening, so they have continued to absorb some of those costs. Some of it has been passed on, of course, but not all of it. It is likely that now that input price inflation is down at 7% or 8%, we are still seeing consumer inflation being higher than that. It just means that it will not come down quite as fast as input prices do because there are still a lot of price rises in the system that have to come through.



- Q31 **Sally-Ann Hart:** Things like quantitative easing and raising interest rates or not is not part of Government remit, but what is part of government remit, for both the UK Government and the Scottish Government, is policy decisions that can affect inflation. What policy actions should the UK Government or the Scottish Government take to help reduce inflation and how can they affect businesses positively? How can we help reduce inflation that will have a positive impact for businesses in Scotland?

Professor Spowage: It is difficult. The UK Government are trying to not work against the Bank of England's mission to get down inflation by raising interest rates. You saw in the announcements about mortgages, the deal struck with the big banks on mortgages. That is about flexibilities, and so on, to ensure that people are hopefully able to get through a difficult time and make their payments, without giving direct support to households, which would essentially be inflationary.

Sally-Ann Hart: The more money you put in people's pockets, the more they spend, the more demand.

Professor Spowage: Exactly, so the idea from Government is that the Bank of England is trying to take demand out of the economy to reduce inflation. The best thing to do from the Government's perspective is to try to ensure that the people who might be struggling get the flexibility so that they are able to keep their homes, without trying to introduce a lot of other money into the economy, which then would be quite inflationary.

The interesting thing is that the energy price guarantee in itself reduced inflation because a cap was put on energy prices, which directly impacted on inflation. It is an interesting one, and a lot of Governments around the world will be thinking about whether they should intervene in this sort of area and have looked at these sorts of price caps, because they directly reduce inflation. There are options for Governments in price caps on various things but obviously those can be quite expensive, so it depends on who picked up the tab for those if input costs are rising.

There has been some coverage on whether certain companies are trying to profiteer or make money out of consumers' misery here, but from the data that are coming out of things like the Business Insights and Conditions Survey and profit margins of retailers and so on, there does not appear to me to be much evidence of that. There are options for the Government to look at price caps but that would be quite a lot of intervention in the market and I suspect that the UK Government are quite reluctant to do that.

Sally-Ann Hart: That in itself has unintended consequences.

Professor Spowage: Indeed. As we have seen in the energy market over the last few years.

Garry Clark: Small businesses are probably more akin to the consumer in these situations, but they do not enjoy the benefits of an energy cost



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cap. Further flexibility in support to smaller business in particular is clearly something that we have been asking the Government to consider.

Professor Spowage: That was also true to charities as well, that had no price cap in place.

Q32 **Dr Philippa Whitford:** I have two short points. Germany and quite a few European countries have cut the VAT on energy bills, which, if your energy bill has doubled and you cut the VAT, is revenue-neutral. Is that a policy that the UK Government should be looking at, because it would help business as well as individuals? The other thing is that we have spoken a lot about food, and about how the UK is an importer and 28% of that comes from the EU. Are you concerned about another surge at the end of the year when the import checks start to introduce another set of costs?

Professor Spowage: It is obviously an option to cut VAT on energy costs. The Chancellor would be looking at the overall fiscal impact of that. As you say, it might be revenue-neutral, but if that revenue is coming in and the Chancellor is already quite near to the limit of the fiscal rules that have been set, there might be an unwillingness to do that. It depends on whether there is that flexibility. I understand what you are saying about it being revenue-neutral, but the baseline will have that revenue in there now, and whether the Chancellor will want to cut that and get closer to the fiscal rules that have been set.

Yes, obviously it is a concern that if more friction is introduced, that will add to import costs, which are also quite affected by things like the exchange rate. We import so much and we are quite vulnerable and open to the fluctuations that can happen.

Q33 **Douglas Ross:** Good afternoon. Can I start on some of the legitimate criticisms that you raised about the flexibility of the schemes to begin with? Would you also accept that both Governments, but particular the UK Government on furlough and self-employed income support and so on, perhaps could have been better prepared, but were dealing with a situation that we had never faced before and the key priority was to get as much money and support out as quickly as possible? They did respond to some of the criticisms, as you said, Mr Clark, by making the scheme slightly more efficient and simpler, but the key aim at the very beginning was to get as much support out as quickly as possible and they did do that. Is that fair to say?

Garry Clark: For most of our members, yes, the support from both Governments came through. It was mentioned earlier that it might have seemed slow at the time, but in governmental terms it came through very quickly indeed, and businesses were able to enjoy some of that support quite quickly. Obviously the situation progressed as well and both Governments had to learn and adapt to a situation that was longer lasting than many anticipated at first. Most of our members thought that they had enough to see them through the next six weeks. They did not



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necessarily think that they would still be dealing with some fairly serious restrictions up to two years later.

Yes, both Governments, in governmental terms, got things out the door very quickly. I would go as far as to say in absolute terms they got things out the door pretty quickly. As I said earlier on, what seemed like an eternity while it was happening, and while you were dealing with businesses in that very unprecedented situation and not knowing what was going to happen, it sometimes seemed longer at the time. You look back on it now and see that it was a few weeks, and for Government to act in that space of time is extremely helpful on both sides of the border.

Professor Spowage: I agree with that. We were trying to cover the announcements that were being made and they were coming so thick and fast. Quite often something was announced and then people said that that does not cover self-employed workers so something else was announced. It all happened very quickly and was put in place very quickly by governmental terms. Absolutely I accept that. It was an unprecedented situation and the amount of money that Governments were able to get out to businesses in such a short time was amazing. Ideally, if we had to design it now for this happening in the future, the flexibility that was introduced later on was welcome, but it was a crazy time, and the fact that money was able to get out so quickly was very positive, definitely.

Q34 **Douglas Ross:** To follow on a point from Philippa Whitford and the Chair, speaking about divergence, there was criticism of the divergence in Scotland. Some felt that it was divergence for the sake of divergence, if we are speaking about some of the support mechanisms. I had a number of small businesses in Moray that would have enjoyed benefits that competitors south of the border received but because the Scottish Government took a different approach, they did not—for example, coffee shops. If I remember this correctly, you got one for every premises you had in England, whereas in Scotland, if you had a number, you got only one payment.

How did that impact your members, and how did they feel about the divergence on the support that was provided but also the different public health measures we had? I will come on to omicron in a moment, which you mentioned in your written submission, Mr Clark, but we had tougher restrictions for longer in Scotland. Whatever you think about that policy decision, it did have a bigger impact on businesses north of the border than elsewhere in the UK, did it not?

Garry Clark: Certainly a number of issues came up during the pandemic of businesses that watched the First Minister at lunchtime and watched the Prime Minister in the evening and maybe saw two different things, or slightly different things, being announced either side of the border. For example, even in the most fundamental grants available based on rentable value, there was a differential in the rate at which those grants



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kicked in based on the different rates at which small business support kicked into the rating system north and south of the border. There was a different threshold.

Yes, you did see businesses being alive to what was happening elsewhere in the UK and saying, "They're getting that and I'm not". However, we did see it the other way around as well, with my colleagues south of the border saying, "Your members are getting this grant over here. Why don't we get that?" Then they would go and campaign for that grant somewhere else. It is a function of devolution to some extent.

- Q35 **Douglas Ross:** Particularly on the public health measures and omicron, you mentioned the shutdown over the 2021 Christmas into 2022 and the impact that it had and the challenges, particularly on hotels getting support but bed and breakfasts and guesthouses not, and you having to personally intervene with the Edinburgh City Council. How did the public health measures that were taken impact businesses in Scotland compared with elsewhere?

Garry Clark: Looking at omicron in particular, businesses south of the border—my mailbag at that time was full of guesthouses and B&Bs contacting me and asking why there was support available there and not elsewhere. We spoke to the Scottish Government on that issue. The Scottish Government's viewpoint was that they took a decision based on what they perceived as the need among the industries in Scotland and they perceived that the need among B&Bs and guesthouses was more seasonal in some parts of Scotland than in others.

Douglas Ross: That is not the case in Edinburgh.

Garry Clark: I was arguing in Edinburgh that you had the Hogmanay celebrations cancelled, the Six Nations bookings cancelled, so the impact was huge in Edinburgh at the time of the year. We made a case that they use what was an overspill from some of the discretionary funding to fill that gap, and they did.

- Q36 **Douglas Ross:** You also say that businesses in other parts of Scotland did not benefit from that because it was discretionary. It goes back to the point that was made earlier that there seemed to be a conflict between what the Scottish Government expected councils to do and what councils expected the Scottish Government to do. I definitely had a number of cases that I worked with the FSB on in Moray that were quite up in arms about the fact that Moray would not give this discretionary payment but Angus Council, for example, did. Surely there is a better way. Yes, discretionary funding is important but surely there should be a model that sees respective businesses in a similar family of businesses receiving similar support just a few miles apart.

Garry Clark: I will say two things. There definitely was an element of divergence when it came to a fund that was intended for local authorities to implement in their own way. Sometimes the perceptions that



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businesses had—"This one over here is getting support"—were not necessarily always accurate. Sometimes they were and sometimes they were not.

However, in that situation you had money that was being handed from, in this case, the Scottish Government to local authorities to spend. The guidance for spending that money did not appear for another six weeks, by which point some of the local authorities had exhausted some of the money that was given to them and other local authorities had not even opened it up. In another case, the local authority had opened it up but was not telling anyone about it. We touched on communication earlier, and those circumstances definitely made for more communication, but also openness about what exactly was happening.

There are going to be differentials. Every economy across Scotland is different, and what is right in the Highlands will not necessarily be right in West Lothian, for example. However, that is no reason for the Highlands to have its allocation left at the end of the year, still looking for something to do with it, and West Lothian having spent it all in the space of two or three months.

Professor Spowage: I agree that to a certain extent that different choices were made about the funding, particularly as we moved through the pandemic, and perhaps the view of the Scottish Government was that there were differential needs. I will not comment on the public health differentials because that is not our area of expertise, but there were definitely different needs or they could have the view that there were different needs in Scotland, so different funds were targeted in different ways. That is a function of devolution and a function of doing it through the business support mechanisms, which are devolved, rather than the UK Government deciding how to distribute the funds across the UK. The lion's share of Covid-related spending in Scotland comes under devolved competence.

Q37 Douglas Ross: On that, if I can go back to Mr Clark, you mentioned in your written evidence about the omicron funding. You state that, "The Scottish Government announced that the total support for omicron would be £375 million but by the time the restrictions were largely lifted at the end of April 2022 the individual funds announced under omicron had only totalled £267 million. The actual spend only reached £154 million." Therefore, at a time when we had tougher restrictions in Scotland than anywhere else in the United Kingdom, if my memory serves me right, and the Scottish Government had promised your businesses and our constituents £375 million, by the time that money had been spent, by my calculations just over 40% of that money had got to businesses. What signal do you think that sent out?

I noticed your last line agreeing with Professor Spowage and saying that Audit Scotland had done good work in this. It is difficult to see how over £1.1 billion of Covid-19 funding was spent after it was put into reserves.



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Is there a perception that there was money that should have gone to businesses that ultimately did not, and in this case with omicron your own figures suggest that more than half did not?

Garry Clark: What it points to is the opaque nature of some of that funding. Clearly a lot of that funding was consequential funding, and we have already touched upon that, for the Scottish Government and the Scottish Government had made announcements from that fund. I am not saying that that money did not go to businesses, but it is difficult to see where it did go to. The Scottish Government tell us that they spent all the money that was allocated to them, but it is difficult for Audit Scotland and others to identify precisely where that money was spent.

Q38 **Douglas Ross:** Audit Scotland do not seem to think that all that money went to businesses, because they said, and you agree, that it seemed to go into reserves, which was wider Scottish Government spending rather than just business support.

Garry Clark: A lot of money went into reserves. For example, on a local authority front, looking at the discretionary fund that we mentioned earlier, the first £30 million of that fund, which was announced in November 2020 and which local authorities were given in January 2021, was done by grant letter, so the local authorities had to spend that money within that financial year. The next tranche of £90 million, when that fund was expanded quite substantially, was given to local authorities by means of the revenue support grant to enable them to spend on both sides into the next financial year.

We possibly lost sight of some of that resource in the accounting on how that was spent and how it went to businesses. For example, the one I mentioned earlier, after a full year of the discretionary funds being in place, the Highland Council, from memory, had around £3 million left out of an allocation of £7 million.

Q39 **Douglas Ross:** A final two points. There was discussion from other members earlier about the impact Brexit has had. It is moving slightly away from the topic of this inquiry but it is still looking at how Scotland is performing compared to other parts of the UK. Can I touch on a couple of things that the FSB has said recently. When the budget in Scotland was passed in February this year, you were concerned about the proposal to reduce the 100% relief threshold for small businesses. You said, "Retail and hospitality businesses were disappointed not to be getting targeted reliefs as enjoyed elsewhere in the UK". What impact is that having, particularly on the small businesses that have survived Covid, that have kept their head above the water but would look to get more support from the Scottish Government that similar businesses south of the border are getting?

Garry Clark: We have already touched upon the rates system and using that to reach the businesses that you want to extend support to. It is again one of those areas where it probably came as a bit of a surprise



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that the relief was reintroduced in England when the previous year there had been a slightly more advantageous support for those same businesses in Scotland than there was in England. The Scottish Government obviously went down the route where they said that they were trying to maintain support for a similar number of businesses within, for example, the small business bonus scheme. That is a decision they took, and their calculation was that they had to reduce the 100% relief from a £15,000 ceiling to a £12,000 ceiling.

It is difficult to work out exactly the impact of this across the board, because it was being done at the same time as a revaluation. For example, we have seen a lot of retail businesses whose non-domestic rates valuation has come down from last year to this year. They maybe did not receive support last year and do receive support this year, so that retail sector is benefiting.

We see something a bit more mixed in the hospitality sector. From a small business point of view, some of the data that the Scottish Government have published so far about this revaluation is that it seems to be larger hotels that are benefiting from a reduction, whereas smaller hotels are maybe not benefiting as much from a reduction in rateable value. In those circumstances it might be better to look at, for example, some support under the non-domestic rates system for those businesses, particularly at the smaller end of the scale.

Q40 Douglas Ross: My final question is that I hear a lot from my own area in Moray, and indeed across Scotland, that they want the Government to step back a wee bit. There is too much coming down centrally for them to conform to. You mentioned the DRS scheme, which has now been delayed. The FSB has raised concerns in the past about the workplace parking levy and a potential visitor levy. It was striking in your big Small Business Survey 2020, published at the start of this month, you say, "More than half the small businesses do not feel Scotland is currently an attractive place to start up a business". That is quite damning from your members about the current situation for businesses in Scotland, isn't it? If you had one request to the Scottish Government—because this is what you are speaking about here—that we could perhaps incorporate into our recommendations, what would you ask them to do to help members of the Federation of Small Businesses across Scotland?

Garry Clark: Where we have been consistent over the last couple of democratic events in Scotland—thinking about the local government elections and the Scottish Government elections—is in saying to Government and local government that we have been through a lot and we are going through a lot. We have had Covid, the pandemic has hit a lot of businesses and added to the financial burden of a lot of businesses. We have had the energy spike and we are still having the cost of living crisis. Let's just not think about having more regulatory burden put on businesses until we can deal with this and move on and then we can look at some of those.



A lot of things that you have talked about there—whether it is the deposit return scheme, the visitor levy, alcohol advertising—are being talked about with very good intentions that are supported by many of our members and many businesses out there, but is it the right time to be going down a route of initiative after initiative after initiative, or is it time to deal with what we have and then move on to look at some of these things and implement them in a way that works for business?

- Q41 **Christine Jardine:** Something occurred to me why you were speaking. Professor Spowage particularly touched on the need to make sure that we have something in place for the next thing that will happen, as it undoubtedly will. I remember, as a young journalist, scientists at Aberdeen University telling me that there was going to be a flu-like pandemic in the next 30 years and that we were not prepared, we just got on with life as it was. Do you think that there is a danger now that, as Scottish commercial life and Scottish political life starts to go back to normal, we just think that that is behind us now and we can move on, but that if we do not take this opportunity and use the impetus now, we will fall back into doing things in the same old way and when the next pandemic comes around we will not be ready?

Professor Spowage: Yes, that is a danger. Obviously the inquiry at the UK level started recently and the Scottish one will start soon. I am sure a lot of the focus will be on things like pandemic preparedness in the first instance, and then the public health response and the responses to support the economy through it, and all of that will be covered. However, it is important that we remember the difficulties of trying to distribute funds to businesses and individuals during the pandemic, and what we would ideally have wanted in place and ensure that we invest in the infrastructure to make that happen.

As I have said already, that will have lots of benefits that are not just about us being prepared for another pandemic. It will have lots of benefits for better policymaking in the UK. It is a win-win for the investment in the data infrastructure to make sure that we can distribute the funds. Yes, it is a danger, which is why people like us are saying consistently and constantly that it is an important thing to do and to not forget that that investment needs to be put in place.

Garry Clark: It is an important opportunity to learn. That is what this inquiry and many others like it are doing. If I think about the pandemic itself, by the time we reached something like, for example, as I mentioned earlier, the business ventilation fund, my understanding from colleagues in local government was that some of the people, or probably all of the people, dealing with the business ventilation fund at the Scottish Government level had never dealt with a fund before. Given what we had been through, with all these 180 different funds, that was quite incredible. We probably did not learn as much as we could have done as we went through it. It was a very compressed timescale, they



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needed to get money out the door quickly and staff resources were very stretched in those times.

Chair: I am conscious of time so we will move on.

- Q42 **David Duguid:** Thank you to both panellists for coming here today. Apologies that I was not here for the first half of the session but hopefully I will not go over too much old ground, if at all. Saying that, I want to go back to something Sally-Ann Hart said and something that Professor Spowage just said in response to a question on inflation and about not so much the pandemic itself but the fact that the global supply chains started up at various different times. The phrase you used was too much money chasing too few things. That is an easy-to-understand way of putting it, but that is precisely what happened. To what extent would you say that recovery from the covid pandemic is still a factor today, in June 2023, bearing in mind that we have had Ukraine happening as well, pushing up energy prices?

Professor Spowage: It is a bit difficult to say because there are global factors that have evolved since the pandemic and the opening up that are still disrupting some supply chains and making things more scarce, but in general it feels like that pressure has eased considerably. We are still in the situation where transport costs are much higher than they were before the pandemic—things like container costs and that sort of thing. The costs for businesses are still higher than they were but for the businesses that we talk to and that we survey, that has definitely eased. They are getting the things that they need generally, even if they are a bit more expensive. That has started to come down and what they are worried about now is getting the staff they need and how much they are going to have to pay them to get them.

- Q43 **David Duguid:** I will come back to the staff in a little while. Mr Clark, do you have anything to add on the impact of Covid and the Covid recovery, given that we have had other factors come into play as well? How much of that is factoring into the recovery for your membership?

Garry Clark: We are still seeing bits and pieces. For example, Christine Jardine mentioned earlier the impact on retail in Edinburgh, particularly daytime retail in Edinburgh, where people would nip out for a sandwich at lunchtime or do a bit of shopping while they were at work. With fewer people being in the workplace even today, maybe working more flexibly than they were, that is reducing the opportunities for some of those businesses in our city centres.

Also, although a lot of the Government-backed loans are on very preferential rates, there is nevertheless a burden of debt hanging over businesses that was not there before. If I were to speak to one of our members in the pre-pandemic world, very few of them would have taken on significant debt. We mentioned earlier the £1.3 billion that the Scottish Government have spent on business support in Scotland, but those Scottish businesses have borrowed £4 billion, which dwarfs that



amount. Even in a place like Edinburgh where businesses have borrowed about £500 million, that works out to over £50,000 per business that has taken on debt. That is very significant for a small business in particular, although it is on preferential terms and they are able to repay that.

- Q44 **David Duguid:** Thank you. I know that it is probably an unfair question and I was not planning to ask the professor to put a quantitative number on how much of an impact Covid and the recovery from Covid still had, but would either or both of you like to give an impression of how, comparatively, either Scotland compared with the rest of the UK or the UK compared to the rest of the world, particularly Europe, has successfully recovered from Covid, or is that still too difficult, even in qualitative terms, if not quantitative?

Professor Spowage: It is pretty tricky. Things like the long-term impacts on the labour market of higher rates of inactivity and ill health have to some extent been caused by the pandemic, although a lot of research will be done on how much it has been contributed to by that. The fact that there are fewer workers available due to that reason will be contributing to the tightness of the labour market as well. There are lots of different ways that Covid and the long shadow of it are going to go over the economic recovery. There is the issue that Garry mentioned as well about city centres and the impact that is having on businesses.

You can look at the growth rates we have seen in the UK economy compared to the G7 and so on since pre-pandemic levels. There is no doubt that the UK is at the bottom of the pack on that in the recovery from Covid. We talked earlier in the session before you arrived about the extent to which this was about poorer business investment in the UK in the few years running up to the pandemic. Generally, one could say that the economy might not have been in a particularly resilient place because since the financial crisis we have not seen real incomes in the UK grow, so there are lots of questions about how resilient the economy was to a big shock like this.

Generally, it does not look like the UK has performed particularly well when you compare it to its main competitors. When you compare to it Scotland overall, on aggregate GDP, the pathway is similar. Maybe Scotland has done a bit better in earlier 2023, which is interesting. We will see if that continues in the next data that is published this week. Sectorally, there is an interesting story going on, which we are still researching, the quite different experiences of different sectors. Internationally, though, it would appear that the UK has not done that well in the growth we have seen since pre-pandemic levels.

- Q45 **David Duguid:** You say that Scotland seems to have done marginally better than the rest of the UK but we will await the details of the report and we will look forward to that. Similarly, it is true to say that we had stats produced to us a couple of weeks ago that our exports to the EU have increased overall by about 24% from the UK, but 28% from



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Scotland specifically. It is not entirely clear why that should be but it is interesting none the less.

Mr Clark, to brighten things up towards the end, are there any particular sectors in Scotland that have not just recovered better from Covid but have done better as a result of Covid? You mentioned the flexibility of homeworking that a lot more businesses are doing now, possibly because we had no other option but working from home and using Zoom and Teams, but are there any particular sectors?

Garry Clark: I do not know of data for identifying a sector there, but undoubtedly businesses are resilient and adaptable, if nothing else.

David Duguid: Only the ones that survived.

Garry Clark: Yes, in any economic shock someone is going to see an opportunity in there and we saw a terrific reaction from many businesses. A brewery that had never developed a lager before, because it just took too long to make, suddenly was sitting there with all this equipment and nothing to do with it so thought, "Let's make a lager," and changed their product based on circumstance and developed something else. They also moved from B2B to B2C. Our UK small business of the year not this year but last year was a company called Amity Fish, which is up in the north-east of Scotland.

David Duguid: Funny you should mention Amity. I was just thinking about it.

Garry Clark: It pivoted very successfully from B2B to B2C in that timeframe and is continuing to grow its B2C operations. We have seen a lot of great stories emerge out of the pandemic because businesses, particularly small businesses, are so resourceful, so resilient and so adaptable.

Q46 **David Duguid:** It is interesting, as I said, that you mentioned Amity Fish, because it is, as you say, based in the north-east of Scotland, specifically in Peterhead in my constituency. That is a great example—I am sure it has happened across your membership—of somebody taking a difficult situation and moving into online sales. I think that Jimmy Buchan won awards for that as well, e-commerce. I think that that was his most recent award, as a necessity initially but then helping to build the business from strength to strength.

Finally I want to touch on recruitment issues, which have been mentioned by both of you. This seems to me to be, and I have been told by different sources, as we all know, a global issue. Something about Covid has either stopped people coming back to work or stopped people getting into work. The general workforce around the world seems to be less than it was before Covid. Do you have any insight as to why that might be?



Professor Spowage: Across the UK there has definitely been an increased inactivity due to ill health and disability. As I said earlier, we are still to some extent unpicking why that is and how permanent that will be in the labour market. However, it is certainly possible that it is things like people waiting for treatment through the NHS, long Covid and the impacts of that and also potentially mental health impacts of the pandemic. We have seen an uptick across the UK, for the UK and Scotland, in disability-related benefits as a result of that, and that has fiscal implications as well. It makes the health of the workforce an economic issue as well as a social policy-related one. It is particularly concerning that we have higher rates of inactivity due to ill health.

In Scotland we have a higher rate than the UK average on that. We already had quite a high rate on that, and the fact that that is increasing is concerning. In certain parts of Scotland the rate is almost as high as 50% of people are inactive due to ill health or disability. People's health being better will help deal with some of the economic issues that we are having with skill shortages.

David Duguid: Mr Clark, anything to add to that?

Garry Clark: Not really, except to flag up the fact that skills remain a big issue for our members. Just over 40% of members have said that they do not think that they will be able to recruit enough skilled people this year. The availability of skills could be a potential threat to for businesses that we are all hoping will move on and grow,

Q47 **David Duguid:** Are your members finding that they have to change their recruitment practices and go about recruiting people in different ways?

Garry Clark: Yes, whenever you get a tight labour market it begins to change the way that businesses look at recruitment. I was speaking to a member in Fife not long ago who employs largely disabled people and people who may find it difficult to work elsewhere, because they have never had a problem recruiting staff. On their retention rate, they have only a 4% turnover rate, when the industry average is about 25%, and they are recruiting and recruiting and recruiting and doing really well. If it helps people who have been outside of the workforce for a while to be able to access some of those opportunities where businesses are beginning to think how they can be more flexible about their employment opportunities, that is a positive.

Q48 **David Duguid:** There is that word again, "flexibility". It has come up a few times. Finally, some very brief answers: specifically for recruitment, to help businesses to recruit people, what could the UK Government or the Scottish Government be doing differently? Everything is perfect? Okay.

Garry Clark: It is very difficult. I don't think there is no single thing that could be done to change a very complex situation. If any of us knew the answer to that question, we would not be in this situation.



Professor Spowage: No.

Q49 **Chair:** Going back to freedom of movement, would that assist businesses?

Garry Clark: Greater access to foreign workers. Very many of our businesses have felt that they have been less able to do that in recent years. That said, when we look at a survey, more than half say that the problem is available local workers rather than available migrant workers. Only 14% talk about that specifically. The problem is that there are not enough skills out there. There could be people out there without the skills, so how do we upskill people who are out there in the labour market, or maybe even in employment? How do we upskill them? It is not always looking at the raw material.

Professor Spowage: We talk to large businesses in particular about this and they are showing much more flexibility about recruitment and maybe recruiting more junior people and accepting that they will have to invest more in them to ensure that they can get the skills that they need. We have a very highly qualified labour market in Scotland but that does not necessarily mean that they have the skills that you need. Qualifications do not necessarily equal skills.

Q50 **Chair:** Those are the very skills that we have lost because of ending freedom of movement. We have the skills at the high level and we are encouraging people to be highly trained and have university degrees, but it is the skills that keep our community running, that keep our care homes open, that keep our hospital emergency—

Professor Spowage: My point was that qualifications do not necessarily equal skills and the shortages often may be the softer skills that employers need in the labour market. There is quite a high level of underutilisation as well in the UK labour market, which means that people are in jobs that in theory they are over-qualified for. These mismatches have a drag on productivity.

Chair: That is another debate, fascinating though it is.

Q51 **Douglas Ross:** I want to come back in because I saw on Twitter that Mike Duncan, my FSB policy development manager, had retweeted your appearance here, Mr Clark. I thought that members of the FSB may be watching, but also your team up in Scotland. This is an opportunity for this Committee to say thanks for what the FSB did during the pandemic. I certainly found that David Groundwater, who was covering Moray at that time, was always available to members but also to me as a local MP. He got involved in the local agency meetings that we had regularly and also helped to influence the policy changes that people have spoken about today. This is an opportunity for us to put on record our appreciation for the work that the FSB has done and continues to do during what was a difficult period, and we often do not say it enough. Thank you.



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Chair: That comes from all of this Committee. We appreciate the assistance and support that you gave all of us. We all mentioned the councils and all of us would say the same thing about the assistance, support and advice that we got from our councils in the height of a crisis when people were suffering and reaching out to us. Thank you for that.

Garry Clark: If I could reciprocate as well and thank the MSPs, because I was invited by a number of MPs and MSPs to take part in surgery appearances with them to help businesses in their constituencies to access some of those, so thank you all as well.

Chair: It was a great example of all of us working together for the benefit of the businesses and constituents that we serve. Thank you ever so much. I knew that that would be a fascinating session, and with the amount of time that was spent covering the ground that we have, you can sense that there is a great interest in all of this. Thank you for the time. We have had two hours of good questions and answers today. Please feel free to contribute if there is anything else that you feel you could usefully add to this very short inquiry while it is taking place, feel. However, for now, thank you for appearing.