Pre-budget scrutiny on the 2027/28 draft Scottish budget

Scottish Enterprise

Dear Convener

Scottish Enterprise (SE) welcomes the opportunity to contribute to the Committee's budget scrutiny 2027/28 and participate in the evidence session on 6 October.

Economies across the OECD continue to face a number of global challenges, including weak productivity growth, higher borrowing costs and continued volatility in energy and global markets. Scotland and the UK more widely are no exception.

Despite this, Scotland has strong foundations, whether in renewable energy, innovation, or international trade. We are well positioned to compete for global capital and take a leading position in the industries of the future.

As Scotland's national economic development agency, Scottish Enterprise brings together the expertise, experience, networks and ambition needed to drive economic transformation at scale, across Scotland. We concentrate our efforts on the areas where Scotland has the greatest potential to be internationally competitive, areas where, together with others, we can scale-up innovation, unlock investment, and create significant impact through internationalisation.

We work across the full growth agenda supporting entrepreneurship, stimulating innovation, attracting investment, enabling international growth, driving capital investment. We back ambitious business and we back regional ambition. We help create the long-term conditions for whole sectors to thrive, from offshore wind to life sciences.

We are a critical innovation catalyst, bridging the gap between research and commercial success through our strategic partnerships with innovation centres and Universities and delivery of spin-out and start-ups programmes, commercialisation support and early-stage funding. As a trusted convenor, we connect high growth potential businesses, investors, academia, government and the wider public sector to unlock opportunities and accelerate growth at scale. We play a distinctive role as a direct investor, co-investing where risk is highest and supporting projects with significant economic potential that may not otherwise secure private sector backing.

We have a strong track record of delivery. In 2025/26 companies and projects supported by Scottish Enterprise:

- Forecast international sales of **£2.15 billion, 12,459** new and safeguarded Real Living Wage jobs including almost **5,000** higher-paid roles, **£355 million** in innovation investment helping businesses develop and commercialise new

technologies, more than £1 billion in business capital expenditure supporting investment in facilities, equipment and future growth

- Raised **£348 million** in growth funding supporting ambitious scale up plans

- Estimate **518,000 tonnes** of CO2 savings, supporting Scotland's path to net zero.

Additionally, Scottish Enterprise generated £64 million of business income (including for example income from investment activity, property disposals and rental income).

We follow best practice economic modelling (based on HM Treasury Green Book principles) to evaluate the economic impacts and financial return of our activities. For 2025/26 activity the impacts are expected to ramp up and last for the next five years amounting to:

- a cumulative net additional GVA impact of **£7.7 billion** (the net additional GVA in 2025 is equivalent to 0.5% of total Scottish GVA from a budget that is 0.1% of total Scottish GVA).

- around **18,000** net additional jobs

- A net additional GVA impact ratio of 1:28 for every pound of expenditure (calculated based on the above GVA impact)

- a cumulative Scottish Income Tax take of **£514.8 million** - received by Scottish Government and used to fund key national priorities (this is almost twice our 2025/26 budget due to the enduring nature of employment impacts and subsequent Income Tax collection over the next 5 years).

We target and prioritise our resources around three core missions that contribute directly to the Scottish Government's ambitions for the economy:

1. Accelerating the Energy Transition: A targeted approach supporting opportunities such as offshore wind while helping supply chain companies manage the transition from oil and gas, protecting jobs and skills. Central to this is a coordinated national approach to major industrial assets, including our work to position Grangemouth as a hub for multiple clean energy industries.

2. Boosting Capital Investment: Building a pipeline of high-value investment opportunities by working with partners to develop projects early, reduce delivery risk and create compelling propositions for investors. Through a place-based approach, we help translate national priorities into regionally distinctive opportunities that strengthen Scotland's international competitiveness.

3. Scaling Innovation: accelerating the growth of globally competitive businesses in sectors where Scotland can compete internationally, including life sciences, fintech, space, energy technologies, advanced manufacturing and critical technologies. A

planned national Venture Builder model will help drive Scotland's research strengths into more scalable, high-value companies with global potential.

Scottish Enterprise helps convene capital and delivery partners around Scotland's economic priorities and opportunities. By mobilising partners behind shared outcomes, we help convert investment ready projects, unlock private investment and accelerate delivery. Recent examples include our **£20 million** strategic partnership with ETZ Ltd in Aberdeen and Ryanair's **£40 million** expansion at Prestwick.

Public service reform is embedded in how Scottish Enterprise operates. By simplifying services, strengthening our use of digital, data and AI, and strengthening our evidence-led approach to decision making, we are becoming a more agile, responsive and effective organisation. This enables us to improve the customer experience, deepen partnership working and focus our efforts where they deliver the greatest economic impact for Scotland.

Set out the current funding provision to Scottish Enterprise in the 2026/27 budget

The table in Annex 1 shows the breakdown of the 2026/27 budget compared to 2025/26 for comparison
purposes.

We receive additional funding from Scottish Government at the Autumn Budget Revision and Spring Budget Revision to deliver specific ring-fenced projects and programmes. The total budget we therefore expect to receive based on latest assumptions for 2026/27 (excluding non-cash as not available for core delivery) is **£251.6 million**. This compares to **£250.1 million** for 2025/26.

How you measure your achievements against the targets and outcomes set for the organisation

Scottish Enterprise's Board approves targets for our Key Performance Measures each year. Target ranges are set based on budget availability, historic trends, economic context and official statistic forecasts.

The Key Performance Measures align with Scottish Government national priorities and cover key drivers of productivity. These are designed to strengthen the performance of the Scottish economy and directly deliver additional employment impacts.

All measures are collected on a gross attributable basis, meaning they relate directly to the package of support provided by Scottish Enterprise and the outcomes expected to result from that support.

All projects are assessed for additionality to ensure that support leads to outcomes that would not otherwise occur, and that our support level is the minimum required to ensure the project can proceed.

This includes testing whether support accelerates delivery, improves the quality of outcome, and/or increases the scale of activity and investment. It is only once a project has been assessed in this way that it can count towards our measures.

For projects receiving less than **£500,000** of support a proportionate assessment is undertaken, reflecting the scale and nature of the project. For projects receiving more than £500,000 in Scottish Enterprise support a full formal Economic Impact Assessment (EIA) is undertaken by a specialist team to ensure impacts generated adjust for wider real positive and negative economic effects. The EIA considers:

- Deadweight - impacts that would happen anyway. SE would not support activity that would simply happen anyway

- Displacement – impacts that negatively affect other Scottish-based companies in similar markets (product market displacement) or through accessing key variables such as land, labour and/or capital (factor market displacement). SE would not support activity where high displacement was possible

- Substitution – the substitution of one variable for another in order to benefit from public sector assistance. SE would not fund any activity where this was a possibility

- Leakage – impacts that are generated beyond Scotland and are therefore lost to Scotland. SE only supports activity that improves the Scottish economy

- Multiplier effects – the positive impact on the Scottish economies through supply chain spend and the spending of staff in companies supported and their supply chains. SE seeks to maximise supply chain impacts maximising the value of our support

Delivery against targets are collated as projects and services are delivered. Year to date performance and year end forecasts are monitored on an ongoing basis to actively manage performance and adjust resources as required, and for reporting to the Scottish Enterprise Board for discussion and consideration.

Final performance outturn figures are fed into Scottish Enterprise's Impact Model which converts these results into:

- estimates of economic impacts on Scottish GVA and employment, highlighting achievements against Scottish Government strategy

- estimates of financial benefits for Scottish Government in terms of Income Tax receipts used to fund national priorities

Views on SE's allocation in the forthcoming budget for 2027/28, and views on the implications of the Scottish Spending Review 2026

As a non-departmental public body, it would not be appropriate for Scottish Enterprise to comment on the level of budget settlement it should receive. However, while

recognising the significant pressures on public finances, two points are worth highlighting.

Firstly, Scottish Enterprise should be viewed as an investment in Scotland's economy rather than as a cost of administration or delivery. We generate significant income that can be recycled into further economic development activity (we have generated £466m of business income over the last 5 years), while our support for business growth, innovation, productivity and investment contributes to a stronger economy, increased tax revenues and wider societal benefits. Secondly, we have a strong pipeline of projects and opportunities ready for delivery that have the potential to make a significant contribution to Scotland's economic ambitions. Realising these opportunities will help drive investment, create high-value jobs, enhance productivity and support long-term economic growth.

At the same time, Scottish Enterprise continues to face the same inflationary and cost pressures affecting organisations across the public, private and third sectors, placing additional pressure on the resources available to deliver our remit, particular in the face of sustained real terms budget reductions.

We would welcome increased budget flexibility and multi-year funding which would enable us to be bolder with our forward financial planning and investment decisions. Significant economic opportunities can emerge quickly and often require timely intervention. At the same time, elements of our income remain inherently volatile. Greater flexibility and reduced administrative costs and budgetary risks increases our ability to respond to emerging opportunities with pace.

Longer-term outlook for the Scottish economy from your organisational remit point of view

From our engagement with businesses, investors, and major projects, we see an economy that remains resilient but is likely to experience modest rather than rapid growth. Scotland’s real onshore GDP is estimated to have grown by 0.7% in the three months to June 2026, and the Fraser of Allander Institute forecasts annual growth of 1.0% in 2026, 1.1% in 2027 and 1.2% in 2028. This growth will depend on the pace and scale of conversion of the big industrial opportunities for Scotland in a timely manner, for example floating offshore wind, AI-enabled services and industrial adoption; life sciences; and defence.

Businesses are taking investment decisions amid high uncertainty. BoE base rate remains at 3.75%, and inflation was 3.1% in August, sustaining pressure on financing costs and project viability. Energy volatility adds a further risk: crude oil averaged $91 a barrel in August and reached a high of $113.48 in early September trading. Higher oil prices can support parts of Scotland’s oil and gas economy, but they also raise costs across the wider business base and complicate investment decisions in both existing and transition technologies.

Trade tensions are also influencing investment decisions. In a Scottish Government survey covering late April and early May, 12.5% of businesses with at least 10 employees reported an impact from US tariffs, rising to 28.3% among goods exporters and 26.1% in manufacturing. Direct exposure is concentrated: goods exports to the

US are equivalent to 1.9% of Scottish GDP, excluding offshore oil and gas, with beverages representing 25% of those exports. The wider risk is that prolonged trade uncertainty weakens demand, delays investment, and reorganises supply chains around resilience and market access.

AI will affect Scotland through both investment and adoption. The immediate global investment wave is concentrated in data centres, computing capacity, semiconductors, and energy infrastructure. The broader opportunity is to raise productivity through adoption in sectors in which Scotland already has capability, such as financial and business services, life sciences, advanced manufacturing, and energy. The IMF estimates that around 60% of employment in advanced economies is exposed to AI, with some work complemented and some displaced. Scotland's challenge is therefore to secure productive investment while helping firms adopt AI, develop skills, and spread the gains beyond a small number of large businesses.

International capital remains available but is increasingly selective. Global FDI rose 6% to $1.6 trillion in 2025, but more than 80% went to the 20 largest recipient economies and much of the increase reflected AI-related megaprojects. Scotland secured 108 inward-investment projects in 2025 and remained the leading UK destination outside London, although project numbers fell by 20%. This reinforces what we see directly: investors increasingly require ready sites, and access to required infrastructure, skills, energy capacity, policy certainty, and credible delivery timetables.

We see Scotland's strongest potential sources of growth in the energy transition and associated engineering supply chains; AI-enabled services and industrial adoption; life sciences; advanced manufacturing; space, photonics, and quantum technologies; and defence and other strategically important industries. Growth must also come from greater investment, innovation, technology adoption, and international sales across the established business base. The measures of progress will be a combination of additional capital invested by firms, companies reaching scale, productivity and export growth, higher-value employment, and the share of investment retained through Scottish supply chains.

Our central scenario for Scotland's economy is one of modest aggregate growth, constrained public expenditure and strong international competition for capital. SE's missions are designed to identify and focus on the most transformative opportunities within such a scenario. We are focussed on converting the energy transition into Scottish industrial value; increasing the number of innovation-led companies that reach international scale; and developing investable propositions that can crowd in private capital. These priorities are intended to address the points at which Scotland's opportunities most often fail to convert into economic impact.

Our role is to maximise the impact from our resources by focusing on the most transformative opportunities and leveraging the wider economic development system. Our expected £251.6 million delivery budget will be less than 0.4% of the Scottish Budget, but we create an outsized impact from that by bringing market intelligence in, identifying barriers early, convening the organisations needed to resolve them and using targeted intervention to influence investments much larger than our own contribution. Scotland's next phase of economic growth and resilience will largely be driven by government policy, regulation and market forces aligning around areas

where Scotland has credible international advantages. Scottish Enterprise will continue to play a helpful and positive role in supporting that alignment and maximising its potential value for Scotland’s economy.

We trust this information will be helpful to the Committee's deliberations and look forward to discussing these issues further at the session on 6 October.

Scottish Enterprise submission Annex 1

2026/27 Budget Settlement compared to 2025/26 - baseline budgets					
	26/27	**25/26**	**Difference**	**Difference**	**Comments**
	£m	**£m**	**£m**	**%**	
RDEL including Expected Credit Losses and Write Off's	132.42	132.42	0	0.0%	
RDEL (Ring-fenced for Prestwick Hangar Expansion Project)	1.62	0	1.62	100.0%	SG have provided ring-fenced funding towards the
Total RDEL	**134.04**	**132.42**	**1.62**	**1.2%**	
CDEL	87.082	82.038	5.044	6.1%	The increase related to additional budget we required for the impact of accounting under IFRS 16 (Leases) where we expected a significant charge in 26/27. The majority of the costs ended up being incurred in 25/26 and so the majority of the increase was available for core CDEL projects given the need to find space to fund the IFRS 16 costs in 25/26
CDEL (Ring-fenced for Prestwick Hangar Expansion Project)	1.52	0	1.52	100.0%	
Total CDEL	**88.602**	**82.038**	**6.564**	**8.0%**	
FT (net budget)	0.931	10.26	-9.329	-90.9%	
Total	**223.58**	**224.72**	**-1.145**	**-0.5%**	
Non- cash	13.5	13.5	0	0.0%	Ring-fenced for mainly depreciation this budget is not available for core delivery
Total budget	**237.08**	**238.22**	**-1.145**	**-0.5**	

Scottish Enterprise
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