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Economy, Energy and Tourism Committee

The remit of the Committee is to consider and report on the Scottish economy, enterprise, energy, tourism, renewables and other matters falling within the responsibility of the Cabinet Secretary for Finance, Constitution and Economy (apart from those covered by the remit of the Infrastructure and Capital Investment Committee), and matters relating to cities.

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Scottish National Party

**Chic Brodie**
Scottish National Party

**Patrick Harvie**
Scottish Green Party

**Johann Lamont**
Scottish Labour

**Richard Lyle**
Scottish National Party

**Gordon MacDonald**
Scottish National Party

**Lewis Macdonald**
Scottish Labour

**Joan McAlpine**
Scottish National Party
The Committee reports to the Finance Committee as follows—

Introduction

Approach

1. The Economy, Energy and Tourism Committee ("the Committee") considers all spending that falls within its remit.

2. Due to the late publication of the UK Government’s Spending Review, the Scottish Government was unable to publish its Draft Budget for 2016-17 until 16 December, severely curtailing the time available for scrutiny of the draft budget figures. It was a source of frustration to the Committee that the timeframe precluded us from more fully examining the overall effect of the Draft Budget in relation to economy, energy and tourism.

3. During October and November 2015 the Committee heard evidence from Scottish Enterprise ("SE") and Highlands and Islands Enterprise ("HIE") as part of our pre-budget scrutiny. We also held sessions on fuel poverty and tourism which aimed to inform budget scrutiny once figures became available.

4. The final evidence session, on 13 January 2016, was with John Swinney, Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy.

Background

5. Last year’s scrutiny of the Draft Budget focused on one topic in particular – the Scottish Government’s aim to increase exports and the wider context of “internationalisation” – as well as covering budget plans in the areas of fuel poverty, renewable energy and tourism.

6. The Committee later published a report of its inquiry into Internationalising Scottish Business. We also took evidence from a roundtable of witnesses on the state of the renewables sector on 9 December 2015.

7. This year, the Committee used the limited time available to scrutinise the Draft Budget in respect of spending on enterprise, tourism and tackling fuel poverty. The report is structured accordingly.

Briefing

8. The Parliament’s researchers have produced a detailed briefing and infographic on the Draft Budget.
Enterprise agencies

Scottish Enterprise

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<table>
<thead>
<tr>
<th>Scottish Enterprise – Draft Budget (2016-17)</th>
<th>2015-16 £m</th>
<th>2016-17 £m</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scottish Enterprise (resource)</td>
<td>174.5</td>
<td>166.5</td>
<td>-4.6%</td>
</tr>
<tr>
<td>Scottish Enterprise (capital)</td>
<td>54.7</td>
<td>41.9</td>
<td>-23.4%</td>
</tr>
<tr>
<td>Scottish Enterprise (non-cash)</td>
<td>27.1</td>
<td>25.2</td>
<td>-7.3%</td>
</tr>
<tr>
<td>Scottish Enterprise (financial transaction)</td>
<td>-</td>
<td>21.5</td>
<td>n/a</td>
</tr>
<tr>
<td>SE TOTAL</td>
<td>256.3</td>
<td>255.1</td>
<td>-0.5%</td>
</tr>
</tbody>
</table>

9. The above table shows SE’s resource and capital budgets reducing by 4.6% and 23.4% respectively over the year. The combined resource and capital budget is therefore £208.4 million for 2016-17 compared with £229.2 million in 2015-16.¹ This is what SE calls its ‘baseline’ budget.

10. As in previous years, SE will be expected to make further ‘strategic forum savings’ of around £17 million from this baseline. Therefore, Scottish Government combined capital and resource budget to SE is likely to be around £191 million (before any in-year transfers).

11. However ‘financial transaction’ money of £21.5 million will also be made available. This takes the form of loans and equity investment to the general public, third sector or private sector organisations. Notes accompanying Level 4 figures state that Scottish Enterprise is currently “considering options for this spend in conjunction with their overall spending plans”.

Renewables investment

12. One of the key areas that emerged from SE’s oral evidence (held in advance of the budget’s publication) was the shift in the renewables market and its effect on funding and inward investment. Adrian Gillespie told the Committee—

> Some areas that we thought were large opportunities – such as offshore and manufacturing – are not the opportunities we thought they were.²

13. A fall-off in private sector investment was a “big influence” on SE’s own investment, and the market for wave energy was described as "particularly difficult" However, Mr Gillespie said there remained some “very exciting” opportunities.³
14. Asked about the impact of market conditions on the viability of targets for cutting carbon emissions, Mr Gillespie described them as “separate but connected”; suggesting the key drivers for investment were employment and market opportunity”.

15. He informed the Committee that SE had committed £9.2 million for renewable energy R&D, £18.9 million for the renewable energy investment fund (REIF), both figures excluding work with individual companies, and that SE’s REIF team were overseeing £100 million of deals—

“There is still a healthy pipeline of renewables investments.”

16. Asked about the Scottish Government's target of 100% of electricity demand being met by renewable energy by 2020, Mr Gillespie said “some major reconfiguring” would be needed to meet “a very stretching target” but maintained that offshore wind was “a long-term market”, one that should be pursued “aggressively”.

Oil and gas

17. The downturn in the price of oil and gas was another headline issue for SE. Chief Executive Lena Wilson had been chairing the Energy Jobs Taskforce. Mr Gillespie reported that SE had “engaged intensively” not just with account managed companies but those across the supply chain. Partnership and innovation were crucial, he said, with short-term support balanced by a longer-term view—

“... to see how the focus on cost can be used in a positive way to come out of the other side much leaner and fitter.”

18. He said “concern” informed the time and resource given to the sector but there was also “a big opportunity” to draw on innovation, such as that which had come about from working with ageing assets. This could provide “a specific competitive advantage”.

Inclusive growth

19. Mr Gillespie said SE had made “a good start” with its 10% budgetary allocation under this heading—

“Our focus is on the growth element of inclusive growth. That is what Scottish Enterprise does – it stimulates growth, including in the key companies and sectors that we work with.”

20. He went on to say that SE was involved in a range of business and workplace innovation, including a fair, innovative and transformative work (FITwork) project at the University of Strathclyde. The overall aim being to have “the most productive, engaged economy” in order to be able to compete internationally.
21. When the remit of the agency was discussed in comparison with HIE’s more explicit “social remit”, Mr Gillespie suggested it was because of SE’s “wider focus on the growth side” that this came across “more strongly”. He also made the case for “a strong link” between well led organisations and inclusive growth.

22. In terms of the gender and BME dimension of inclusiveness, for example, SE was “encouraged” by growing levels of engagement with both themselves and Business Gateway over recent years. Mr Gillespie pointed out that some 47% of engagement with new business was coming from women, double the previous figure.

23. His colleague Iain Scott outlined the work with companies to encourage investment in young people, telling the Committee that each of the 44 companies in receipt of regional selective assistance was producing a plan to “invest in youth”. He said—

We want to see more investment in young people coming through with the support of the agencies.

24. Adrian Gillespie described SE’s approach as “incentivising and encouraging”, drawing on an evidence base to show companies the benefits to them and the economy of supporting youth employment.

Highland and Island Enterprise

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<table>
<thead>
<tr>
<th>Highlands and Islands Enterprise – Draft Budget (2016-17)</th>
<th>2015-16 £m</th>
<th>2016-17 £m</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highlands and Islands Enterprise (resource)</td>
<td>30.5</td>
<td>30.0</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Highlands and Islands Enterprise (capital)</td>
<td>28.5</td>
<td>26.2</td>
<td>-8.1%</td>
</tr>
<tr>
<td>Highlands and Islands Enterprise (non-cash)</td>
<td>12.2</td>
<td>11.0</td>
<td>-9.4%</td>
</tr>
<tr>
<td><strong>HIE TOTAL</strong></td>
<td><strong>71.197</strong></td>
<td><strong>67.247</strong></td>
<td><strong>-5.5%</strong></td>
</tr>
</tbody>
</table>

25. HIE’s combined resource and capital budget is £56.2 million compared with £59 million in 2015-16. Anticipated ‘strategic forum savings’ of around £3.2 million are expected meaning combined capital and resource grant in aid allocation will be in the region of £53 million.

26. The capital budget has been reduced by 8.1% over the year; however, unlike Scottish Enterprise, HIE has no ‘financial transaction’ allocation.

27. As with the SE budget, a considerable proportion of total HIE budget is comprised of “non-cash”. Level 4 notes state that this £11 million is to cover “depreciation of
Highlands and Islands Enterprise’s assets, including its estate”. This represents 16% of HIE’s total allocation (and 10% of SE’s total allocation).

**Quality jobs, higher pay and young people**

28. Alex Paterson said that rates of pay for jobs that HIE supported were higher than the average in the employer’s locality and across the region. He told the Committee—

> Our work is about not just creating jobs but the quality of those jobs.\(^{15}\)

29. He described the fair work agenda as being “absolutely at the heart of what we do” in HIE’s work with companies, communities and social enterprises.\(^{16}\)

30. Mr Paterson spoke of a workshop for local authorities and local and national agencies looking at ways of improving the region for young people, something he saw as part of the inclusive growth agenda. He also mentioned HIE’s graduate programme and an accelerator scheme for the creative industries.\(^{17}\)

31. The perception about the region over the half century of HIE’s lifespan was said to have undergone “a significant transformation”; people no longer talked about “the highland problem” and young people were far more positive about their future being in the Highland and Islands.\(^{18}\)

32. He said the data showed the number of young people leaving the area, or feeling they would have to go elsewhere to pursue a career, was falling. The University of the Highlands and Islands and other factors, such as the rollout of broadband, could be part of what was making that difference. Mr Paterson also highlighted the area’s attractiveness for businesses—

> It might take a bit longer [to recruit] but companies that recruit in the Highlands and Islands will be rewarded with retention and commitment.\(^{19}\)

**Marine technology**

33. Mr Paterson said HIE remained “very committed to and optimistic about” about the potential of marine renewables, although he accepted that it had taken longer than might have been thought.\(^{20}\)

34. He referred to HIE’s funding of ports and harbours and other infrastructure necessary for wave and tidal developments, the MeyGen project in the Pentland Firth being one such example. He said—

> We have had some bumps in the road with wave energy but we have created Wave Energy Scotland, which is now supporting innovative development in wave technology.\(^{21}\)

35. However, he cited two challenges: the time it was taking to develop the technology and the regulatory environment. The latter he described as suffering from “a lack
of certainty”. He referred to a conversation with one business that had said even if the environment was not what was desired, clarity was needed over “what the framework actually is”.22

36. His colleague Forbes Duthie said HIE would be investing £13 million in Wave Energy Scotland in the coming year.23

Oil and gas

37. HIE was working with 80 account managed companies that rely to some degree on income from that sector, seeking “to help them to diversify”. Mr Paterson said HIE was undertaking an assessment of the impact of the downturn, the number of jobs lost described as “not insignificant”.24

38. He spoke of job losses in the oil and gas sector providing an opportunity for other sectors looking to recruit skilled workers, however—

“... the downturn is undoubtedly having an effect, and the economic impact assessment of Shetland, where it is particularly focused, will give us a good handle on what more we need to do.”25

Scottish Government position

Business rates

39. Asked about the large business rate (the supplement for which had gone up from 1.3% to 2.6%) when he gave evidence to the Committee, the Cabinet Secretary said “the scale and scope” of the rise in business rates was “smaller than it was in two recent years”.26

Fair work and the business pledge

40. Much of the questioning under this theme was informed by the fair work inquiry recently undertaken by the Committee, the findings of which were set out in the “Taking the high road - work, wages and wellbeing in the Scottish labour market” report, published on 14 January 2015.

41. The Cabinet Secretary outlined the work of the enterprise agencies in this area, primarily through working with their account managed companies and an emphasis on measures relating to the business pledge—

“Those are not just nice things to do; they are beneficial in improving the productivity and capability of individual companies, and they will have significant benefits for members of the public into the bargain.”27

42. Addressing the allocation of £1.5 million under the heading of fair work and how this tied in with other spending on a declared issue of strategic priority (when, for example, Skills Development Scotland’s budget has seen a 4.5% reduction), Mr Swinney told the Committee—
… organisations have to be more productive and deliver more impact with fewer resources. It is a constant theme of the budget process.  

43. He said he was “challenging” organisations to have more impact through their activities and to engage more in sharing of services and “removing the inefficiencies that still bedevil the public sector in Scotland”.  

44. Pressed on the difference between seeking efficiencies and pursuing the fair work agenda, Mr Swinney described the approach as one of “persuading and encouraging” participation. The purpose being to encourage companies to pay the living wage, make a commitment to gender balance etc. All of which would help “strengthen the quality of employment and advance the fair work agenda”.  

45. Presented with a quote from Scottish Enterprise about its approach to “inclusive growth” (see paragraph 19), he said the fair work agenda was “part and parcel of the remit and ethos of Scottish Enterprise”. Furthermore—  

I am happy to confirm that my view is that you cannot separate the “inclusive” from the “growth”. They are one and the same thing.  

46. Mr Swinney said he would be “staggered” if a good number of the 2,000 companies being account managed were not already operating in a manner consistent with the business pledge. He was “not so fixated” about meeting a target but would be happy to report on progress as more businesses signed up.  

47. As to the scenario of Amazon seeking Regional Selective Assistance (RSA) today, he said the “characteristics and thinking” of the pledge would have to be met by a company in receipt of public assistance. Asked if the position had “moved on” from a few years ago, when Amazon benefited from RSA, he described that as “a fair characterisation”.  

Capital and financial transactions  

48. Highlighting SE’s capital and financial transactions lines totalling £63.4 million, compared with a capital budget of £54.7 million in the current financial year, Mr Swinney said this represented “a substantial increase”. SE was “actively involved” in providing loans and he saw this as—  

… a good opportunity for us to use the financial transaction mechanism in an organisation that is tried and tested at issuing loans and, of course, loans have to be repaid.  

Oil and gas  

49. Asked if he agreed that one of his top priorities was the Scottish Government’s response to what was unfolding for the sector and the wider economy, he said—
Of course. The situation in the oil and gas sector is very challenging. As we saw yesterday with the announcement from BP, and earlier with the announcement about Petrofac, we have a significant challenge to wrestle with.\(^\text{36}\)

Recommendations and conclusions

<table>
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<tr>
<th>Paragraph</th>
<th>Text</th>
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<tbody>
<tr>
<td>50.</td>
<td>The Committee notes HIE’s continuing commitment to marine technology in the face of challenges posed by market conditions and the wider renewables policy framework.</td>
</tr>
<tr>
<td>51.</td>
<td>We welcome its undertaking of an assessment of the economic impact of the downturn in the oil and gas sector on the region and particularly on Shetland.</td>
</tr>
<tr>
<td>52.</td>
<td>It is pleasing that, 50 years since HIE’s inception, we no longer talk of “the Highland problem” and the demographic picture is a healthy one in most parts of the region. The Committee particularly welcomes initiatives directed at encouraging young people to see their future careers and family life in the Highlands and Islands.</td>
</tr>
<tr>
<td>53.</td>
<td>We commend the approach of HIE as encapsulated by the statement: “Our work is about not just creating jobs but the quality of those jobs”.</td>
</tr>
<tr>
<td>54.</td>
<td>Inclusive growth is a priority for the Scottish Government, as set out in its updated economic strategy, published last March. The work of the enterprise agencies is central to delivering its aspirations in this area. We recognise that HIE’s existing social remit – for example account managing fragile communities’ – is consistent with the inclusive growth agenda. Scottish Enterprise’s Business Plan 2015-18 includes a commitment to inclusive growth, and we heard the Cabinet Secretary’s view that “inclusive” and “growth” are, in this context, inseparable. We would, however, like to see evidence of this commitment in the budget plans of the enterprise agencies published later this year.</td>
</tr>
<tr>
<td>55.</td>
<td>The Committee repeats the call we made in paragraph 201 of our recently published “Taking the high road - work, wages and wellbeing in the Scottish labour market” report: recommending that businesses seeking support from Scottish Enterprise and HIE should be encouraged to commit, voluntarily, to become signatories of the Scottish Business Pledge.</td>
</tr>
<tr>
<td>56.</td>
<td>We reference also paragraph 202 of that report, in which we recommend Scottish Government sets a formal target for the number of Scottish Enterprise and HIE account managed companies becoming Business Pledge signatories by the end of 2016-17. And we welcome the Cabinet Secretary’s willingness to keep us informed of progress on the numbers of businesses signing up to the Pledge.</td>
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</table>
57. Turning to thoughts of our legacy report, we suggest Audit Scotland’s current study and future publication – “Supporting Scotland’s economic growth: The role of the economic development agencies”37 (scheduled for publication this summer) – could underpin any future consideration of the enterprise landscape that our successor committee may wish to pursue in the next parliamentary session, including the question of whether there is a case for Scottish Enterprise to have a social remit similar to HIE’s.

Tourism

Introduction

Tourism Draft Budget

<table>
<thead>
<tr>
<th></th>
<th>2015-16 £m</th>
<th>2016-17 £m</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>VisitScotland (Resource)</td>
<td>48.0</td>
<td>45.8</td>
<td>-4.5%</td>
</tr>
<tr>
<td>VisitScotland (Capital)</td>
<td>0.7</td>
<td>0.7</td>
<td>0.0%</td>
</tr>
<tr>
<td>VisitScotland (Non Cash)</td>
<td>1.5</td>
<td>2.2</td>
<td>48.6%</td>
</tr>
<tr>
<td>Tourism special projects</td>
<td>0.4</td>
<td>0.4</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total Level 3</strong></td>
<td><strong>50.6</strong></td>
<td><strong>49.1</strong></td>
<td><strong>-2.8%</strong></td>
</tr>
</tbody>
</table>

58. VisitScotland’s resource budget reduces over the year by £2.2 million, or 4.5%, “reflecting current plans and the shift to digital marketing campaign freeing up resources” (according to the Scottish Government). ‘Non-cash’ which covers “the depreciation of assets” increases by almost 50% over the year.

The digital dimension

59. Scottish Tourism Alliance’s (STA) Marc Crothall underlined the importance of continuing to invest in the “digital infrastructure”, referring to the imminent launch of a £1.2 million training programme and saying—

…”it is absolutely essential that we are able to get more of our industry online, connected and capable of using digital.”38

60. The sector must be able to market its product digitally and offer online booking, the Committee heard, or opportunities would be lost. In terms of mobile connectivity, Scotland’s 3G coverage was the worst in the UK, said Mr Crothall, leaving 46% of visitors “unsatisfied with wi-fi availability”.39—
We must respond to that if we are to live up to and deliver on the expectations of the modern traveller.\textsuperscript{40}

61. VisitScotland reported that digital connectivity was a recurring issue when they travelled around the country taking soundings from the industry. Malcolm Roughead identified five elements within the issue—

\begin{itemize}
  \item \ldots the hardware; the capacity; the capability; the ability to convert business that is generated \ldots and using digital in communications.\textsuperscript{41}
\end{itemize}

62. There were some 9,000 tourism businesses in Scotland listed on visitscotland.com but 6,300 or so were unable to “transact online”. There was a lot of work being undertaken to address this but it had to be “focused in the right areas”.\textsuperscript{42} Mr Roughead said “digital inclusion” was “fundamental”.\textsuperscript{43}

63. Mr Crothall pointed out the pace of change was such that “digital” was a word that appeared just three times when the tourism strategy was published in 2011. The challenge was to persuade businesses that they must be online and it was neither scary or expensive and they would be supported to do so.\textsuperscript{44}

Outlook, revenue and investment

64. Outgoing chair of VisitScotland Dr Mike Cantlay told the Committee—

\begin{itemize}
  \item \ldots 2014 was the big year, but it was not so much about 2014. It was the catalyst, along with the other winning years, 2012 and 2013, to kick Scottish tourism into the second part of the decade.\textsuperscript{45}
\end{itemize}

65. He said the figures for the first half of 2015 were “very encouraging” and performance, in so far as it could be gauged from six months, had exceeded expectations. Dr Cantlay described the industry as being “in good shape”.\textsuperscript{46}

66. Business tourism, according to Mr Crothall, was worth £1.9 billion to the economy.\textsuperscript{47} More widely, it was reported the Scottish Government estimated the visitor economy to be worth in the region of £12 billion. Overnight expenditure was gauged to be around £5 billion.\textsuperscript{48}

67. Questioned about cash leverage, Mr Roughead explained “the additionality figure” meant what was spent by visitors when “influenced” by the work of VisitScotland. This approach was described as “robust”. He also said work was being done with the Scottish Government to consider gross value added and “new money”, and also what this meant for employment.\textsuperscript{49}

68. Dr Cantlay said—

\begin{itemize}
  \item A 20:1 average is very much the market average for a national tourism organisation doing a well-researched campaign.\textsuperscript{50}
\end{itemize}
69. The challenge was that Scottish tourism was “miniscule in global terms” and we were facing even more competition from every national tourism body with a strong product and an effective campaign.\textsuperscript{51}

70. Quality assurance had been something demanded by the industry and Mr Crothall argued that it was key to promoting and ensuring the quality of the brand. He described it as “a badge of appeal” that the consumer wanted to see and without which “we would be very exposed”. Mr Roughead said the scheme “washes its face”, costing £1.3 million but bringing in the same revenue.\textsuperscript{52}

**Fair work and career opportunities**

71. Young people and the skills agenda was highlighted by Mr Roughead. He said the important thing was to get the message across that the industry could offer a career rather than being “just a last-gasp means of finding employment”. He wanted VisitScotland “to show leadership” by becoming a living wage employer.\textsuperscript{53}

72. Dr Cantlay described visiting a college and finding “a fundamental anxiety” among the students concerning the availability of jobs for young people. The industry, Scottish Government and VisitScotland faced “a huge job” to promote a sector “with all kinds of opportunities” to young Scots.\textsuperscript{54}

73. STA’s Marc Crothall also challenged negative perceptions of the industry, emphasising the opportunities and competitive salaries on offer—

> We need to remove some of the stigma around it being a default industry with poorly paid jobs.\textsuperscript{55}

74. He felt the best way to promote fair work was through influencing the culture of leadership in the sector and particularly by addressing the issue of productivity. This was how “to redress the balance of the workforce within businesses”.\textsuperscript{56}

75. Work was ongoing, Mr Roughead said, examining the evidence base for issues such as reducing retention costs and increasing productivity. The aim was “to build a business case”.\textsuperscript{57}

76. Mr Crothall described “an absolute commitment” to invest in the non-transient workforce. And he linked productivity to recruitment and wages, telling the Committee—

> When you start to attract the skill, invest in those people and drive your productivity, you will want a reward in pay.\textsuperscript{58}

77. Pressed on the matter of the high percentage of workers in the industry who were earning less than the living wage, plus the figure for those on zero hours contracts, he said—

> There is an acceptance that we are a sector that has a challenge but a genuine desire … to sit down and try to find the solutions.\textsuperscript{59}
78. Also underlined was the importance of engaging communities, giving them “ownership” of the local tourism industry. Mr Roughead said it was they who provided “the knowledge, the energy and the passion” that mattered to the visitor experience.  

Scottish Government position

79. The Cabinet Secretary said that VisitScotland’s budget for 2015-16 was “inflated” by about £5 million for one-off costs to develop the legacy of 2014. That had enabled the organisation to create what he called “a higher platform”. This year’s figure, though reduced, was considered to be “at an appropriate level to support the organisation and assist its development”.

80. Describing the organisation as providing strategic leadership to the sector, fulfilling a marketing role; and being “digitally anchored”, he said of the second aspect—

… VisitScotland is now proving itself beyond question to be one of the most successful marketing organisations in the world … It is assisted by the strength of the proposition and our natural environment, but its marketing activity is second to none.

81. The digital dimension was “absolutely critical” Mr Swinney said and we would “certainly reach the 95 per cent target by 2017” for superfast broadband. He was less optimistic about mobile connectivity, suggesting that “significant areas” of rural Scotland are unable to offer the mobile connectivity that visitors might expect. He did suggest though that the mobile operators were “responding positively” to discussions about sharing infrastructure.

82. Referring to the benefits of the fair work agenda, such as lower staff turnover, higher levels of motivation, and improved productivity, he said—

In the examples that I have seen, the tourism and hospitality companies that have gone down that route have seen the fruits of that approach.

Conclusions

83. We wish to put on record our appreciation of the work undertaken by Dr Cantlay, as Chairman of VisitScotland since 2010, and his engagement with the Committee over the last five years.

84. Being “digitally anchored” in its approach is of utmost importance to the sector’s growth and we encourage continuation of the various work streams underway to promote that agenda, in respect of hardware, capacity, capability, ability to convert online customer interest into transactional outcomes, and more digital communication.
85. The Committee welcomes the desire of the industry to challenge the preconceived idea that some, young people in particular, may have about the career opportunities available; also its acknowledgment of the need “to redress the balance of the workforce within businesses”. This is especially pertinent in light of our recent inquiry into fair work and publication of our “Taking the high road - work, wages and wellbeing in the Scottish labour market” report.

Fuel poverty

Introduction

Fuel poverty draft budget

<table>
<thead>
<tr>
<th></th>
<th>2015-16 £m</th>
<th>2016-17 £m</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel Poverty/Energy Efficiency</td>
<td>79.0</td>
<td>79.3</td>
<td>0.3%</td>
</tr>
<tr>
<td>Fuel Poverty/Energy Efficiency Financial Transactions</td>
<td>10.0</td>
<td>24.0</td>
<td>140.0%</td>
</tr>
<tr>
<td><strong>Total Fuel Poverty</strong></td>
<td><strong>89.0</strong></td>
<td><strong>103.3</strong></td>
<td><strong>16.0%</strong></td>
</tr>
</tbody>
</table>

86. The figures above show an overall increase of £14 million, or 16% between Draft Budget 2015-16 and Draft Budget 2016-17. However, the addition of UK Government ‘financial transactions’ consequentials, an internal budget transfer between portfolios and extra funding, announced at the time of the Stage 3 Budget debate last year by Cabinet Secretary John Swinney (and transferred at the time of the Autumn Budget Revision) means that the final budget available for 2015-16 is actually £119 million rather than £89 million.67

87. The table shows there has been an increase in the loan element of the fuel poverty budget of £14 million (or 140%). This will be used for the Home Energy Efficiency Programmes for Scotland (HEEPS). The Scottish Government makes available interest free, unsecured loans of up to £10,000 to householders for installing a variety of measures such as solid wall insulation, double glazing or a new boiler.68

Target for eradicating fuel poverty

88. Asked what the chances were of meeting the target set by November 2016, Energy Action Scotland’s (EAS) Norman Kerr told the Committee—

> Sadly, there are none … the fuel poverty target will not be reached, and by some considerable way.69
89. He said that the numbers of those living in fuel poverty would be “significantly higher” if the Scottish Government had not funded grant programmes.\(^\text{70}\)

90. Professor Sigsworth pointed out the “rider” to the target: “so far as is reasonably practicable”. He suggested that given the limitations of devolution there had been “quite a substantive move forward”, but he agreed we could “not expect to be anywhere near eradication”.\(^\text{71}\)

91. Crediting the source of the much quoted figure of £200 million a year (of government investment) to EAS, Professor Sigsworth said that number had never been about “the whole job” but an estimate of ending “the worst cases of fuel poverty”.\(^\text{72}\)

92. Mr Kerr hoped that in this Draft Budget the Scottish Government would “at least” maintain its annual funding of £119 million.\(^\text{73}\) He further suggested that money be set aside not only for Home Energy Scotland, an organisation whose work he praised, but also for groups working in “a much more focused way locally”. At that local level, Stewart Wilson of Tighean Innse Gall argued for a three or five year budget approach, suggesting this would help “build up capacity”.\(^\text{74}\)

93. The estimate of £4.5 billion (the figure from the Existing Homes Alliance for the public expenditure required to tackle fuel poverty\(^\text{75}\)) was described by Mr Kerr as being “reasonable” over a 10-year period.\(^\text{76}\)

94. The possibilities beyond the Draft Budget for 2016-17, relating to the Smith Commission proposals, were highlighted by Professor Sigsworth—

> There is a substantial amount of money that we may wish to consider spending differently.\(^\text{77}\)

Education, a joined-up approach and wider benefits

95. Professor Sigsworth said there was “an increasing awareness” that fuel poverty measures will not be fully effective unless the recipient is shown how to benefit from them—

> That involves how people live and how they use systems, and that will come from deeper integration of social care with fuel poverty measures and primary healthcare.\(^\text{78}\)

96. It was a point echoed by Heather McQuillan of Dundee City Council, drawing on the example of her council’s programme of external wall insulation. In order to save money, she said, it was necessary to explain people would only benefit from lower bills if they turned down the thermostat.\(^\text{79}\) She also reported that energy advisers in Dundee were involved in delivering Tesco vouchers, drawing them into “dealing with food poverty as well as fuel poverty”.\(^\text{80}\)

97. Stewart Wilson talked about the importance of “linking in” with health and social care services, an approach that drew upon services “already on the ground” and
well placed to work with people who were most vulnerable: “probably all the people who are fuel poor”. 81

98. Referring to the GPs at the Deep End work in Glasgow, enabling doctors to point their patients in the direction of a range of advice and support, Mr Kerr said—

“If it has worked, we need to build that into the health and social care budget, not just as fuel poverty alleviation, but very much around preventative medicine and good healthcare.” 82

99. Mr Wilson said that in the Western Isles there was close working with the local health board and, given “cold, damp homes tend to generate health conditions”, they were trying to “couple together” data relating to ill health with that covering fuel poverty. 83

100. Regarding the wider benefits of measures such as insulation and draught proofing, he told the Committee this was not simply about saving people money—

… we are making people’s lives completely different; transforming their lives so that they do not have to huddle in one room. 84

101. He said that even a modest amount set aside in the budget for that local level work that had been proven to improve people’s living conditions “would make a huge difference”. 85

102. Mr Kerr thought education should be taken “much more seriously” if people are to understand the choice available to them with tariffs, for example. Otherwise, they might end up switching for switching’s sake rather than necessarily securing a better deal. 86

103. It should be recognised, argued, Professor Sigsworth, that fuel poverty eradication measures alone will not solve the problem. There were people in properties rated favourably for energy efficiency but who remained in fuel poverty. Mapping of “all the direct and indirect connections” was underway he said and—

The solution requires a much wider look at the issues. 87

104. Of fuel poverty having been made a National Infrastructure Priority (NIP), Professor Sigsworth said—

…it gives us an opportunity to think about uniquely Scottish solutions … 88

105. In written evidence to the Committee, WWF Scotland was more sceptical, suggesting there was both a lack of detail and of “long-term ambition”. It recommended that the Draft Budget should “reflect the NIP commitment, at least in a transitional manner”. 89
106. Mr Kerr stressed the importance of the NIP and said the question to pose was whether budgets could be set over a five or ten year period in order “to commit future parliaments”. He told the Committee—

> We need to ask ourselves where we want to be and how much we realistically need to get on the table.\(^90\)

**ECO, HEEPS and beyond**

107. Heaping praise on HEEPs, Ms McQuillan described it as “fantastic” and having “transformed” whole estates, with 800 houses in Dundee externally insulated in the last year. In that city owners of ex-council houses were “among the poorest” and HEEPs was being used to target such owner-occupiers.\(^91\) She said—

> If people are not out of fuel poverty, they are certainly warmer for the same amount of money.\(^92\)

108. The view of Mr Wilson was that in rural areas the Energy Company Obligation (ECO) should be “decoupled” from HEEPs. He felt the focus should be more on fuel poverty than carbon saving.\(^93\) Mr Kerr concurred, saying the emphasis should be on “quality of life” and improving the energy efficiency of people’s homes to that end.\(^94\)

109. Professor Sigsworth said “one of the obstacles” had been the use of carbon saving measures as “a surrogate” for tackling fuel poverty. The idea that making a home energy efficient would solve the problem was no longer valid. It could “go a long way” to addressing fuel poverty but there was “a lot more to do as well”. He said—

> We do not want a surrogate; we want a direct and focused fuel poverty reduction component, and that … is what the environment minister promised in the announcement about the infrastructure priority in June.\(^95\)

110. Scathing of the administrative side of ECO, which he described as “horrible”, “crackers”, “nuts” and “daft”, Mr Wilson said it would need to be much improved if it were to become a devolved scheme—

> You are spending probably three times as much on administration as you are on simple measures.\(^96\)

111. However, Scotland did “reasonably better that we might have initially thought” in the money it currently received from ECO, he said, justified by factors such as climate and rurality.\(^97\)

112. A note of caution was sounded by Mr Kerr. There had been “a lot of lobbying” at UK level, he said, from those arguing how ECO’s removal could reduce people’s bills—
113. ECO had to be deployed in a particular way, said Professor Sigsworth, and did not enable the treatment of “hard-to-treat properties” in more remote areas. The “spectrum of opportunity” went wider than ECO. The “range of funds” provided an opportunity to get “best value” and ensure we were better “dealing with our problems”.

Scottish Government position

114. Asked about the commitment to make energy efficiency a national infrastructure priority while the figures suggest less of an outlay this year, Mr Swinney described that line in the budget as “static”. He said—

In a context where the resources available … are reducing, that outcome demonstrates the Government’s commitment.

115. He talked of a “long-term commitment” to dealing with fuel poverty and boosting energy efficiency, categorising the funding as “sustained … over many years”. Addressing the “loss of £15 million of resources” coming from a discontinued energy efficiency programme, he said—

That is not a case of a general budget choice that we have made; that is money that has stopped, courtesy of the UK Government.

116. In an exchange over how much was bespoke UK funding and how much its own outlay, the Cabinet Secretary said it was “all Scottish Government expenditure”. He told the Committee—

… the £100 million of funding that we are providing in the area is £100 million more than the United Kingdom Government is providing, which is a pretty tangible commitment that shows our determination to tackle climate change and deliver energy efficiency.

117. Responding to questions on the overall expenditure for tackling fuel poverty and the view that this represented a significant reduction, down 13%, he said—

No, because I am putting the budget decisions that I have made into a proper context, as the committee would expect me to.

118. Regarding Scotland’s share of the UK-wide ECO spend—

… we have managed to secure 11.5 per cent of total measures under ECO in Scotland—the performance has been good.
119. Mr Swinney said the Scottish Government would be able “to exercise some flexibility” with ECO once the relevant powers had been devolved and the intention then was to combine delivery “to provide solutions for individuals rather than delivering just one bespoke programme” while doing so in “an integrated way”.

120. Acknowledging the need to target resources at those rural households suffering the deepest levels of fuel poverty, by “strengthening the proposition” through partnership working with local authorities and community groups, he said—

... fuel poverty will be more easily visible in areas of urban concentration, but it is no less serious in areas of rural isolation.

Recommendations and conclusions

121. Taking into account the net effect of UK and Scottish Government decisions there will be a 13% reduction in overall spending on energy efficiency and fuel poverty. It is now abundantly clear that the deadline for the statutory target of ending fuel poverty “so far as reasonably practicable” by November 2016 is not going to be met. Not only is it not going to be met, it is not going to be met (in the words of Energy Action Scotland) “by some considerable way”.

122. And as we have noted in previous budget reports, factors out-with the purview of the Scottish Government – such as market conditions and policy decisions made at UK level – are well understood and acknowledged. Likewise the scale of the challenge, especially when it comes to reaching homes and even whole communities forced to endure conditions of acute fuel poverty.

123. The Committee previously requested regular updates on progress and we were especially interested in the impact and viability of initiatives/schemes on the ground and specifically those directed at areas of “deep fuel poverty”. We said that a robust and up-to-date cost analysis of what it would take to eradicate fuel poverty could help focus minds on the November 2016 deadline. We repeat that call here.

124. The Committee notes the evidence we heard about the need for more joined-up services (given the evident links between fuel poverty, poor health and social care), moving away from the use of carbon saving measures as “a surrogate” for tackling fuel poverty, and, following the transfer of additional powers flowing from the Scotland Bill, a positive sense of how we might better tailor resources to reach those households most in need.

Patrick Harvie dissented from paragraphs 121-125.
125. With all of that in mind, we seek further detail and clarity from the Scottish Government as to how it arrives at spending decisions in alignment with its broader strategic priorities, particularly in the case of fuel poverty, but also for budgetary allocations pertaining to the fair work agenda.

1 All changes between years are in in ‘cash’ terms, i.e. they are not adjusted for expected inflation.
10 Audiot Scotland’s audit is intended to assess how the agencies determine their priorities, make investment decisions and monitor impact, and to ascertain that public money is being invested in line with strategic priorities and where outcomes are most likely to be successful.
areas in which they will be offered. This means that the Scottish Government is not obliged to restrict finance schemes. The Scottish Government has to use these funds to support equity/loan schemes related to Barnett consequentials resulting from a range of UK Government housing-related equity/loan finance schemes. The Scottish Government has to use these funds to support equity/loan schemes beyond the public sector, but has some discretion in the exact parameters of those schemes and the areas in which they will be offered. This means that the Scottish Government is not obliged to restrict these schemes to housing-related measures and is able to provide a different mix of equity/loan finance.

These loans are funded from the ‘financial transactions’ element of the budget. Financial transactions related measures and is able to provide a different mix of equity/loan finance.

Cabinet Secretary John Swinney announced in February 2015: “Having listened to points raised by Parliamentary committees, I can announce that we will increase investment in domestic energy efficiency by £20 million to provide a total budget of £114 million in 2015-16.” Following the transfer of responsibility between Directorates within Scottish Government who had previously jointly funded advice and support, the total available budget for 2015-16 became £119m.

These loans are funded from the ‘financial transactions’ element of the budget. Financial transactions related measures and is able to provide a different mix of equity/loan finance.

Economy, Energy and Tourism Committee, Official Report, 18 November 2015, Col 34.


Written submission from WWF Scotland, 7 January 2016.
Annexe A

Extracts from the minutes of the Economy, Energy and Tourism Committee and associated written and supplementary evidence

24th Meeting, 2015 (Session 4) Wednesday 7 October 2015
1. Scotland's Budget - witness expenses: The Committee agreed to delegate to the Convener responsibility for arranging for the SPCB to pay, under Rule 12.4.3, any expenses of witnesses in the inquiry.

26th Meeting, 2015 (Session 4) Wednesday 28 October 2015
1. Decision on taking business in private: The Committee agreed to take item 6 in private. The Committee also agreed to review evidence heard at future meetings, in connection with scrutiny of Scotland's Budget, in private.

4. Scotland's Budget 2016-17 - Pre Budget Scrutiny: The Committee took evidence from—
   Professor David Sigsworth, Former Chair of the Scottish Fuel Poverty Forum;
   Norman Kerr, Energy Action Scotland;
   Stewart Wilson, Tighean Innse Gall;
   Heather McQuillan, Dundee City Council.

28th Meeting, 2015 (Session 4) Wednesday 11 November 2015
1. Scotland's Budget 2016-17 - Pre Budget Scrutiny: The Committee took evidence from—
   Alex Paterson, Chief Executive, and Forbes Duthie, Director of Finance and Corporate Services, Highlands and Islands Enterprise;
   Adrian Gillespie, Managing Director Operations, Company Growth, Innovation and Infrastructure, and Iain Scott, Chief Financial Officer, Scottish Enterprise.

2. Scotland's Budget 2016-17 - Pre Budget Scrutiny (in private): The Committee reviewed evidence heard at this meeting.

Written evidence
   Highlands and Islands Enterprise
29th Meeting, 2015 (Session 4) Wednesday 18 November 2015
2. Scotland's Budget 2016-17 - Pre Budget Scrutiny: The Committee took evidence from—

Malcolm Roughead OBE, Chief Executive, and Dr Mike Cantlay, Chairman, VisitScotland;
Marc Crothall, Chief Executive, Scottish Tourism Alliance.

3. Scotland's Budget 2016-17 - Pre Budget Scrutiny (in private): The Committee reviewed the evidence heard at the meeting.

Written evidence
- Scottish Tourism Alliance
- VisitScotland

2nd Meeting, 2016 (Session 4) Wednesday 13 January 2016
1. Decision on taking business in private: The Committee agreed to consider a draft report on Draft Budget Scrutiny 2016-17 in private at future meetings.

2. Draft Budget Scrutiny 2016-17: The Committee will take evidence on the Scottish Government's Draft Budget 2016-17 from—

John Swinney, Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy, John Mason, Director of Economic Development, and Mary McAllan, Director of Energy and Climate Change Scottish Government.

3. Draft Budget Scrutiny 2016-17 (in private): The Committee will consider evidence heard at today's meeting.

3rd Meeting, 2016 (Session 4) Wednesday 20 January 2016
1. Budget Strategy Phase 2016-17 (in private): The Committee considered a draft report to the Finance Committee.

8. Budget Strategy Phase 2016-17 (in private): The Committee considered a draft report to the Finance Committee. Various changes were agreed to, and thereport was agreed for publication.
Annexe B

Other written evidence

WWW Scotland