



The Scottish Parliament
Pàrlamaid na h-Alba

Economy, Energy and Tourism Committee

Report on Draft Budget 2014-15

The Committee reports to the Finance Committee as follows—

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

ECONOMY

National Performance Framework *[paragraphs 14-24]*

- 1. The Committee believes the NPF has the potential to play an important role in informing the policy choices made by the Scottish Government and its agencies. We invite the Scottish Government to consider how it might better demonstrate the role, impact and relevance of the NPF and how it does inform policy and spending priorities and levels.**
- 2. Furthermore, the Committee recommends that the Scottish Government considers how it might better link the NPF into the annual draft budget scrutiny process to allow the Parliament, and interested external bodies, to consider how the NPF targets, outcomes and indicators inform spending priorities and levels.**
- 3. The Committee acknowledges the complexity and challenge of linking budget lines to particular indicators in the NPF. However, we welcome the Scottish Government's discussions with a range of key organisations, including parliamentary committees, the STUC and Oxfam, on the NPF and invites it to consider how, once these discussions are concluded, it will inform the Parliament of the outcomes.**

Specific indicators [paragraphs 25-29]

- 4. The Committee invites the Scottish Government to respond to comments on this particular indicator *[increase the number of businesses]* and either to demonstrate that the indicator is a meaningful measure of increased growth potential or consider introducing a more nuanced and detailed set of indicators of entrepreneurial growth.**

Policies to boost sustainable economic growth

Access to funding for small and medium sized businesses [paragraph 30-46]

5. The Committee invites the Scottish Government to detail what the budget in 2013-14 for the EDGE fund was and what the total number and value of grants given to date has been.

6. The Committee also requests the Scottish Government provides an update on the outcomes of the RBS review and OFT study and to state what difference these will make to SMEs accessing funding.

7. The Committee also asks the Scottish Government to provide full details of the current and prospective availability of public and public/private partnership funding for small business and to indicate how it can address concerns of some in the business community relating to the availability and affordability of finance and information about available sources of funding.

Scottish Loan Fund and funding guarantee schemes [paragraphs 47-50]

8. The Committee recommends that the Scottish Government details what budget the Scottish Loan Fund has received since its inception and what level of funding it has provided to SMEs in each year (and what number of SMEs have benefitted). The Committee also invites the Scottish Government to respond to the view of Entrepreneurial Exchange that the Scottish Loan Fund is currently underperforming.

Access to procurement opportunities for SMEs [paragraphs 51-58]

9. The Committee invites the Infrastructure and Capital Investment Committee, as part of its scrutiny of the Procurement Reform (Scotland) Bill, to seek further detail on the value of public sector contracts awarded to Scottish companies.

Women and SME start-ups [paragraphs 59-67]

10. As a general principle this Committee supports opportunities for all in terms of initiatives to encourage business start-ups. However, the majority of the evidence which we heard related to the participation of women and ethnic minority groups.

11. The Committee recommends that the Scottish Government provides further details of the work which it is taking forward with, for example, Professor Sara Carter and Women in Business and, furthermore, outlines its plans for increasing both the total number of business start-ups and the proportion of these by women. We recommend that the Scottish Governments set out how this goal could be better reflected in the NPF.

12. The Committee also draws its consideration of this issue to the attention of the Equal Opportunities Committee for its information.

Ethnic minority community and SME start-ups [paragraphs 68-73]

13. The Committee recommends that the Scottish Government provides further details of its plans for increasing both the total number of business

start-ups and the proportion of these by ethnic minority groups. We also recommend that the Scottish Government sets out how this goal could be better reflected in the NPF.

14. The Committee also draws its consideration of this issue to the attention of the Equal Opportunities Committee for its information.

Equal access and participation in the policies and programmes within Skills Development Scotland [paragraphs 74-83]

15. The Committee invites Skills Development Scotland to update the Committee at the midway point in 2014-15 on what improvements it has brought about with regards participation by black and minority ethnic groups and disabled people and gender alignment.

16. The Committee requests that Skills Development Scotland provides an update at the midway point in 2014-15 detailing what further work it has done in this area and how it has managed to create and promote more opportunities for women across all of its programmes.

17. The Committee recommends that the Scottish Government outlines what specific budget and policies it will put in place to address the gender, ethnicity and disability imbalance in the Modern Apprenticeship scheme.

18. The Committee requests that the Scottish Government responds to the findings of the research and the submission from the EHRC and further details any actions which it will be taking as a result.

19. The Committee also draws its consideration of this issue to the attention of the Equal Opportunities Committee for its information.

The role and funding of the enterprise agencies

Identification of potential growth SMEs and support [paragraphs 84-107]

20. The Committee welcomes the challenging target that the enterprise agencies have set themselves for increasing the number of account managed firms by 20% over the period to 2015. On the basis of the progress to date – whilst welcome – it must be open to question whether this will be achieved. The Committee would welcome evidence from the agencies to support the view that the rate of increase in additional account managed companies would be achieved.

21. The Committee recommends that Scottish Enterprise and Highlands and Islands Enterprise update the Committee, as part of their respective draft 2015-16 budget submissions, on the progress towards the target for increasing the number of account managed companies and what measures they have taken to increase progress towards achieving the target.

22. The Committee invites Scottish Enterprise and Highlands and Islands Enterprise to provide further detail on how they seek and secure feedback from each of their account managed businesses with regards their overall

experience of the process, the quality and relevance of the information given to the business by the account manager, the account managers understanding of the business concerned and of its specific needs and whether the business achieved the growth potential identified. The Committee recommends that this information also be provided as part of next year's budget scrutiny phase.

23. The Committee requests that the Scottish Government provides the following information for Business Gateway in 2012-13 and to date in 2013-14: the total (a) public expenditure on the service; (b) number of businesses assisted; (c) number of new starts assisted; and (d) number of new businesses started (i.e. new VAT registrations) in the corresponding period.

24. The Committee invites Scottish Enterprise and Highlands and Islands Enterprise to each provide the following information in relation to its account managed companies: the total (a) agency expenditure on account managed companies in 2012-13 and to date in 2013-14; (b) other public support/funding received by account managed companies in these periods; and (c) number of companies in account management during these periods.

25. The Committee recommends that the Scottish Government considers whether it is now time to carry out a review of the role and functioning of small business support covering the business gateway network and the work of the enterprise agencies given that a number of years have passed since the initial reforms. The Committee also gives notice of its intention to return to this subject area within this parliamentary session.

Other key issues

Social enterprises [paragraphs 108-113]

26. The Committee invites the Scottish Government to indicate how it is developing the opportunities for social enterprises to expand, develop and become involved in entrepreneurial opportunities and what funding has been allocated to assist with this.

27. The Committee requests that VisitScotland outlines what actions it will take to improve its engagement with social enterprises operating in the tourism, hospitality and leisure sectors.

Capital funding [paragraphs 114-119]

28. The Committee recommends that capital expenditure continues to receive as much priority as practicable and recognises the role of capital asset creation in fostering long-term sustainable growth. However, it also invites the Scottish Government to monitor and publish details of the comparative impact of the different types of capital projects in creating additional jobs through capital spend, as against spending in other areas.

Skills Development Scotland [paragraphs 120-122]

29. The Committee invites Skills Development Scotland to provide an update as part of its draft budget submission next year detailing what additional funding it has levered in to supplement its 2014-15 budget.

Communication with SMEs over the Modern Apprenticeship scheme [paragraphs 123-125]

30. The Committee welcomes the commitment from the Cabinet Secretary, and commends the work of the Scottish Employability Forum, to improve the communication from the public sector with all private sector bodies, such as those within the entrepreneurial sector. We invite the Forum to consider whether its efforts can be improved and whether it will meet with bodies such as the Entrepreneurial Exchange and WeDO Scotland to discuss this issue and to report back to the Committee setting out actions from such discussions.

ENERGY ISSUES

Fuel poverty

Fuel poverty, domestic energy efficiency and climate change budget [paragraphs 126-136]

31. Tackling fuel poverty remains a top priority for the Committee, particularly in light of the increases announced recently by a number of the 'big 6' energy suppliers at the onset of winter. We recognise that this is a goal shared by the Scottish Government and that action in this area is a joint initiative of the Scottish and UK Governments (for example through the ECO programme), as well as private sector utilities.

32. However, we are concerned at the ability of the Scottish Government to meet its statutory target by 2016 and the suggestion by some of our witnesses that at least £200 million per year from both the public and private sector will be needed in this respect and that there is a lack of clarity that the private sector component of this sum is being spent in Scotland. The Committee invites the Scottish Government to provide further information on the current total level of public and private expenditure and on projected expenditure levels for 2014-15 and 2015-16.

33. The Committee further invites the Scottish Government, alongside the climate change level 4 figures (see 'Provision of draft budget information' below) each year, to provide a detailed breakdown of: the contributions which (a) it and (b) the private sector are making towards the £200 million budget; what programmes, and to what amount, are being funded through the £200 million; and what assessment has been made on the effectiveness of each area of spend.

Reporting and meeting targets [paragraphs 137-141]

34. The Committee invites the Scottish Government to publish an annual report, alongside the draft 2015-16 budget document (and each year

thereafter) and the climate change mitigation funding figures, on the progress of the fuel poverty programmes.

35. The Committee also draws these recommendations to the attention of the Rural Affairs, Climate Change and Environment Committee for its interest.

Key factors in tackling fuel poverty [paragraphs 142-146]

36. The Committee invites the Scottish Government to set out its strategy to better engage people in schemes which will lead to a reduction in fuel poverty and to detail how it will “elicit commitments” for example from energy companies in this regard.

37. The Committee also draws this recommendation to the attention of the Infrastructure and Capital Investment Committee for its interest.

The Energy Assistance Package and Home Insulation Scheme – transfer of resource to tackle the ‘bedroom tax’ [paragraphs 147-155]

38. The Committee invites the Scottish Government to confirm that any issues around the processes which it had to go through with the UK Government have been resolved and that it has put in place necessary measures to maximise uptake of the Home Energy Efficiency Programme in the 2014-15 budget year.

39. The Committee also draws this recommendation to the attention of the Infrastructure and Capital Investment and the Rural Affairs, Climate Change and Environment committees for their interest.

40. The Committee is disappointed that factors outwith the Scottish Government’s control have delayed certain aspects of the Home Energy Efficiency Programme. Whilst we acknowledge the importance of funding energy efficiency measures we support the Scottish Government’s proposed budget transfer from the Home Energy Efficiency Programme (coupled with savings from the enterprise bodies and other budget lines) to provide support to people as a result of the impact of the UK Government’s under occupation of social housing charges (“the bedroom tax”).¹

41. The Committee also draws this recommendation to the attention of the Welfare Reform Committee for its interest.

Renewable energy

A National Performance Framework indicator on renewable heat? [paragraphs 156-158]

42. The Committee recommends that the Scottish Government gives consideration as to how national indicators on both renewable electricity

¹ Agreed to by division: For 5 (Christian Allard, Chic Brodie, Mike Mackenzie, Dennis Robertson and Marco Biagi), Against 4 (Murdo Fraser, Alison Johnstone, Margaret McDougall and Hanzala Malik). There was a vote on one amendment to this recommendation. The detail of the vote is included in Annex A

production and heat could be included in the National Performance Framework.

Investment in renewables [paragraphs 159-172]

43. The Committee welcomes the Scottish Government's efforts to date in this policy area and seeks further information on its assessment of the market and policy developments which will restore momentum to investment in renewables and on projected investment growth in specific activities and forms of development over the next two years. The Committee seeks the Scottish Government's views on possible alternative measures to support investment in renewables if market conditions lead to an underspend of the budget for renewable energy capital expenditure.

44. The Committee requests that the Scottish Government provides further detail on the projected budget for the Renewable Energy Investment Fund in 2014-15 and 2015-16. The Committee also invites the Scottish Government to detail what projects, and to what amount, have been funded through the Fund since 2012-13.²

45. Furthermore, the Committee invites Highlands and Islands Enterprise and Scottish Enterprise to indicate how much from their respective budgets for 2012-13, 2013-14 and 2014-15 was, and will be, allocated to renewable energy.

46. Finally, in light of the Audit Scotland report, the Committee invites the Scottish Government to provide further information on how it will, given the level of funding it is making available in 2013-14, 2014-15 and 2015-16 and market conditions, meet its 2020 renewables target of 100% of demand for electricity from renewable energy as well as its target of 11% renewable heat.

47. The Committee also draws these recommendations to the attention of the Rural Affairs, Climate Change and Environment Committee for its interest.

Skills [paragraphs 173-176]

48. The Committee invites Skills Development Scotland to confirm what funding it will be allocating in 2014-15 to provide training which will support the renewables sector.

49. The Committee invites Highlands and Islands Enterprise to outline how it is taking this work with the university sector forward, what funding is being applied in support, and what benefits have been achieved to date.

District heating [paragraphs 177-182]

50. The Committee invites the Scottish Government to clarify what funding is being made available in 2014-15 for district heating projects and

² There was a vote on an amendment to this recommendation. The detail of this vote is included in Annex A

under what schemes and what funding it has made available as part of its response to the District Heating Action Plan.

51. The Committee invites the Scottish Government, as part of its climate change mitigation measures figures each year, to specify what funding is being allocated specifically for district heating projects, including those measures which it agrees to take forward on the recommendation of the continuing work of the Expert Commission on District Heating.

TOURISM MATTERS

Opportunities for SMEs in 2014 *[paragraphs 183-188]*

52. The Committee recognises that 2014 is a significant year for VisitScotland and that it would appear to have some plans in place for the opportunities on offer and how to engage with Scotland's business community. However, we would welcome further information on how VisitScotland will share across all sectors the information which it gathers to allow all of Scotland's businesses to consider what opportunities this profiling may offer.

53. The Committee gives notice that it intends to return to this subject area early in 2014 for a progress report from all of the relevant public sector bodies involved as to the detail, and the success to date, of the plans for engaging Scotland's business community with the opportunities on offer from 2014 and its legacy.

Beyond 2014? [paragraphs 189-191]

54. The Committee requests that VisitScotland, in its draft budget submission for 2015-16, details what funding has been allocated to EventScotland, the Business Tourism Unit and the Conference Bid Fund, and what returns have been secured as a result of previous budgets with regards visitor number and visitor spend.

VisitScotland's marketing budget *[paragraphs 192-194]*

55. The Committee invites VisitScotland to indicate the projected return on the £50.11 million marketing budget in terms of rate of return, visitor numbers and spend compared with visitor numbers and spend for 2012-13 and 2013-14.

VisitScotland and the National Performance Framework [paragraphs 195-196]

56. The Committee lacks a degree of quantitative financial information on these matters and requests that the Scottish Government clarifies what specific budgets were realigned to support the VisitScotland corporate objectives and relevant outcomes under the NPF.

EQUALITY ISSUES

Equality issues [paragraphs 197-200]

57. The Committee welcomes the comments of the Cabinet Secretary that he sets a great deal of store by the dialogue that he has with the Equality and Budget Advisory Group as he formulates his choices.

58. The Committee also draws this to the attention of the Equal Opportunities Committee for its information, particularly the Committee's recommendations and conclusions at paragraphs 59 to 83.

OTHER ISSUES

Strategic Forum and efficiency savings [paragraphs 201-211]

59. At the conclusion of the current financial year, the Committee invites each of the Strategic Forum partners to provide us with a detailed breakdown of the savings which they each made, i.e. what the saving was in respect of and what amount.

60. Based on the information available to us, the Committee is unable at this time to identify whether and how the £40 million target for efficiency savings by the Strategic Forum in the 2014-15 financial year will be met. We appreciate that these figures are subject to change and that financial year 2014-15 is not yet underway. Accordingly, we ask the Strategic Forum partners to provide further detail on how they will make these savings and report to us as soon as possible after 1 April 2014, to outline what action they have taken to ensure such individual savings were achieved.

Asset disposals [paragraphs 212-227]

61. The Committee is not clear what contingency plans are in place should Scottish Enterprise fail to realise the income through property sales that it is required to generate to meet its projected shortfall between its grant in aid and its planned expenditure. The Committee also considers that there must be careful monitoring of whether Scottish Enterprise does secure the best value for these public assets.³

62. One option would be for the Scottish Government to increase its grant assistance to both agencies. Consequently, the Committee invites the Scottish Government to confirm whether it plans to make up any shortfall in income for both enterprise agencies through an in-year adjustment or whether it has/will require the agencies to produce contingency plans for expenditure reductions in the event of asset sales not being achieved.

³ There was a vote on an amendment to this recommendation. The detail of this vote is included in Annex A

63. In this event, the Committee invites Scottish Enterprise to detail what action it will take should it be unable to meet its £4 million and £26.3 million income projections through further property sales or disposal of assets.

64. It also invites Highlands and Islands Enterprise to detail what action it will take should it be unable to meet its £4.5 million income projection through property sales.

65. Furthermore, the Committee invites both enterprise agencies to detail, with regards those properties which they will be seeking to sell, (a) how much it paid for each property when originally purchased; and (b) what the current approximate market value of each property is. The Committee gives notice that it intends to return to this subject in 2014-15 to review the sums which both agencies have been able to raise by property sales and disposal of assets to see if they represent value-for-money.

66. The Committee draws this issue to the attention of the Finance Committee and the Public Audit Committee, for their respective interests, and the Auditor General for Scotland.

Provision of draft budget information *[paragraphs 228-237]*

67. The Committee recommends that the Finance Committee reviews this issue and invites the Scottish Government to consider whether it will in future make available, alongside the requested level 4 figures, the figures on climate change funding.

Budget co-production *[paragraphs 238-239]*

68. Whilst we do not necessarily agree with Social Enterprise Scotland and SCVO comments on “co-production” of the draft budget we invite the Scottish Government to ensure that they and other key stakeholders are fully consulted.⁴

⁴ There was a vote on an amendment to this recommendation. The detail of this vote is included in Annex A

SCOTTISH GOVERNMENT DRAFT BUDGET 2014-15

1. This report sets out the findings and recommendations of the Economy, Energy and Tourism Committee's scrutiny of the Scottish Government's draft budget for 2014-15 which fall within the Committee's remit.

OUR APPROACH TO BUDGET SCRUTINY

Budget Strategy Phase – spring 2013

2. The aim of this phase is to allow the Parliament to scrutinise the progress which the Scottish Government is making in delivering its own targets through its spending priorities and take a strategic overview of the public finances around the mid-point of the parliamentary session. In March 2013, the Finance Committee invited other parliamentary committees to identify specific areas on which they would welcome an update from the Scottish Government with regards its priorities in its Spending Review.⁵ The specific areas of interest to this Committee were as follows—

Scottish Government's economic strategy:

- *Access to finance, particularly for SMEs*
- *Providing advice and support to help SMEs grow, hire staff and take on apprentices*
- *Maximising the public sector's direct contribution to the economy through smart use of public procurement and to help SMEs compete effectively for contracts*

Priorities in relation to individual portfolios:

Finance, Employment and Sustainable Growth

- *Maintaining and further developing a supporting business environment*
- *Develop a coherent approach to assisting our cities and city regions in being the engines of growth for the Scottish economy*
- *Overarching priority for the Transition to a Low Carbon Economy*
- *Spending priority to capitalise on existing competitive advantage in renewables to attract investment and establish a strong supply chain*
- *Priorities relating to VisitScotland*

⁵ Scottish Spending Review 2011 and Draft Budget 2012-13. Scottish Government (September 2011). Available at: www.scotland.gov.uk/Publications/2011/10/04153155/0

Education and Lifelong Learning

- *Delivering 25,000 Modern Apprentices*
- *Opportunities for All initiative*

Infrastructure and Capital Investment

- *Maintain Energy Assistance Package and Home Insulation Scheme*

Other issues

- *Loss of jobs in the public sector being compensated for by the creation of jobs in the private sector with capital funding*

3. It was on these core areas which the Committee subsequently agreed to focus during the budget scrutiny phase, which takes place in the autumn. In addition, the Committee sought to link these core areas to the National Performance Framework (NPF)⁶ which underpins delivery of the Scottish Government's agenda. The Committee's call for evidence therefore sought evidence on these core areas, linked to relevant targets and indicators under the NPF. Full details are available on the call for evidence page.⁷

Guidance

4. The Finance Committee also focused on the NPF in its draft budget scrutiny and highlighted this to other committees in its guidance. This Committee also received guidance from the Equal Opportunities Committee, the Rural Affairs, Climate Change and Environment Committee and the Welfare Reform Committee.⁸ Issues of interest to these committees are highlighted later in this report.

Evidence received

5. The Committee is grateful to all individuals and organisations who engaged with us during this scrutiny, particularly given the tight timetable to which we were working. The Committee welcomed the active participation by local businesses and others during the draft budget discussions which it held in Irvine ahead of its formal evidence session that day (Monday 30 September). We also record our appreciation for the assistance and input from our budget adviser, Peter Wood. All written and oral evidence is available on the Committee's webpage.⁹

⁶ Scotland Performs. Scottish Government. Available at: www.scotland.gov.uk/About/Performance/scotPerforms

⁷ Scottish Parliament Economy, Energy and Tourism Committee. Draft budget 2014-15. Available at: www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/65165.aspx

⁸ Scottish Parliament Economy, Energy and Tourism Committee. Draft budget 2014-15. Available at: www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/65165.aspx

⁹ Scottish Parliament Economy, Energy and Tourism Committee. Draft budget 2014-15. Available at: www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/65165.aspx

GENERAL ECONOMIC CONTEXT AND AN OUTLINE OF THE KEY BUDGET PROPOSALS

6. In his draft budget statement to Parliament on 11 September 2013, the Cabinet Secretary for Finance, Employment and Sustainable Growth (the Cabinet Secretary) stated that the draft budget for 2014-15—

“is focused on delivering investment, protecting household incomes and creating jobs. It values our public services, the people who work for them and what they achieve. It provides opportunities for our young people and security of care for our older people.”¹⁰

7. In oral evidence to the Committee, he referred to the “fragile”¹¹ economic recovery and of the need for “proper balance in the economy” and “careful stewardship”.¹²

8. The Committee notes the views expressed by some of the continuing pressure on public sector budgets. In oral evidence to us, Unison stated that revenue budgets “over the coming years show two tight years and one very bad year, with revenue cuts”¹³ while the Scottish Council for Development and Industry highlighted the “pressing need to strengthen the private sector recovery and prepare Scotland’s budget and public services in order to minimise the impact of the cuts planned for 2016-17 and 2017-18”.¹⁴

9. The Committee recognises the comments of the Cabinet Secretary and, as with last year’s draft budget report, highlights the on-going economic challenges faced by the Scottish Government in both the short- and longer-term.

10. Table 1 below sets out the proposed budget for Enterprise, Energy and Tourism (including employment) spending for 2014-15 and shows this within the context of previous budgets and expected future expenditure. This table shows that there has been a reduction in the Enterprise, Energy and Tourism budget line for 2014-15 compared with the current financial year and also compared to the levels of expenditure in 2008-09.¹⁵

¹⁰ Scottish Parliament. *Official Report*, 11 September 2013. Col 22274

¹¹ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 2 October 2013. Col 3376

¹² Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 2 October 2013. Col 3377

¹³ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 18 September 2013. Col 3258

¹⁴ Scottish Council for Development and Industry. Written submission (page 1)

¹⁵ Scottish Budget: Draft Budget 2014-15 (Annex G, Table 4). Scottish Government. Available at: www.scotland.gov.uk/Publications/2013/09/9971/0

Table 1: Enterprise, Energy and Tourism (including employment) spend:

| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---------|---------|---------|---------|--------------|---------|--------------|---------|
| | Outturn | Outturn | Outturn | Outturn | Est. Outturn | Budget | Draft Budget | Plans |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Enterprise, Energy & Tourism (incl. employment) | 460.3 | 497.8 | 428.1 | 403.8 | 422.5 | 479.4 | 444.5 | 545.7 |

Source: Scottish Government

11. It should be noted, however, that there is a projected increase in this particular budget line in 2015-16, mainly due to increases in the “Enterprise Bodies” and “Energy” budget lines.¹⁶

12. Tables 2 and 3 provide information on the budget lines which fall within the Economy, Energy and Tourism area and on other budget lines to the Committee’s areas of interest. The tables show spending proposals in cash terms and in constant (2013-14) prices.

13. Some of the noteworthy changes within these tables are—

- the fall by £34 million to £81.9 million in 2014-15, a reduction of 29% over the year, in the Energy budget line;
- a 10% increase in Visit Scotland’s budget in 2014-15 to £56.9 million (an increase of £5.3 million over the year);
- a 50%, or £2.9 million, increase to the budget line to £8.7 million for Innovation and Industries;
- Strategic Forum annual savings of £25 million in 2013-14 rising to £40 million in each of the subsequent years;
- a reduction of £3.4 million, or 1.8% in cash terms, to £184 million in 2014-15 for Skills Development Scotland;
- a reduction of £18.6 million in the budget line for Youth Employability and Skills, a decrease of 27.9% in cash terms, to £48 million in 2014-15;
- an increase by £9.8 million to £13.8 million in 2014-15, due to Barnett consequential for the Next Generation Digital Fund;
- an increase of £168.3 million (46% in cash terms) to £532.9 million in 2014-15 for Housing and Regeneration; and

¹⁶ Scottish Budget: Draft Budget 2014-15 (Table 4.06). Scottish Government. Available at: www.scotland.gov.uk/Publications/2013/09/9971/0

- a supplement to the 2014-15 DEL Capital budget with Non-profit distributing (NPD) funding (£809 million), Regulatory Asset Base (RAB) rail enhancements (£449 million), capital receipts from the sale of assets (£80 million), and transferring DEL Resource to DEL Capital (£165 million). This takes the total planned spend on infrastructure in 2014-15 to over £4 billion.

Table 2: 2014-15 Draft Budget plus changes (£m cash):

| Budget line | 2013-14 | 2014-15 | 2015-16 | £m change 2013-14 to 14-15 | % change 2013-14 to 14-15 |
|---|---------|---------|---------|----------------------------|---------------------------|
| Enterprise, Energy & Tourism | | | | | |
| Enterprise Bodies | 331.1 | 337.0 | 400.9 | 5.9 | 1.8% |
| Energy | 115.9 | 81.9 | 130.4 | -34.0 | -29.3% |
| Tourism | 51.6 | 56.9 | 45.7 | 5.3 | 10.3% |
| Innovation and Industries | 5.8 | 8.7 | 8.7 | 2.9 | 50.0% |
| Strategic Forum | -25.0 | -40.0 | -40.0 | | |
| Employability, skills and FE/HE | | | | | |
| College Resource | 511.7 | 521.7 | 525.7 | 10.0 | 2.0% |
| Higher Education Resource | 1,041.6 | 1,060.9 | 1,062.5 | 19.3 | 1.9% |
| Skills Development Scotland | 187.4 | 184.0 | 183.5 | -3.4 | -1.8% |
| Youth Employability & Skills | 66.6 | 48.0 | 48.0 | -18.6 | -27.9% |
| Transport and Infrastructure | | | | | |
| Digital Economy and Infrastructure | 4.0 | 13.8 | 1.0 | 9.8 | 245.0% |
| Planning | 3.6 | 3.5 | 3.5 | -0.1 | -2.8% |
| Housing and Regeneration | 364.6 | 532.9 | 618.6 | 168.3 | 46.2% |
| Warm Homes Fund | 7.8 | 31.3 | - | 23.5 | 301.2% |
| Rail Services in Scotland | 828.2 | 842.8 | 868.7 | 14.6 | 1.8% |
| Motorways and Trunk Roads | 698.1 | 639.0 | 695.2 | -59.1 | -8.5% |
| Ferry Services in Scotland | 111.1 | 146.8 | 166.0 | 35.7 | 32.1% |
| Air Services in Scotland | 39.9 | 50.4 | 49.4 | 10.5 | 26.3% |
| Others | | | | | |
| Third Sector | 24.5 | 24.5 | 24.5 | 0.0 | 0.0% |
| Accountant in Bankruptcy | 2.0 | 2.8 | 1.8 | 0.8 | 40.0% |

Source: Scottish Parliament Information Centre, Financial Scrutiny Unit

Table 3: 2014-15 Draft Budget plus changes (£m 'real' – 2013-14 prices):

| Budget line | 2013-14 | 2014-15 | 2015-16 | £m change 2013-14 to 14-15 | % change 2013-14 to 14-15 |
|---|---------|---------|---------|----------------------------|---------------------------|
| Enterprise, Energy & Tourism | | | | | |
| Enterprise Bodies | 331.1 | 330.7 | 386.5 | -0.4 | -0.1% |
| Energy | 115.9 | 80.4 | 125.7 | -35.5 | -30.7% |
| Tourism | 51.6 | 55.8 | 44.1 | 4.2 | 8.2% |
| Innovation and Industries | 5.8 | 8.5 | 8.4 | 2.7 | 47.2% |
| Employability, skills and FE/HE | | | | | |
| College Resource | 511.7 | 512.0 | 506.8 | 0.3 | 0.1% |
| Higher Education Resource | 1,041.6 | 1,041.1 | 1,024.3 | -0.5 | 0.0% |
| Skills Development Scotland- | 187.4 | 180.6 | 176.9 | -6.8 | -3.6% |
| Youth Employability & Skills- | 66.6 | 47.1 | 46.3 | -19.5 | -29.3% |
| Transport and Infrastructure | | | | | |
| Digital Economy and Infrastructure | 4.0 | 13.5 | 1.0 | 9.5 | 238.6% |
| Planning | 3.6 | 3.4 | 3.4 | -0.2 | -4.6% |
| Housing and Regeneration | 364.6 | 523.0 | 596.3 | 158.4 | 43.4% |
| Rail Services in Scotland | 828.2 | 827.1 | 837.4 | -1.1 | -0.1% |
| Motorways and Trunk Roads | 698.1 | 627.1 | 670.2 | -71.0 | -10.2% |
| Ferry Services in Scotland | 111.1 | 144.1 | 160.0 | 33.0 | 29.7% |
| Air Services in Scotland | 39.9 | 49.5 | 47.6 | 9.6 | 24.0% |
| Warm Homes Fund | 7.8 | 30.7 | - | 22.9 | 293.8% |
| Others | | | | | |
| Third Sector | 24.5 | 24.0 | 23.6 | -0.4 | -1.9% |
| Accountant in Bankruptcy | 2.0 | 2.7 | 1.7 | 0.7 | 37.4% |

Source: Scottish Parliament Information Centre, Financial Scrutiny Unit

A FOCUS ON THE ECONOMY

National Performance Framework

14. The Scottish Government's National Performance Framework (NPF) was established in 2007 and updated in 2011. It aims to measure and report on "progress in creating a more successful country, with opportunities for all to flourish through increasing sustainable economic growth". Progress is tracked by 7 Purpose Targets, supported by 16 National Outcomes and 50 National Indicators covering key areas of health, justice, environment, economy, and education. In its previous report on the draft 2013-14 budget, the Committee recommended that the Scottish Government continue to update the targets "so that they remain relevant and are date specific".¹⁷

15. As part of the 2014-15 draft budget scrutiny, the Committee considered the relevance of national indicators and what influence is being exerted on policy, and budgets by the NPF.

Relevance of national indicators and influence on policy and budgets

16. The Committee heard from a number of witnesses who, while supporting the principles of the NPF, made various proposals for modification, development and embedding of the NPF in policy.

17. The Carnegie UK Trust commented in detail on the wider role, impact and relevance of the NPF. The Trust believes that "it is simply not possible to say at the moment the extent to which the NPF is being used as a tool for policy evaluation, to track progress against the targets and indicators". It also believes that a "sharper focus on using Scotland Performs to present evaluations of government spending would assist its use as an accountability tool" and that the NPF—

"is an effective method of measuring performance. But the question should go further asking whether it is an effective tool for holding the Scottish Government to account".¹⁸

18. In addition, the Scottish Council for Voluntary Organisations is "unsure as to whether the NPF has really altered any strategies, policies or spending decisions, or encouraged people in the public sector to work differently".¹⁹ WWF Scotland considers that "we have to integrate the national performance framework with the budget".²⁰

19. Several witnesses commented on the indicators which are, or should be, included in the NPF. Reference was made by Unison, SCDI and the SCVO to the Oxfam Humankind Index. Oxfam stated that while the NPF is "a useful starting point in setting out the objectives" of the Scottish Government and tracking

¹⁷ Scottish Parliament Economy, Energy and Tourism Committee. Draft budget 2013-14. Available at: www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/57396.aspx

¹⁸ Carnegie UK Trust. Written submission (page 2)

¹⁹ Scottish Council for Voluntary Organisations. Written submission (page 2)

²⁰ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 18 September 2013. Col 3286

progress, its own Index provides an indication of progress towards what people value as important to live well in their communities and that the budget should be amended to reflect the priorities of the Index.²¹ Unison considers the Scottish Government should “build” on the NPF and the Humankind Index “to find a better way of measuring collective prosperity”.²²

20. The Committee recognises that there is support for the principles of the NPF. For example, WWF Scotland believes it has “the potential to provide a sound basis to better integrate spending decisions with efforts to create opportunities for all to flourish”²³ while the STUC recognised that the Scottish Government “is strongly committed to an ongoing programme to improve the design of the NPF”.²⁴ However, it was a common theme among the witnesses that the impact of the NPF on actual budget decisions and priorities is unclear.

21. The Committee welcomes the comments by the Cabinet Secretary in response to questioning about the overall purpose of the NPF that the framework “informs” the policy choices made by the Scottish Government.²⁵

22. The Committee believes the NPF has the potential to play an important role in informing the policy choices made by the Scottish Government and its agencies. We invite the Scottish Government to consider how it might better demonstrate the role, impact and relevance of the NPF and how it does inform policy and spending priorities and levels.

23. Furthermore, the Committee recommends that the Scottish Government considers how it might better link the NPF into the annual draft budget scrutiny process to allow the Parliament, and interested external bodies, to consider how the NPF targets, outcomes and indicators inform spending priorities and levels.

24. The Committee acknowledges the complexity and challenge of linking budget lines to particular indicators in the NPF. However, we welcome the Scottish Government’s discussions with a range of key organisations, including parliamentary committees, the STUC and Oxfam, on the NPF and invites it to consider how, once these discussions are concluded, it will inform the Parliament of the outcomes.

Specific indicators

25. In its call for evidence, the Committee highlighted a number of relevant key indicators used as part of the NPF. A recurring indicator is the effort to “increase the number of businesses”. This indicator uses annual data to show the total number of VAT/PAYE registered private sector enterprises in Scotland per 10,000 adults.²⁶ Table 4 below sets out data that shows that the number of businesses fell

²¹ Oxfam. Written submission (page 2)

²² STUC. Written submission (page 2)

²³ WWF Scotland. Written submission (page 1)

²⁴ STUC. Written submission (page 5)

²⁵ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 2 October 2013. Col 3387

²⁶ Scotland Performs. Scottish Government. Available at:

www.scotland.gov.uk/About/Performance/scotPerforms/indicator/businesses

each year after 2008 but has risen by 3% between 2011 and 2012. The Scottish Government believes that “any increase in the business stock is a good indicator of an active entrepreneurship climate in the economy competition drives innovation, efficiency and quality improvements thereby improving productivity”.

Table 4: Total number of VAT/PAYE registered private sector enterprises in Scotland per 10,000 adults:

| Year | Business Stock per 10,000 resident adults |
|------|---|
| 2005 | 353 |
| 2006 | 352 |
| 2007 | 358 |
| 2008 | 365 |
| 2009 | 363 |
| 2010 | 360 |
| 2011 | 352 |
| 2012 | 363 |

Source: Businesses in Scotland 2012, Scottish Government

26. Despite this recent increase, Entrepreneurial Exchange, in its written submission, stated that this particular indicator, was “too broad”, particularly in failing to identify expansion in the numbers of businesses with real growth potential. It argued that simply increasing the number of very small businesses in the economy which do not then grow “will not substantially alter the economic growth” rate in Scotland.²⁷ A similar point was made by the STUC, which stated that “it is wrong to assume that increasing the number of businesses will have the impact on growth, productivity and innovation assumed in the NPF”,²⁸ while Oxfam considers that this particular indicator “does not take into account the type and quality of those businesses”.²⁹

27. The Committee invites the Scottish Government to respond to comments on this particular indicator and either to demonstrate that the indicator is a meaningful measure of increased growth potential or consider introducing a more nuanced and detailed set of indicators of entrepreneurial growth.

28. Other specific NPF indicators were highlighted in evidence to the Committee (e.g. equalities in the Modern Apprenticeship scheme and the indicator on renewable energy). Discussion on these indicators is outlined later in the report.

Policies to boost sustainable economic growth

29. On the broader issue of whether and how the draft budget will encourage economic growth, the Committee considered a number of particular issues. These are set out in more detail below.

²⁷ Entrepreneurial Exchange. Written submission (page 6)

²⁸ STUC. Written submission (page 4)

²⁹ Oxfam. Written submission (page 2)

Access to funding for small and medium sized businesses

30. This was an issue which the Committee initially raised at the budget strategy phase and which featured in our draft budget workshop discussions in Irvine. The Scottish Government's draft budget document highlights a number of areas where support in the form of funding to SMEs will come from. These include partnership working with banks, through the enterprise bodies and VisitScotland; building on the Business Angel community; Scottish Investment Bank equity investment schemes investing in early stage innovative and high growth business, alongside private sector investors and the Scottish Loan Fund; the possibility of a 'Scottish Business Development Bank'; and the support for a £37.9 million SME Growth Programme to support businesses to grow and create employment.³⁰

31. In its written submission, the Scottish Council for Development and Industry stated that the creation of the Scottish Investment Bank and the EDGE fund, while welcome, "can only make a difference at the margins to the wider issue of access to finance".³¹

32. The Committee discussed this matter in detail with a number of organisations concerned with small business and entrepreneurship. WeDO Scotland believed that "more clarity is needed from the public sector about the available sources of funding, which are not communicated clearly to the SME community"³² while the Enterprise Research Centre wanted "greater support to be given to local and national business-support initiatives to support the SME community".³³

33. In discussion with the two enterprise agencies, Scottish Enterprise highlighted its support to over 10,000 companies each year "to help them meet their growth ambitions" through, amongst other things, support to help them access finance. It considered that the "future availability of credit is crucial to allow Scottish companies to take advantage of emerging opportunities as the economy recovers" and that "difficulties in accessing credit is particularly felt by SMEs with growth and export potential, and recent evidence from a survey of our account managed companies suggest that challenges remain".³⁴

34. The Committee considers this maximisation of export potential is particularly important if the Scottish Government is going to meet its NPF indicator of increasing exports.

35. The Committee notes that of the companies which sought finance earlier this year, 63% obtained all the funding they required and 13% received no funding at all and that, according to Scottish Enterprise, the reasons for those not obtaining finance include a need for better quality propositions.³⁵ Scottish Enterprise has

³⁰ Scottish Budget: Draft Budget 2014-15 (Annex G, Table 4). Scottish Government. Available at: www.scotland.gov.uk/Publications/2013/09/9971/0

³¹ Scottish Council for Development and Industry. Written submission (page 4)

³² Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 11 September 2013. Col 3202

³³ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 11 September 2013. Col 3203

³⁴ Scottish Enterprise. Written submission (page 3)

³⁵ Scottish Enterprise. Written submission (page 3)

subsequently put in place a range of initiatives to assist, including: helping firms to build stronger propositions and maximise their chance of obtaining funding; expanding its team of financial readiness specialists to ten professionals; and maximising the use of the Scottish Investment Bank's suite of funds.³⁶

36. In oral evidence, Scottish Enterprise said it had helped 460 companies in this way last year. It was also financing SMEs through various funds such as the Scottish Investment Bank which, in 2012-13, invested £32.2 million in 106 companies attracting additional investment of £604 million from the private sector.³⁷

37. Highlands and Islands Enterprise identified assisting its clients in accessing finance as a key activity in support of the NPF target to raise the GDP growth rate to the UK level. It recognised that access to finance is a "crucial issue for businesses" and that over the past year it has led a programme of "high-level engagement with all the major banks, aimed at improving mutual understanding and ultimately encouraging greater investment in ambitious growth businesses across the region". To deepen relationships with banks further, secondees from two banks are joining the organisation and will work directly with its account managers.³⁸

38. The Committee has already raised the issue of business finance with the Scottish Government during the budget strategy phase in the spring of 2013. The Cabinet Secretary highlighted at the time that the "lending landscape has changed, banks' lending criteria are stricter now and accessing finance to support growth is more challenging for some sound propositions".³⁹ He also referred to a "complexity of issues" surrounding business perceptions in the availability and affordability of finance.

39. The Scottish Government has now established the EDGE fund (encouraging dynamic growth entrepreneurs) which is a competitive proposition that encourages start-ups to compete for resources that can then be used to support business development. The fund totals £2 million with awards of up to £50,000 available.

40. The Cabinet Secretary also referred to the independent review of RBS's SME lending standards and practices and the OFT's market study on competition in banking for SMEs.

41. The Cabinet Secretary stated that "there is clearly greater access to finance today than there was, say, two years ago". He was confident that "strong business propositions are able to attract bank finance" although he did acknowledge that

³⁶ Scottish Enterprise. Written submission (page 4)

³⁷ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 18 September 2013. Col 3312

³⁸ Highlands and Islands Enterprise. Written submission (page 6)

³⁹ Letter from the Cabinet Secretary for Finance, Employment and Sustainable Growth to the Convener of the Finance Committee dated 11 September 2013. Available at: www.scottish.parliament.uk/S4_EconomyEnergyandTourismCommittee/Inquiries/20130911_CSFE_SG_to_Convener_FC.pdf

these propositions might be on terms which a business was “not prepared to take on”.⁴⁰

42. The Committee notes the comments by the Cabinet Secretary that while there remain “significant challenges in terms of the availability of bank finance”, the Scottish Government continues “a very active dialogue” with that sector.⁴¹

43. The Committee invites the Scottish Government to detail what the budget in 2013-14 for the EDGE fund was and what the total number and value of grants given to date has been.

44. The Committee also requests the Scottish Government provides an update on the outcomes of the RBS review and OFT study and to state what difference these will make to SMEs accessing funding.

45. The Committee also asks the Scottish Government to provide full details of the current and prospective availability of public and public/private partnership funding for small business and to indicate how it can address concerns of some in the business community relating to the availability and affordability of finance and information about available sources of funding.

46. The Committee intends holding further evidence sessions on access to funding later this year when it will revisit these important issues. The response of the Scottish Government will be a valuable input to these sessions.

Scottish Loan Fund and funding guarantee schemes

47. As noted above, the Scottish Investment Bank’s Scottish Loan Fund supports growth and exporting companies with access to loans of between £250,000 and £2 million. However, the Committee heard views from Entrepreneurial Exchange that it could not “understand why you have this huge sum of money that is not being spent” and that there was “a lot of money tied up in the Scottish loan fund, and someone is basically sitting there being paid to look after pots of money and doing nothing with it”.⁴²

48. According to the Scottish Government’s draft budget document, the Fund amounts to £113 million. However, the Committee notes that Highlands and Islands Enterprise Fund expenditure will drop from £2 million in 2013-14 to £1 million in 2014-15 while the equivalent budget for Scottish Enterprise will increase from £15 million in 2013-14 to £16 million in 2014-15.

49. The Committee also heard evidence about funding guarantees. Entrepreneurial Exchange believed that the UK Government’s Enterprise Finance

⁴⁰ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 2 October 2013. Col 3378

⁴¹ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 2 October 2013. Col 3378

⁴² Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 11 September 2013. Col 3220

Guarantee Scheme “killed off an outstandingly good small firms loan guarantee scheme” and that some other form of scheme was now required.⁴³

50. The Committee recommends that the Scottish Government details what budget the Scottish Loan Fund has received since its inception and what level of funding it has provided to SMEs in each year (and what number of SMEs have benefitted). The Committee also invites the Scottish Government to respond to the view of Entrepreneurial Exchange that the Scottish Loan Fund is currently underperforming.

Access to procurement opportunities for SMEs

51. During the earlier budget strategy phase, the Committee sought an update from the Scottish Government on work to maximise the public sector’s contribution to the economy through the smart use of public procurement and to help SMEs compete effectively for contracts. In its response, the Scottish Government outlined a number of measures it is taking, including the ability to advertise sub-contracting opportunities through Public Contracts Scotland.⁴⁴ It stated that data from the Procurement Information Hub shows that of the approximate £9 billion public sector procurement expenditure in 2010-11, around 7% went direct to micro businesses (1-9 employees); 12% went to small businesses (10-49 employees), and; 27% went to medium sized businesses (50-249 employees).

52. The Committee discussed this issue with witnesses in its scrutiny of the draft budget for 2014-15. WeDO Scotland stated that “we need more visibility of SMEs with regard to public sector contracts, and more opportunities for them to bid successfully for those contracts”.⁴⁵ This point was supported by the Enterprise Research Centre which said “anything that we can instigate through the budgetary measures to promote procurement would support SMEs”.⁴⁶ The Centre also stated that procurement could be “utterly baffling to many small business owners”.⁴⁷

53. The Scottish Council for Development and Industry stated that procurement “should be accessible to SMEs and third sector organisations and encourage business growth and community benefit”⁴⁸ and that a percentage of the annual procurement budget should be ring-fenced to stimulate innovation.

54. Scottish Enterprise stated that it has been developing its procurement approach “to seek to secure recruitment, training and small business development benefits from our investment in infrastructure” and was using Community Benefit Clauses in its tender processes to “incentivise contractors to consider a range of

⁴³ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report, 11 September 2013*. Col 3219

⁴⁴ Letter from the Cabinet Secretary for Finance, Employment and Sustainable Growth to the Convener of the Finance Committee dated 11 September 2013. Available at: www.scottish.parliament.uk/S4_EconomyEnergyandTourismCommittee/Inquiries/20130911_CSFE_SG_to_Convener_FC.pdf

⁴⁵ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report, 11 September 2013*. Col 3203

⁴⁶ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report, 11 September 2013*. Col 3203

⁴⁷ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report, 11 September 2013*. Col 3228

⁴⁸ Scottish Council for Development and Industry. Written submission (page 5)

positive actions around recruitment, training, work experience, engaging with future workforce (e.g. at school) and greater access to supply chain opportunities for SMEs and social enterprises”.⁴⁹

55. The Committee raised this issue with the Cabinet Secretary who said that “80% of the successful businesses that won contracts through public contracts Scotland, which is the portal that advertises all public sector work in Scotland, had Scottish addresses”. He subsequently confirmed that it was not possible, through Public Contracts Scotland to break down the value of this “80%”.⁵⁰

56. The Committee notes that the Scottish Government has introduced its Procurement Reform (Scotland) Bill, an aim of which is to improve access to public sector contracts, particularly for SMEs and third sector bodies. The Infrastructure and Capital Investment Committee is the lead committee in the Stage 1 scrutiny of the Bill and has issued its call for evidence. This Committee therefore considers that the issues raised around procurement during this draft budget scrutiny are matters which will no doubt be considered in detail by that committee.

57. One issue which could be raised is the suggestion that there should be some sort of monitoring carried out to demonstrate the proportion (by value and number of contracts) of contracts being awarded to Scottish-based SMEs.

58. The Committee invites the Infrastructure and Capital Investment Committee, as part of its scrutiny of the Procurement Reform (Scotland) Bill, to seek further detail on the value of public sector contracts awarded to Scottish companies.

Women and SME start-ups

59. The Committee heard evidence concerning the low rates of participation by women in entrepreneurship and business start-ups. The Enterprise Research Centre stated that—

“women’s enterprise can be difficult to precisely define and enumerate, but it is estimated that around 21% of Scotland’s 339,000 SMEs are majority-led by women and a further 22% are equally-led by women and men. Men are still almost twice as likely to start businesses as women”. In comparison to other high income countries, it considers Scotland’s rates of female business ownership to be “persistently low”.⁵¹

60. The Centre estimates that women-led businesses contribute “(at a minimum) £5 billion GVA” to the Scottish economy and that, if rates of women-led businesses equalled those of men, that contribution “would increase by £7.6 billion to nearly £13 billion” which equates to 5.3% growth in the size of the economy. On access to finance, it believes that “women owned businesses, are similarly more likely to be discouraged borrowers, and while there is no evidence of bank discrimination

⁴⁹ Scottish Enterprise. Written submission (page 8)

⁵⁰ Letter from the Cabinet Secretary for Finance, Employment and Sustainable Growth to the Convener of the Economy, Energy and Tourism Committee dated 14 October 2013. Available at: www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/66648.aspx

⁵¹ Enterprise Research Centre. Written submission (page 3)

there is clear evidence of higher levels of debt-avoidance among women that constrains business growth”.⁵²

61. The Enterprise Research Centre expanded on this issue in oral evidence. For example, it referred to “the lack of appropriate female role models of entrepreneurs and business owners”.⁵³ In response to a question about whether there are any schemes which might assist women in better accessing funding for business start-ups or growth, it said that “there is certainly evidence to suggest that such business support works if it is available as part of the localism issue”.⁵⁴ However, it also acknowledged that, while the provision of a particular kind of support is helpful for women, there was also evidence “of a little more need on the part of women in this respect”.⁵⁵

62. The Committee raised this issue with both Highlands and Islands Enterprise and Scottish Enterprise. Highlands and Islands Enterprise referred to the equalities network across different agencies which looks at a range of equality issues and that—

“as an organisation, we are aware of all six equalities dimensions. From the point of view of employment and of support to businesses and social enterprises, we ensure that those obligations are fulfilled”.⁵⁶

63. Scottish Enterprise also carried out equalities assessments of all its projects. It highlighted that the number of companies which it works with that are owned or principally run by females has increased from 26% to 35% since 2010. It also works with Women’s Enterprise Scotland “to see whether there are any new initiatives that can increase that figure more quickly”. In addition, it has supported the Investing Women syndicate via its involvement with Linc Scotland, which has been “providing learning support to that group specifically in the area of accessing finance”.⁵⁷

64. The Committee raised this issue with the Cabinet Secretary and highlighted the NPF purpose with regards “opportunities for all to flourish”. The Cabinet Secretary referred to its work with Professor Sara Carter (from the ERC) and organisations such as Women in Business to encourage more women to contemplate enterprise start-up and business leadership. The Cabinet Secretary accepted that “the Government must do more” and stated that “We have a

⁵² Enterprise Research Centre. Written submission (page 3)

⁵³ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 11 September 2013. Col 3223

⁵⁴ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 11 September 2013. Col 3223

⁵⁵ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 11 September 2013. Col 3223

⁵⁶ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 30 September 2013. Col 3317

⁵⁷ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 30 September 2013. Col 3318

programme of activity to try to assist, but ministers recognise that we need to make more significant progress”.⁵⁸

65. As a general principle this Committee supports opportunities for all in terms of initiatives to encourage business start-ups. However, the majority of the evidence which we heard related to the participation of women and ethnic minority groups.

66. The Committee recommends that the Scottish Government provides further details of the work which it is taking forward with, for example, Professor Sara Carter and Women in Business and, furthermore, outlines its plans for increasing both the total number of business start-ups and the proportion of these by women. We recommend that the Scottish Government sets out how this goal could be better reflected in the NPF.

67. The Committee also draws its consideration of this issue to the attention of the Equal Opportunities Committee for its information.

Ethnic minority community and SME start ups

68. Similar discussion took place in relation to the ethnic minority community. In oral evidence, the Enterprise Research Centre spoke about “diversifying the SME entrepreneurial population and recognising ways of bringing in more women and particularly ethnic minorities to support our entrepreneurial base”. It felt that, as highlighted above, “those populations face specific access-to-finance issues” and were “typically more likely to be discouraged borrowers, and discouragement from borrowing from banks has increased significantly over the past few years”.⁵⁹

69. In response to a question from the Committee on whether the budget should “include something to encourage lenders to reach out to small and medium-sized companies and encourage them to borrow money and try to enhance their opportunities” the Centre responded “yes, very much so”. It went on to say that some ethnic minority populations have a very high participation rate, but that is uneven, and there was “certainly the potential to encourage more ethnic minority businesses”.⁶⁰

70. It also believed that there was “very strong evidence” that such businesses perceive access-to-finance barriers, although the reason for that has not been established. The Centre said that—

“their standard risk factors, such as structure, sector, size and business experience, make them a relatively high risk. However, we also know that particular populations are more likely to be discouraged borrowers; in other words, they do not ask banks for business loans or overdrafts because they believe that they will be rejected. Rather than be rejected, they just do not go

⁵⁸ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 2 October 2013. Col 3386

⁵⁹ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 11 September 2013. Col 3202

⁶⁰ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 11 September 2013. Col 3206

in the first place. Some ethnic minority business populations have more experience of discouragement than the main stream”.⁶¹

71. The Cabinet Secretary said that the Scottish Government “can do more to encourage that participation” and that it was involved in work “to encourage participation in the economy by a broad cross-section of our society”. The Cabinet Secretary also highlighted the Opportunities for All scheme which “has to mean opportunities for all, in every part of the country and from every ethnic background, to ensure that they fulfil their economic potential. The Government is keen to ensure that we support that process”.⁶²

72. The Committee recommends that the Scottish Government provides further details of its plans for increasing both the total number of business start-ups and the proportion of these by ethnic minority groups. We also recommend that the Scottish Government sets out how this goal could be better reflected in the NPF.

73. The Committee also draws its consideration of this issue to the attention of the Equal Opportunities Committee for its information.

Equal access and participation in the policies and programmes within Skills Development Scotland

74. The Committee raised with Skills Development Scotland its work to encourage participation by black and minority ethnic groups, disabled people and to achieve greater gender alignment in its programmes. Skills Development Scotland acknowledged that there “had been criticism that we had not fully reflected our equality impact assessments in the work that we had done on the industry investment plans” which it considered was more of a “communication issue for us”. The Committee notes however the comment that Skills Development Scotland has “taken the issue fairly seriously” although it went on to say that it was not “complacent about it” and that it “will do more work on it and will develop the work that we have done”.⁶³

75. The Committee invites Skills Development Scotland to update the Committee at the midway point in 2014-15 on what improvements it has brought about with regards participation by black and minority ethnic groups and disabled people and gender alignment.

76. The Committee specifically raised with Skills Development Scotland what effort it was making to improve access to the Modern Apprenticeship scheme, for example, in encouraging more women into the construction sector.

77. In its response, Skills Development Scotland stated that there was improvement in this area although it did acknowledge that decisions on career choice can be taken at an early age and that that “gender segregation is a deep-

⁶¹ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 11 September 2013. Col 3206

⁶² Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 2 October 2013. Col 3389

⁶³ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 18 September 2013. Col 3268

rooted issue that probably begins in schools”. It was trying to “open things up” and highlight the opportunities for women to go into traditionally male-orientated occupations. It was committed to working with key partners on this issue and that it could perhaps look at some of its programmes in order to create “access routes into industry”.⁶⁴

78. The Committee requests that Skills Development Scotland provides an update at the midway point in 2014-15 detailing what further work it has done in this area and how it has managed to create and promote more opportunities for women across all of its programmes.

79. The Cabinet Secretary recognised that there was an “imbalance” in the Modern Apprenticeship scheme with a split of 57% male to 43% female which was, in his view, “not acceptable”. The Cabinet Secretary outlined steps which the Scottish Government is taking to encourage and improve female participation in the labour market, for example, through childcare support and interventions around youth employment responsibilities.⁶⁵

80. The Committee recommends that the Scottish Government outlines what specific budget and policies it will put in place to address the gender, ethnicity and disability imbalance in the Modern Apprenticeship scheme.

81. Furthermore, the Committee notes the written submission from the Equality and Human Rights Commission (EHRC) which draws attention, amongst other things, to the research published in 2013 on access to the Modern Apprenticeship scheme and the findings with regards disability, gender, ethnicity and sexual orientation. The EHRC concluded that diverse communities are not accessing the Modern Apprenticeship scheme opportunities ‘equally’ and that Scottish Government agencies ‘are not paying sufficient attention to their leadership role or to their responsibilities under the Equality Act 2010 to eliminate discrimination or advance equality of opportunity. In addition, it concludes that the Scottish Government may meet targets under the NPF “without having any impact on the systemic discrimination that many groups face in the employment market or without seeing the linkages to national outcomes 2 and 7”.⁶⁶

82. The Committee requests that the Scottish Government responds to the findings of the research and the submission from the EHRC and further details any actions which it will be taking as a result.

83. The Committee also draws its consideration of this issue to the attention of the Equal Opportunities Committee for its information.

⁶⁴ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 18 September 2013. Col 3261

⁶⁵ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 2 October 2013. Col 3386

⁶⁶ Equalities and Human Rights Commission. Written submission (page 3)

The role and funding of the enterprise agencies

Identification of potential growth SMEs and support

84. One key area for the Committee's focus this year was how SMEs, with potential to grow, can be better identified and supported. As highlighted above, the Entrepreneurial Exchange believed that the 'increasing the number of businesses' NPF indicator was too broad. It similarly felt that the definition of a SME was "too broad"⁶⁷ and that the focus of public sector support should be on the outcome of the business and what should be expected as a return on the public investment. Further, it believed that the approach to be followed should be to identify a group of businesses that could be encouraged to grow and that it was perhaps best for the Business Gateway sector to identify such local businesses although it considered such support to be "patchy".⁶⁸

85. Similar comments were made by WeDO Scotland around the definition of a SME. It also said that some businesses will not have high-growth potential.⁶⁹ The Enterprise Research Centre highlighted the diversity in the business community which is required, between the very small single-person or family business which are not going to grow substantially, but which it acknowledged are a very important part of the economy, and the potential high growth businesses.⁷⁰

86. A key feature, according to the entrepreneurial bodies, was the contacts which businesses have, for example, with an account manager. There was concern however at the skills and abilities of some account managers and of their ability to properly understand the business for which they were responsible. In such circumstances, the account manager could, according to WeDO Scotland, be of "limited value".⁷¹ A similar view was expressed by the Entrepreneurial Exchange which felt that "just because someone has been on the training course, that does not mean that they are a decent business adviser". The relevance of the experience to the particular type of business, it believed, was "crucial".⁷² It also believed that the first point of contact has to be someone who—

"sees the business's potential and understands their role as a signposter. That is what an account manager will do, whether the role is called that, a high-growth start-up programme, or whatever".⁷³

87. Scottish Enterprise stated that its work with "ambitious companies with growth potential is at the heart of what we do and we provide support to over

⁶⁷ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 11 September 2013. Col 3208

⁶⁸ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 11 September 2013. Col 3210

⁶⁹ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 11 September 2013. Col 3211

⁷⁰ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 11 September 2013. Col 3212

⁷¹ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 11 September 2013. Col 3204

⁷² Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 11 September 2013. Col 3206

⁷³ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 11 September 2013. Col 3213

10,000 companies each year to help them meet their growth ambitions”.⁷⁴ It also stated that to ensure that companies access “the right support from the right provider at the right time” it works closely with Business Gateway. For those companies with the greatest growth potential, it can provide “an intensive support service” through account management.

88. Scottish Enterprise has therefore set itself a target of increasing the number of companies supported in this way by up to 20% over the period 2012-15, with an increase in 2012-13 from 2035 to 2115 account managed firms.⁷⁵

89. In discussion with Scottish Enterprise on this particular point, it stated it had increased the net number of account managed companies over the past year by 80, i.e. 302 companies have become account managed while 202 have left this process. The Committee asked Scottish Enterprise whether it would achieve its target of increasing the number of account managed companies by 400 over the period 2012 to 2015. In response, while acknowledging the “not particularly easy economic context”, it stated that its target “is achievable, and it certainly remains our intention to deliver it”.⁷⁶

90. Highlands and Islands Enterprise stated that through the relationships between its account managers and clients it has been able to provide “tailored solutions to meet their needs and ambitions”.⁷⁷

91. The Committee welcomes the challenging target that the enterprise agencies have set themselves for increasing the number of account managed firms by 20% over the period to 2015. On the basis of the progress to date – whilst welcome – it must be open to question whether this will be achieved. The Committee would welcome evidence from the agencies to support the view that the rate of increase in additional account managed companies would be achieved.

92. The Committee recommends that Scottish Enterprise and Highlands and Islands Enterprise update the Committee, as part of their respective draft 2015-16 budget submissions, on the progress towards the target for increasing the number of account managed companies and what measures they have taken to increase progress towards achieving the target.

93. The Committee further notes the comments made during its draft budget workshop discussions in Irvine. Given the locality, the comments related to the local businesses experience with Scottish Enterprise. While comment was made that it was fairly bureaucratic and may perhaps ignore rural areas, on the whole the account managed businesses were “fairly happy” with the service provided by the agency.⁷⁸

⁷⁴ Scottish Enterprise. Written submission (page 2)

⁷⁵ Scottish Enterprise. Written submission (page 2)

⁷⁶ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 30 September 2013. Col 3229

⁷⁷ Highlands and Islands Enterprise. Written submission (page 5)

⁷⁸ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 30 September 2013. Col 3300

94. In its oral evidence, Scottish Enterprise stated that its account management programme showed that every £1 that it invested in account management generated over £5 for the economy.⁷⁹

95. In evidence to the Committee, the Cabinet Secretary said that he was “confident that a company that is identified as having growth potential will be well served”.⁸⁰ He also indicated that he had “broadened the discussion” to involve dialogue with the banks as they “are making an assessment about which companies have growth potential within the economy and I want us to be satisfied that in all circumstances we are able to properly capture the companies with growth potential within the economy”.⁸¹

96. The Committee invites Scottish Enterprise and Highlands and Islands Enterprise to provide further detail on how they seek and secure feedback from each of their account managed businesses with regards their overall experience of the process, the quality and relevance of the information given to the business by the account manager, the account managers understanding of the business concerned and of its specific needs and whether the business achieved the growth potential identified. The Committee recommends that this information also be provided as part of next year’s budget scrutiny phase.

97. The Committee heard concerns expressed, for example, from representatives at the budget workshop discussion in Irvine and from the entrepreneurial bodies, about some aspects of Business Gateway and the support that it gives.

98. The Entrepreneurial Exchange felt “there is definitely still a disconnect between business gateway and Scottish Enterprise” and that there “needs to be a focus on the new shape of business gateway”.⁸² While recognising that there is “a limited amount of money” it stated that the use of funds should be “focused” in order “to ensure that the hand-off from business gateway to the Scottish Enterprise account managed process is such that people are either in the growth pipeline or not”. It believed there were still “too many examples of someone who is in the wrong part of the system”.⁸³ WeDO Scotland believed that accessing information on the Business Gateway website could be confusing for businesses and that funding from the budget should be allocated to improve communication. On a related point around communication, WeDO Scotland questioned the level of contact with its members. In evidence, it said—

⁷⁹ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 30 September 2013. Col 3305

⁸⁰ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 2 October 2013. Col 3382

⁸¹ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 2 October 2013. Col 3402

⁸² Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 11 September 2013. Col 3203

⁸³ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 11 September 2013. Col 3204

“what are those people doing to engage with the SME community? From what I can see, the answer is nothing”.⁸⁴

99. Both WeDO Scotland and the Entrepreneurial Exchange felt that performance by Business Gateway was “patchy”.⁸⁵ A further concern about its performance was expressed by the Enterprise Research Centre which said that the Business Gateway sector was “not really adapting its product and offering to local services. Instead, it is offering almost a one-size-fits-all approach”.⁸⁶

100. During the Committee’s draft budget workshop discussions in Irvine, comment was made that the Business Gateway service should not necessarily be in local authorities and that consideration should be given to perhaps a lower tier of Scottish Enterprise across Scotland, “because the initiation and growth of some small businesses is inhibited by local authority boundaries”.⁸⁷

101. However, the Committee notes the contrasting comments made by Scottish Enterprise which works very closely with the business gateways. Scottish Enterprise staff stated they were “very pleased” at the level of churn which has taken place in their portfolio over the past two years. They highlighted the “strong pipeline of companies coming through from other sources but particularly the important source of the business gateways”.⁸⁸ Highlands and Islands Enterprise also drew attention to its “close working relationship” with Business Gateway.⁸⁹

102. In the response of the Scottish Government to the budget strategy phase, it stated that in 2011-12, Business Gateway helped 11,027 start-up firms; around 25% of all start-ups.

103. The Committee questioned the Cabinet Secretary on his plans to increase the focus on business start-ups which are in the pipeline. The Cabinet Secretary highlighted the “obligation” of the Business Gateway network to identify companies which it considers “have significant growth potential to Scottish Enterprise and to Highlands and Islands Enterprise, essentially to fuel a growth pipeline”. The Cabinet Secretary said that he regularly discussed with Scottish Enterprise and Highlands and Islands Enterprise “whether that dialogue is working effectively enough to highlight companies with growth potential, and whether we are getting behind them as quickly as we ought”.⁹⁰

104. The Cabinet Secretary referred to the “good feedback” he received and that there was constant scrutiny on whether the Scottish Government was “establishing

⁸⁴ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 11 September 2013. Col 3211

⁸⁵ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 11 September 2013. Cols 3210 and 3211382

⁸⁶ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 11 September 2013. Col 3220

⁸⁷ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 30 September 2013. Col 3301

⁸⁸ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 30 September 2013. Col 3316

⁸⁹ Highlands and Islands Enterprise. Written submission (page 11)

⁹⁰ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 2 October 2013. Col 3381

the right connections from the business gateway to the pipeline”. He did say, however, that the Scottish Government was “open to considering additional ideas beyond that structure”.⁹¹

105. The Committee requests that the Scottish Government provides the following information for Business Gateway in 2012-13 and to date in 2013-14: the total (a) public expenditure on the service; (b) number of businesses assisted; (c) number of new starts assisted; and (d) number of new businesses started (i.e. new VAT registrations) in the corresponding period.

106. The Committee invites Scottish Enterprise and Highlands and Islands Enterprise to each provide the following information in relation to its account managed companies: the total (a) agency expenditure on account managed companies in 2012–13 and to date in 2013-14; (b) other public support/funding received by account managed companies in these periods; and (c) number of companies in account management during these periods.

107. The Committee recommends that the Scottish Government considers whether it is now time to carry out a review of the role and functioning of small business support covering the business gateway network and the work of the enterprise agencies given that a number of years have passed since the initial reforms. The Committee also gives notice of its intention to return to this subject area within this parliamentary session.

Other key issues

Social enterprises

108. The Scottish Government states that its 2014-15 draft budget will help grow social enterprises and third sector organisations.⁹² The budget line shows funding for social finance and investment, which supports the Social Entrepreneurship Fund and the Enterprise Ready Fund being retained at £5.7 million in ‘cash terms’ between 2013-14 and 2014-15.⁹³

109. Social Enterprise Scotland considered that the draft budget process provided an “opportunity to create markets and opportunities for social enterprises, so that businesses begin to see that that is a sensible route for them to pursue”.⁹⁴

110. The Committee asked Scottish Enterprise, Highlands and Islands Enterprise and VisitScotland what support they gave to social enterprises. Both Scottish Enterprise and Highlands and Islands Enterprise account manage a number of social enterprise businesses. In addition, Highlands and Islands Enterprise referred to the “priority” in its operating plan as supporting businesses and social enterprises to shape and realise their growth plans and that it had “deliberately”

⁹¹ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 2 October 2013. Col 3382

⁹² Scottish Budget: Draft Budget 2014-15. Scottish Government. Available at: www.scotland.gov.uk/Publications/2013/09/9971/0

⁹³ Finance, Employment and Sustainable Growth level 4 figures. Scottish Government. Available at: www.scottish.parliament.uk/parliamentarybusiness/17534.aspx

⁹⁴ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 30 September 2013. Col 3362

included social enterprises in the plan.⁹⁵ VisitScotland raised a point about the “challenge” which it has in that, if social enterprises are not engaging with VisitScotland, then “where are they and how do we engage with them?”

111. In evidence to the Committee, the Cabinet Secretary spoke of the Scottish Government’s “priority to expand and develop the social enterprise sector”.⁹⁶

112. The Committee invites the Scottish Government to indicate how it is developing the opportunities for social enterprises to expand, develop and become involved in entrepreneurial opportunities and what funding has been allocated to assist with this.

113. The Committee requests that VisitScotland outlines what actions it will take to improve its engagement with social enterprises operating in the tourism, hospitality and leisure sectors.

Capital funding

114. The Scottish Government cites infrastructure investment as a central element of its approach to boosting economic recovery and employment. As such it has sought to supplement the 2014-15 DEL capital budget with Non-profit distributing funding (£809 million), Regulatory Asset Base rail enhancements (£449 million), capital receipts from the sale of assets (£80 million), and transferring DEL Resource to DEL Capital (£165 million) which takes the total planned spend on infrastructure in 2014-15 to over £4 billion. The capital budget within the Finance portfolio will increase in 2014-15 by 8.8% to £127.3 million.

115. An issue raised in evidence with the Committee was that of the potential for ‘capital leakage’. Unison stated that—

“one problem with capital expenditure—although it is worthy and it is right to put money into it—is that there are great leakages of that money out of the Scottish economy. Some big capital projects bring in a workforce from outside Scotland and some profits go to companies outwith Scotland and the UK”.⁹⁷

116. In its evidence, the CBI Scotland made an additional point however that such capital expenditure “builds the nations long-term economic capacity and can, in turn, reduce the amount spent on maintenance bills, improve congestion and so on”.⁹⁸ The Committee raised this issue with both Scottish Enterprise and Highlands and Islands Enterprise. Scottish Enterprise stated that the multiplier effect of capital expenditure was “probably a secondary factor in how we plan our business”. It went on to state—

⁹⁵ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 30 September 2013. Col 3332

⁹⁶ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 2 October 2013. Col 3390-1

⁹⁷ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 18 September 2013. Col 3258

⁹⁸ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 18 September 2013. Col 3260

“The first consideration is what needs to be done to make the economy grow. For example, our investment in renewables and our port infrastructure work are all about creating a renewables industry that will give us a huge return. It is good that we can invest in capital and we believe that we get a good multiplier from it, but the overriding determinant is not whether we spend on capital or revenue but the return that we get, no matter which we go for.”⁹⁹

117. A similar point was made by Highlands and Islands Enterprise which believed that “the critical point is that every capital investment that we make is not just something that we would like to do; it is linked to a strategic priority, sectoral development or inward investment opportunity”.¹⁰⁰

118. The Cabinet Secretary stated that the Scottish Government had prioritised capital investment and supplemented this through resource-to-capital transfers, the use of the regulated asset base, non-profit distributing programmes’ capital receipts and, from 2015-16, the Parliament’s enhanced borrowing powers (under the Scotland Act 2012). He also stated that the multiplier effect of capital versus resource funding “are taken into consideration by the Government when we prioritise at a time when our capital budget is reducing” and that capital spend—

“has a more significant multiplier than resource expenditure. Clearly, we cannot spend everything on capital because we need to pay staff to run hospitals, schools and so on. We have to strike a sensible balance while recognising the greater economic impact as a central part of our assessment”.¹⁰¹

119. The Committee recommends that capital expenditure continues to receive as much priority as practicable and recognises the role of capital asset creation in fostering long-term sustainable growth. However, it also invites the Scottish Government to monitor and publish details of the comparative impact of the different types of capital projects in creating additional jobs through capital spend, as against spending in other areas.

Skills Development Scotland

120. The Committee notes the proposed decrease in the budget for Skills Development Scotland (SDS) from £187.4 million (2013-14) to £184 million in 2014-15 with a further reduction to £183.5 million planned in 2015-16. The Scottish Government states that Skills Development Scotland has identified “efficiency savings from areas such as better use of estates, which allows for modest savings, without having a negative impact on SDS’ delivery of employability and skills interventions and programmes”.¹⁰² While that budget line sits within the portfolio of

⁹⁹ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 30 September 2013. Col 3320

¹⁰⁰ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 30 September 2013. Col 3320

¹⁰¹ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 2 October 2013. Col 3379

¹⁰² Education and Lifelong Learning level 4 figures. Scottish Government. Available at: www.scottish.parliament.uk/parliamentarybusiness/17534.aspx

the Education, Culture and Sport Committee, we have taken an interest in the impact any reduction might have on areas within our own economic remit.

121. Part of the reduction will be as a result of the involvement of SDS in the Strategic Forum and the savings which Forum members will achieve through greater collaboration and alignment of services (see the section on the ‘Strategic Forum’ below). In evidence, SDS said that it “will continue to make efficiency savings” and that, in the light of discussions it has had, it was “content with the funding that we have got”. It also highlighted that it has “been successful in attracting in additional revenue resource from other Government departments”.¹⁰³

122. The Committee invites Skills Development Scotland to provide an update as part of its draft budget submission next year detailing what additional funding it has levered in to supplement its 2014-15 budget.

Communication with SMEs over the Modern Apprenticeship scheme

123. One of the particular issues discussed in this year’s budget scrutiny was the effectiveness of communication from public bodies with SMEs on participation in the Modern Apprenticeship scheme. In our discussion with entrepreneurial bodies, WeDO Scotland said there had been no contact which was “down to the lack of engagement with the SME community”. A similar point about lack of contact was made by Entrepreneurial Exchange and that there may be an assumption that businesses will be a member of the CBI or Federation of Small Businesses or local chamber of commerce, in which case contact would be made via these bodies, but it was not always the case that a business would be a member.

124. The Committee raised this with the Cabinet Secretary who said that there was “a very high intolerance level within the Government about services not being joined up” and that he got—

“frustrated when the Government spends a lot of its time, and I spend a lot of my time, working through organisations such as the Scottish employability forum to get everybody to work together. I totally accept the point that employers do not have the time to go around joining the dots. In the public sector, we have to join the dots for them. If that is not happening, I give the committee a commitment that the Government will make every endeavour possible to try to make it happen.”¹⁰⁴

125. The Committee welcomes the commitment from the Cabinet Secretary, and commends the work of the Scottish Employability Forum, to improve the communication from the public sector with all private sector bodies, such as those within the entrepreneurial sector. We invite the Forum to consider whether its efforts can be improved and whether it will meet with bodies such as the Entrepreneurial Exchange and WeDO Scotland to discuss this issue and to report back to the Committee setting out actions from such discussions.

¹⁰³ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 18 September 2013. Col 3269

¹⁰⁴ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 2 October 2013. Col 3393

ENERGY ISSUES

126. In its draft budget document for 2014-15, the Scottish Government is proposing a 29.3% cash terms reduction in the energy budget from £115.9 million in 2013-14 to £81.9 million (although this is projected to increase to £130.4 million in 2015-16).¹⁰⁵ A breakdown is given in the table below:

Table 5: Proposed expenditure on energy-related budget lines for 2014-15:

| Energy | 2013-14 budget £m | 2014-15 draft budget £m | % change 2014-15 on 2013-14 |
|---|----------------------|-------------------------------|-----------------------------------|
| Energy Efficiency & Policy Implementation | 16.750 | 10.810 | -35.5 |
| Renewable and Community Energy | 8.200 | 6.168 | -24.8 |
| Critical National Infrastructure Resilience - Moving outwith FESG | 0.320 | 0.000 | -100.0 |
| Green Deal | 14.700 | 0.000 | -100.0 |
| Fossil Fuel Levy - Renewable Projects | 45.000 | 35.000 | -22.2 |
| Low Carbon Economy | 10.250 | 6.402 | -37.5 |
| Oil and Gas investment in a low carbon economy | 0.000 | 0.425 | - |
| Grid Enhancement | 0.680 | 0.575 | -15.4 |
| Energy (Capital) | 20.000 | 17.000 | -15.0 |
| Financial Transactions | 0.000 | 5.500 | -- |
| Total Level 3 | 115.900 | 81.880 | -29.4 |

Source: Scottish Government

127. Additionally, the climate change mitigation measures funding figures supplied by the Scottish Government show that the funding in 2014-15 will amount to £104.2 million, a reduction from the 2013-14 budget of £113.6 million, although again the Scottish Government is proposing an increase in 2015-16 to £142.4 million.¹⁰⁶

¹⁰⁵ Scottish Budget: Draft Budget 2014-15 (table 4.06). Scottish Government. Available at: www.scotland.gov.uk/Publications/2013/09/9971/0

¹⁰⁶ Climate change spending summary. Scottish Government. Available at: www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/65165.aspx

Table 6: Climate change mitigation measures:

| | 2013-14 budget £m | 2014-15 draft budget, £m | 2015-16 plans, £m |
|---|----------------------------------|---|------------------------------|
| Renewable and Community Energy | 8.2 | 6.2 | 8.3 |
| Critical National Infrastructure | 0.3 | 0.0 | 0.0 |
| Grid Enhancement | 0.7 | 0.6 | 0.3 |
| Renewable Energy (Capital) | 20.0 | 17.0 | 60.8 |
| Financial Transactions | 0.0 | 5.5 | 8.5 |
| Maximising Oil and Gas investment in a low carbon economy | 0.0 | 0.4 | 0.4 |
| Fossil Fuel Levy – Renewable Projects (capital) | 45.0 | 35.0 | 35.0 |
| Total Level 3 | 74.2 | 64.7 | 113.3 |
| Scottish Enterprise investment in renewables | 27.2 | 29.1 | 24.1 |
| Highlands and Islands Enterprise investment in renewables | 12.2 | 10.4 | 5.0 |
| Total | 39.4 | 39.5 | 29.1 |
| | 2013-14 budget | 2014-15 draft budget | 2015-16 plans |
| TOTAL ENERGY | 113.6 | 104.2 | 142.4 |

Source: Scottish Government

128. As part of this year’s scrutiny process, the Committee also considered a number of issues including fuel poverty measures which, although the budget for fuel poverty/domestic energy efficiency and climate change sits within the Infrastructure, Investment and Cities portfolio, was an issue raised with this Committee in written and oral evidence.

Fuel poverty

Fuel poverty, domestic energy efficiency and climate change budget

129. The Scottish Government has stated in its draft budget document that it will maintain the fuel poverty, domestic energy efficiency and climate change budget at £79 million which, along with private sector funding, is expected to bring in £200 million of investment towards tackling fuel poverty and meeting climate change targets. The budget lines will support energy efficiency and carbon reduction measures in existing housing to contribute to the Scottish Government’s statutory

target “to eradicate fuel poverty by 2016, as far as is reasonably practicable”.¹⁰⁷ A breakdown in proposed budget lines is given below:¹⁰⁸

Table 7: Homes and communities: Fuel poverty, domestic energy efficiency and climate change budget:

| | 2013-14 budget, £m | 2014-15 draft budget, £m | 2015-16 plans, £m | Commentary |
|----------------------|-----------------------------------|---|----------------------------------|---|
| Capital | 22.5 | 22.5 | 22.5 | This supports capital spending associated with delivery of the Home Energy Efficiency Programmes for Scotland (HEEPS) which includes national and area-based schemes to provide advice and upgrades for the least energy efficient/most fuel poor homes. |
| Revenue | 42.5 | 42.5 | 42.5 | This supports revenue spending associated with the delivery of the Home Energy Efficiency Programmes for Scotland. HEEPS aims to leverage further funding from energy companies under the Energy Companies Obligation to create overall funding of around £200m per annum to tackle fuel poverty and contribute to our emissions targets. |
| | 9.2 | 14.2 | 14.2 | Additional HEEPS funding of £14.2m added at Stage 3 to 2013-14 Budget and included in 2014-15 and 2015-16 drafts. Also £5m reallocated to alleviate Bedroom Tax in 2013-14 |
| Total Level 3 | 74.2 | 79.2 | 79.2 | It is anticipated that £5m from Fuel Poverty RDEL in 2013-14 is to be used to assist with 'bedroom tax' relief resulting in spend of £74.2m on Fuel Poverty in 2013-14 |

Source: Scottish Government

130. In our report last year on the draft 2013-14 budget, the Committee invited the Scottish Government to confirm how it would address any shortfall in the £200

¹⁰⁷ Scottish Budget: Draft Budget 2014-15. Scottish Government. Available at: www.scotland.gov.uk/Publications/2013/09/9971/0

¹⁰⁸ Climate change spending summary. Scottish Government. Available at: www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/65165.aspx

million fuel poverty budget. The Scottish Government, in response, expressed confidence that there would not be any shortfall in spending on fuel poverty and that “there will be around £200 million of annual funding”.¹⁰⁹

131. However, as part of this year’s budget scrutiny process, the Committee has heard continuing concern at the likelihood of the Scottish Government meeting its fuel poverty target and the cumulative impact of not doing so. Energy Action Scotland stated that a level of funding of around £200 million annually “would be required over a ten year period to seriously tackle fuel poverty” and that it is “unlikely” whether the 2016 target date to end fuel poverty “will now be achieved”. A similar point was made by WWF Scotland which stated “year on year, therefore, we have fallen well short of the benchmark for what is necessary, and with every passing year the challenge gets more and more significant”.¹¹⁰

132. In its evidence to us, Energy Action Scotland urged the Scottish Government “to increase its own budget for fuel poverty alleviation measures in order to meet the 2016 statutory duty”.¹¹¹ Similarly WWF Scotland stated that if the Home Energy Efficiency Programmes Scotland scheme “is to be effective and lever in the necessary private investment, we believe it must be funded by at least double the current spend”.¹¹² The Scottish Federation of Housing Associations said that, in order to cut fuel poverty and address climate change, “there needs to be a significant increase in investment in those areas”.¹¹³

133. It should be noted, however, that budget set aside to tackle fuel poverty was originally set at £65 million for each of the years 2012-13 and 2013-14 and £66.25 million for 2014-15. The Committee notes that the budget proposed has now been increased by the Scottish Government to £74.2 million in 2013-14 and £79.2 million in 2014-15.

134. Tackling fuel poverty remains a top priority for the Committee, particularly in light of the increases announced recently by a number of the ‘big 6’ energy suppliers at the onset of winter. We recognise that this is a goal shared by the Scottish Government and that action in this area is a joint initiative of the Scottish and UK Governments (for example through the ECO programme), as well as private sector utilities.

135. However, we are concerned at the ability of the Scottish Government to meet its statutory target by 2016 and the suggestion by some of our witnesses that at least £200 million per year from both the public and private sector will be needed in this respect and that there is a lack of clarity that the private sector component of this sum is being spent in Scotland. The Committee invites the Scottish Government to provide further information

¹⁰⁹ Scottish Government response to the Economy, Energy and Tourism 2013-14 draft budget report. Available at:

www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/54207.aspx

¹¹⁰ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 18 September 2013. Col 3286

¹¹¹ Energy Action Scotland. Written submission (page 1)

¹¹² WWF Scotland. Written submission (page 2)

¹¹³ Scottish Federation of Housing Associations. Written submission (page 2)

on the current total level of public and private expenditure and on projected expenditure levels for 2014-15 and 2015-16.

136. The Committee further invites the Scottish Government, alongside the climate change level 4 figures (see ‘Provision of draft budget information’ below) each year, to provide a detailed breakdown of: the contributions which (a) it and (b) the private sector are making towards the £200 million budget; what programmes, and to what amount, are being funded through the £200 million; and what assessment has been made on the effectiveness of each area of spend.

Reporting and meeting targets

137. Witnesses, in evidence to the Committee, spoke of the need for proper reporting on this funding stream. For example, Energy Action Scotland stated “we have to know that the money is being spent, how it is being spent and whether it has been effective”. The need for “very good reporting and monitoring” was important.¹¹⁴ Similarly, WWF Scotland, on the public/private sector breakdown of the £200 million, stated that it was “not sure that we have the information or data to show that the ratio is being met”.¹¹⁵

138. In a follow-up submission to the Committee, Energy Action Scotland highlighted the discussion at the Fuel Poverty Forum on the reporting of the Scottish Government’s fuel poverty programmes. The Committee notes that the Forum has agreed with the Scottish Government a form of reporting for the Home Energy Efficiency Programmes for Scotland with the first report expected before the end of 2013. The reports are intended to be made quarterly and it is the intention that they will provide the information which the Forum has stipulated.

139. Energy Action Scotland invited the Committee to request an annual report on the progress of the fuel poverty programmes from the appropriate Cabinet Secretary.

140. The Committee invites the Scottish Government to publish an annual report, alongside the draft 2015-16 budget document (and each year thereafter) and the climate change mitigation funding figures, on the progress of the fuel poverty programmes.

141. The Committee also draws these recommendations to the attention of the Rural Affairs, Climate Change and Environment Committee for its interest.

Key factors in tackling fuel poverty

142. In discussion with witnesses, the Committee highlighted three factors which “feed into” fuel poverty - energy efficiency, energy prices and incomes – and invited witnesses to state what they considered to be, currently, the biggest contributor to increases in fuel poverty. Energy Action Scotland considered that “all three of those factors are causes of fuel poverty” but that the “most recent thing on

¹¹⁴ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 18 September 2013. Col 3274

¹¹⁵ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 18 September 2013. Col 3274

everyone's radar has been the rise in energy prices". It went on however to state that—

“a longer-term problem is our failure to address the energy efficiency of homes. That problem has built up over a number of years and will take a number of years to solve through, say, retrofitting”.¹¹⁶

143. Unison indicated that energy costs—

“are clearly one of the biggest burdens on low-paid people. There has been a big increase in fuel poverty, and fuel costs take up a very large proportion of the income of those at the lower income levels of our society”.

144. In his evidence, the Cabinet Secretary stated that the cost of energy and the need to improve the housing stock were “factors that contribute to fuel poverty”. However, he also highlighted non-financial barriers in getting people to engage with the process satisfactorily. He said—

“Loads of people are perfectly happy to take part in schemes to improve energy efficiency and reduce their bills, but lots of people who would benefit from full participation in the schemes do not participate. Trying to raise awareness and elicit commitment is part of the process”.¹¹⁷

145. The Committee invites the Scottish Government to set out its strategy to better engage people in schemes which will lead to a reduction in fuel poverty and to detail how it will “elicit commitments” for example from energy companies in this regard.

146. The Committee also draws this recommendation to the attention of the Infrastructure and Capital Investment Committee for its interest.

The Energy Assistance Package and Home Insulation Scheme – transfer of resource to tackle the ‘bedroom tax’

147. In his draft budget statement to the Parliament, the Cabinet Secretary stated that the Scottish Government would transfer £20 million in this financial year “to help those who are struggling the most with the costs of the bedroom tax”.¹¹⁸ During its budget scrutiny, the Committee has been informed that £10 million of this transfer will come from the Home Energy Efficiency Programme with the remainder from a combination of savings from the enterprise bodies and other budget lines.

148. In its evidence on this proposed transfer, Energy Action Scotland described the proposal as a “bittersweet announcement” which—

¹¹⁶ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 18 September 2013. Col 3285

¹¹⁷ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 2 October 2013. Col 3397

¹¹⁸ Scottish Parliament. *Official Report*, 11 September 2013. Col 22281

“On the one hand, the funding stays within what we could class as an anti-poverty programme, which is welcome, but on the other hand there is concern that there was an underspend at all on fuel poverty programmes, particularly when we are only halfway through the year.”¹¹⁹

149. It also highlighted its concerns that “whatever teething problems there have been are not more serious than that, are not endemic in the system and can be addressed”.¹²⁰

150. In evidence to the Committee, SCVO questioned—

“whether we are taking money away from addressing fuel poverty to put it into mitigating the bedroom tax. If so, many of the lowest earners in society will find themselves in a zero-sum game”.¹²¹

151. In his evidence, the Cabinet Secretary explained the rationale of the Scottish Government behind the transfer—

“The rationale has essentially been about the uptake of the scheme given some of the processes that we have had to go through to secure agreement about the terms of the scheme with the UK Government. We identified that, in the current financial year, we are unlikely to be able to spend all the resources that we envisage will need to be spent, so we are able to redeploy the funds to deal with the consequences of the bedroom tax.”¹²²

152. The Committee invites the Scottish Government to confirm that any issues around the processes which it had to go through with the UK Government have been resolved and that it has put in place necessary measures to maximise uptake of the Home Energy Efficiency Programme in the 2014-15 budget year.

153. The Committee also draws this recommendation to the attention of the Infrastructure and Capital Investment and the Rural Affairs, Climate Change and Environment Committees for their interest.

154. The Committee is disappointed that factors outwith the Scottish Government’s control have delayed certain aspects of the Home Energy Efficiency Programme. Whilst we acknowledge the importance of funding energy efficiency measures we support the Scottish Government’s proposed budget transfer from the Home Energy Efficiency Programme (coupled with savings from the enterprise bodies and other budget lines) to provide

¹¹⁹ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 18 September 2013. Col 3273

¹²⁰ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 18 September 2013. Col 3274

¹²¹ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 18 September 2013. Col 3247

¹²² Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 2 October 2013. Col 3397

support to people as a result of the impact of the UK Government's under occupation of social housing charges ("the bedroom tax").¹²³

155. The Committee also draws this recommendation to the attention of the Welfare Reform Committee for its interest.

Renewable energy

156. Tables 5 and 6 above set out planned expenditure on the budget lines relevant to renewable energy. Spending in this area was also a feature of our scrutiny this year and a number of issues were raised.

A National Performance Framework indicator on renewable heat?

157. WWF Scotland, believed that, alongside a NPF indicator to increase renewable electricity production, the introduction of an indicator for renewable heat "would highlight the importance of the heat sector and help focus budgetary spend".¹²⁴ This view was supported by Scottish Renewables.¹²⁵

158. The Committee recommends that the Scottish Government gives consideration as to how national indicators on both renewable electricity production and heat could be included in the National Performance Framework.

Investment in renewables

159. In evidence to the Committee, Scottish Renewables, while recognising that key issues around renewables, such as electricity market reform, grid infrastructure and access costs, were matters for the UK Government, stated that the Scottish budget in this area "is significant" and that the key issues arising from that were "demonstrating leadership in renewables; supporting research, development and deployment, particularly of wave and tidal energy; and building the Scottish supply chain and skills base, as well as creating a heat network in Scotland".¹²⁶

160. It believed that the Scottish Government's support for renewables in previous budgets "has been paying off" and that the 2014-15 draft budget "looks positive for renewables". It welcomed the extension of the Renewable Energy Investment Fund, the continued investment in the national renewables infrastructure plan for ports and harbours and the focus on offshore wind, marine, heat and community projects. It would like to see a particular focus on heat.¹²⁷

161. The Committee raised the recent Audit Scotland renewables report with witnesses. The report states that Scotland met 39% of its electricity needs from

¹²³ Agreed to by division: For 5 (Christian Allard, Chic Brodie, Mike Mackenzie, Dennis Robertson and Marco Biagi), Against 4 (Murdo Fraser, Alison Johnstone, Margaret McDougall and Hanzala Malik). There was a vote on one amendment to this recommendation. The detail of the vote is included in Annex A

¹²⁴ WWF Scotland. Written submission (page 3)

¹²⁵ Scottish Renewables. Written submission (page 2)

¹²⁶ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report, 18 September 2013*. Col 3270

¹²⁷ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report, 18 September 2013*. Col 3270

renewables in 2012 and that the budget for public spending on renewables for 2013-15 (£269 million) exceeds the total spending over the previous 11 years (£209 million) and that the Scottish Government “has a clear strategic vision for developing renewable energy” and “has made steady progress towards achieving its renewable energy targets for 2020”. However, the report also states that meeting the 2020 target will require a doubling of the rate of development.¹²⁸

162. The draft budget indicates that the budget under the Energy line of the Committee’s area will be reduced by over 30% in cash terms on the previous year. This is attributed to a slowing of activity by private sector partners (also recognised in the Audit Scotland report) which reflects various factors including investor caution given the uncertainty over UK energy policy. In view of this, and of the uncertainties expressed in the Audit Scotland report, the Committee is concerned to establish how the momentum of development can be restored so that the Scottish Government’s prediction of a “bounce back” to public spending of £60 million in 2015-16 can be achieved.

163. WWF Scotland stated that the Energy Saving Trust “has calculated that we need in the region of a tenfold increase in the provision of renewable heat to properties in Scotland if we are to meet the ambition of 100,000 homes having renewable heat by 2020”.¹²⁹ The Committee notes the reductions from 2013-14 to 2014-15 in energy budgets as highlighted in tables 5 and 6 above.

164. Scottish Renewables highlighted the Renewable Energy Investment Fund which is made up of £103 million from the Fossil Fuel Levy. It considers the Fund “should be continued in the 2014-15 budget and beyond to meet the investment needs of emerging technologies and community projects”.¹³⁰

165. Scottish Enterprise stated that access to sufficient finance “remains critical to the successful realisation of the full potential of this sector” and that funds such as the Renewable Energy Investment Fund “will be vital in unlocking private sector investment and accelerating development”.¹³¹ Scottish Enterprise also believed that its investment in renewables was “about creating a renewables industry that will give us a huge return”.¹³²

166. Highlands and Islands Enterprise indicated its “ambition” that by 2020 the Highlands and Islands will be an international centre for marine renewables¹³³ and that it was taking “a lead role” in the third stage of the National Renewables Infrastructure Plan which focuses on marine energy.¹³⁴

¹²⁸ Renewable energy. Audit Scotland. Available at:

www.audit-scotland.gov.uk/docs/central/2013/nr_130912_renewable_energy.pdf

¹²⁹ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 18 September 2013. Col 3272

¹³⁰ Scottish Renewables. Written submission (page 5)

¹³¹ Scottish Enterprise. Written submission (page 7)

¹³² Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 30 September 2013. Col 3320

¹³³ Highlands and Island Enterprise. Written submission (page 3)

¹³⁴ Highlands and Island Enterprise. Written submission (page 8)

167. In his evidence, the Cabinet Secretary considered that the Scottish Government was “moving into a position in which we have more clarity”. The Cabinet Secretary went on to highlight “the investment climate in general - the economic confidence - electricity market reform and wider technological development” where the marketplace for each was “becoming stronger” and that “economic conditions are improving, electricity market reform is getting more securely founded and technology developments are continuing apace”.¹³⁵

168. The Committee welcomes the Scottish Government’s efforts to date in this policy area and seeks further information on its assessment of the market and policy developments which will restore momentum to investment in renewables and on projected investment growth in specific activities and forms of development over the next two years. The Committee seeks the Scottish Government’s views on possible alternative measures to support investment in renewables if market conditions lead to an underspend of the budget for renewable energy capital expenditure.

169. The Committee requests that the Scottish Government provides further detail on the projected budget for the Renewable Energy Investment Fund in 2014-15 and 2015-16. The Committee also invites the Scottish Government to detail what projects, and to what amount, have been funded through the Fund since 2012-13.¹³⁶

170. Furthermore, the Committee invites Highlands and Islands Enterprise and Scottish Enterprise to indicate how much from their respective budgets for 2012-13, 2013-14 and 2014-15 was, and will be, allocated to renewable energy.

171. Finally, in light of the Audit Scotland report, the Committee invites the Scottish Government to provide further information on how it will, given the level of funding it is making available in 2013-14, 2014-15 and 2015-16 and market conditions, meet its 2020 renewables target of 100% of demand for electricity from renewable energy as well as its target of 11% renewable heat.

172. The Committee also draws these recommendations to the attention of the Rural Affairs, Climate Change and Environment Committee for its interest.

Skills

173. Scottish Renewables also stated that it would like to see “continued support and additional resource given to both the Scottish Funding Council and Skills Development Scotland to ensure that the necessary training provision and academic courses are available to meet the industries future needs”.¹³⁷

¹³⁵ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 2 October 2013. Col 3399

¹³⁶ There was a vote on an amendment to this recommendation. The detail of this vote is included in Annex A

¹³⁷ Scottish Renewables. Written submission (page 6)

174. The Committee invites Skills Development Scotland to confirm what funding it will be allocating in 2014-15 to provide training which will support the renewables sector.

175. Highlands and Islands Enterprise was seeking to increase university activity and to “maximising access to expertise in Scottish universities and strengthening our regional knowledge base in key areas of opportunity including marine renewables”.¹³⁸

176. The Committee invites Highlands and Islands Enterprise to outline how it is taking this work with the university sector forward, what funding is being applied in support, and what benefits have been achieved to date.

District heating

177. Scottish Renewables highlighted district heating networks which deploy large volumes of renewable and low carbon heat to end users. These, according to Scottish Renewables, have long been used in other European countries but of which there has been “very limited development” in Scotland. Similarly, WWF Scotland called on the recommendations of the Expert Commission on District Heating to be “fully funded and taken forward under the Scottish Government’s District Heating Action Plan”. The Committee notes the concern of WWF Scotland that “a number of recommendations on funding specifically to support district heating are not followed through in the plan”.¹³⁹

178. Scottish Renewables also highlighted the important role of the public sector in creating the infrastructure for district heating projects and that this was an area “in which the Scottish Government can make a difference”.¹⁴⁰

179. Scottish Renewables stated that the continuation of funding schemes such as the District Heating Loan Scheme and Warm Homes Fund “will be required to increase the uptake of renewable heat technologies and help to reduce fuel poverty”.¹⁴¹ The Committee notes that the Fossil Fuel Levy Renewable Projects capital budget, which could cover the capital costs associated with district heating projects, allocates £35 million in 2014-15, although funding will also be available through other schemes.

180. The Committee invites the Scottish Government to clarify what funding is being made available in 2014-15 for district heating projects and under what schemes and what funding it has made available as part of its response to the District Heating Action Plan.

181. The Committee invites the Scottish Government, as part of its climate change mitigation measures figures each year, to specify what funding is being allocated specifically for district heating projects, including those

¹³⁸ Highlands and Island Enterprise. Written submission (page 9)

¹³⁹ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report, 18 September 2013*. Col 3272

¹⁴⁰ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report, 18 September 2013*. Col 3278

¹⁴¹ Scottish Renewables. Written submission (page 2)

measures which it agrees to take forward on the recommendation of the continuing work of the Expert Commission on District Heating.

TOURISM MATTERS

182. The Committee notes that the tourism budget for 2013-14 totals £51.6 million and that this will increase in 2014-15 to £56.9 million (although the capital budget will decrease from £2.85 million to £700,000), principally to fund opportunities associated with the 2014 Commonwealth Games and Ryder Cup.

Opportunities for SMEs in 2014

183. Given the two high-profile sporting events taking place in 2014, the Committee was keen to explore whether the opportunities which these events, and others scheduled for 2014, would bring across the tourism sector and beyond would be maximised and taken up.

184. In its evidence, VisitScotland highlighted the partnership working it will take forward with the tourism industry and beyond, for example, with local authorities. It offered examples of local food and drink suppliers tapping into the Commonwealth Games and putting on demonstrations of what they have to offer. The agency also referred to the opportunity for people attending such events to stay beyond the event itself or to visit other parts of Scotland.

185. The Committee questioned VisitScotland on whether it had any projections on the number of people who are likely to stay beyond, or to arrive prior to, the Commonwealth Games or the Ryder Cup. The agency responded that it would have a better idea once tickets had been allocated and of the analysis it could do through postcodes to find out whether people are coming from near or far and to then do some profiling.

186. The Committee recognises that 2014 is a significant year for VisitScotland and that it would appear to have some plans in place for the opportunities on offer and how to engage with Scotland's business community. However, we would welcome further information on how VisitScotland will share across all sectors the information which it gathers to allow all of Scotland's businesses to consider what opportunities this profiling may offer.

187. In his evidence to us, the Cabinet Secretary considered these events to be "crucial" as they will provide spin-off benefits for local organisations. The Cabinet Secretary expected both enterprise bodies, the Business Gateway network, local chambers of commerce and others to run promotional events in their areas on how local businesses can get involved.¹⁴²

188. The Committee gives notice that it intends to return to this subject area early in 2014 for a progress report from all of the relevant public sector bodies involved as to the detail, and the success to date, of the plans for engaging Scotland's business community with the opportunities on offer from 2014 and its legacy.

¹⁴² Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 2 October 2013. Col 3384

Beyond 2014?

189. The Committee discussed with VisitScotland whether there may be too much focus on the Commonwealth Games and Ryder Cup events and how we “ensure that businesses are resilient thereafter”.¹⁴³ VisitScotland acknowledged that there “is a danger of focusing too much on the iconic events” but that 2014 was seen as a “catalyst for further change”.¹⁴⁴

190. It highlighted the work of the Scottish Tourism Alliance which was looking towards 2020 and the “major” events already secured in 2015. The agency stated that EventScotland is consulting on what is required over the next 10 years, including “what skill sets will be required” and the facilities which are available. In addition, the Business Tourism bid fund has secured conferences through to 2022.

191. The Committee requests that VisitScotland, in its draft budget submission for 2015-16, details what funding has been allocated to EventScotland, the Business Tourism Unit and the Conference Bid Fund, and what returns have been secured as a result of previous budgets with regards visitor number and visitor spend.

VisitScotland’s marketing budget

192. VisitScotland’s marketing budget amounts to £50.11 million in 2014-15 which is an increase in the budget for 2013-14 (£48.79 million) but a reduction from 2012-13 (£51.64 million).¹⁴⁵ In its submission, VisitScotland stated that almost 15 million overnight tourism trips were taken in 2012 with visitor spend of £4.3 billion and a further £4.7 billion spend by day visitors. Overseas residents accounted for around 15% of the total number of tourism trips taken but 33% of total visitor spend. USA, Germany, France and Ireland are long-time major markets while over the last five years growth has been seen in non-Euro markets such as Norway and Switzerland.¹⁴⁶

193. VisitScotland states that tourism is “the single biggest investment that can be made right now and can be a tonic for the recession. Investment in tourism is an investment towards economic recovery, sustainable growth and jobs”.¹⁴⁷

194. The Committee invites VisitScotland to indicate the projected return on the £50.11 million marketing budget in terms of rate of return, visitor numbers and spend compared with visitor numbers and spend for 2012-13 and 2013-14.

VisitScotland and the National Performance Framework

195. In the response of the Scottish Government to the budget strategy phase, it stated that VisitScotland has “aligned its corporate objectives and focused its activities to contribute to several of the Government’s Purpose Targets and

¹⁴³ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report, 30 September 2013*. Col 3329

¹⁴⁴ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report, 30 September 2013*. Col 3329

¹⁴⁵ VisitScotland. Written submission (page 15)

¹⁴⁶ VisitScotland. Written submission (page 2)

¹⁴⁷ VisitScotland. Written submission (page 5)

National Outcomes".¹⁴⁸ In its written submission to the Committee, VisitScotland highlighted the National Outcome - We live in a Scotland that is the most attractive place for doing business in Europe - and the contribution which it is making towards this through, for example, the development and deployment of the Conference Bid Fund to drive and support key business tourism events; the work of the Business Tourism Unit and new or enhanced marketing platforms; and its work with Scottish Enterprise and Highlands and Islands Enterprise to identify and secure new and extended route connectivity.¹⁴⁹

196. The Committee lacks a degree of quantitative financial information on these matters and requests that the Scottish Government clarifies what specific budgets were realigned to support the VisitScotland corporate objectives and relevant outcomes under the NPF.

¹⁴⁸ Letter from the Cabinet Secretary for Finance, Employment and Sustainable Growth to the Convener of the Finance Committee dated 11 September 2013. Available at: www.scottish.parliament.uk/S4_EconomyEnergyandTourismCommittee/Inquiries/20130911_CSFE_SG_to_Convener_FC.pdf

¹⁴⁹ VisitScotland. Written submission (page 4)

EQUALITY ISSUES

Equality issues

197. The Committee has integrated its consideration of equalities issues across its scrutiny of the draft budget and has highlighted particular issues within the body of this report in relation to the NPF, Modern Apprenticeship scheme, women in business and access to business growth funding opportunities for black and minority ethnic communities.

198. The Committee questioned the Cabinet Secretary about whether the draft budget itself is equality impact assessed. The Cabinet Secretary confirmed that such an assessment is carried out “at portfolio and proposition level”.¹⁵⁰ This approach followed consultation by the Scottish Government with the Equality and Budget Advisory Group and involves a “comprehensive look” at what the Scottish Government is doing and “testing it against equalities considerations”.

199. The Committee welcomes the comments of the Cabinet Secretary that he sets a great deal of store by the dialogue that he has with the Equality and Budget Advisory Group as he formulates his choices.

200. The Committee also draws this to the attention of the Equal Opportunities Committee for its information, particularly the Committee’s recommendations at paragraphs 59 to 83.

¹⁵⁰ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 2 October 2013. Col 3386

OTHER ISSUES

Strategic Forum and efficiency savings

201. Table 4.06 of the draft budget document shows that the Strategic Forum partners (Scottish Enterprise, Highlands and Islands Enterprise, Skills Development Scotland, VisitScotland and the Scottish Funding Council) are required to make savings of £25 million (in 2013-14), £40 million (in 2014-15) and £40 million (in 2015-16). The draft budget document states that since 2012-13, Scottish Government Ministers have “challenged” the Forum members “to work together, and with other public bodies, to achieve savings through greater collaboration and alignment”.¹⁵¹

202. The Committee, in its report on the draft 2013-14 budget, asked Forum members to provide details of the savings and how these were calculated. The information available to the Committee indicates the following savings this current financial year—

| | |
|----------------------------------|----------------------|
| Scottish Enterprise | £10.8 million |
| Highlands and Islands Enterprise | £2 million |
| Skills Development Scotland | £1.5 million |
| VisitScotland | £3 million |
| Scottish Funding Council | £7.3 million |
| Total | £24.6 million |

203. Based on the figures available to the Committee, the projected saving planned in this financial year by the Forum partners is slightly below £25 million. In his evidence to the Committee, the Cabinet Secretary assured us that the Scottish Government is on target to meet the Strategic Forum savings target for the current year of £25 million.¹⁵²

204. At the conclusion of the current financial year, the Committee invites each of the Strategic Forum partners to provide us with a detailed breakdown of the savings which they each made, i.e. what the saving was in respect of and what amount.

205. In 2014-15, the Strategic Forum is expected to make savings of £40 million. In our discussions with Forum members, the projected savings for 2014-15 are—

| | |
|----------------------------------|---------------|
| Scottish Enterprise | £17.3 million |
| Highlands and Islands Enterprise | £3.2 million |
| Skills Development Scotland | £1.5 million |
| VisitScotland | £5 million |

¹⁵¹ Scottish Budget: Draft Budget 2014-15. Scottish Government. Available at: www.scotland.gov.uk/Publications/2013/09/9971/0

¹⁵² Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 2 October 2013. Col 3402

Scottish Funding Council

This figure is not available
at this time¹⁵³

Total

£27 million

206. It would appear, therefore, that there will be a substantial shortfall (subject to receipt of the SFC figure) in the projects for efficiency savings by the Strategic Forum for 2014-15.

207. The Committee questioned Scottish Enterprise, Highlands and Islands Enterprise, Skills Development Scotland and VisitScotland about these figures for 2014-15. In its oral evidence, VisitScotland stated that it was “stripping out activities that do not contribute to the economic growth that we want to achieve” and to the partnership working which “allows the budget to stretch further and still achieve exactly what we are trying to do”.¹⁵⁴

208. In its evidence, Scottish Enterprise admitted that its forecast saving was “a big number.” and that it would be looking at “raising additional income from our assets, which will make a significant contribution” in addition to savings from procurement savings, facilities management and estates, co-location and shared ICT services”.¹⁵⁵ The Committee returns to this issue below.

209. In evidence Highlands and Islands Enterprise indicated that its position was similar to that of Scottish Enterprise and that each year it has “set a target for delivering income over and above our grant in aid, so that our operating costs are covered by additional income”. It has secured savings through selective voluntary severance schemes, multi-occupancy buildings throughout the Highlands, and co-location with other agencies.

210. In his response to the Committee about the projected savings for 2014-15, the Cabinet Secretary confirmed that the total of £40 million would be met. However, based on the current figures available to the Committee, the projected savings planned in 2014-15 by the Forum partners do not yet total £40 million.

211. Based on the information available to us, the Committee is unable at this time to identify whether and how the £40 million target for efficiency savings by the Strategic Forum in the 2014-15 financial year will be met. We appreciate that these figures are subject to change and that financial year 2014-15 is not yet underway. Accordingly, we ask the Strategic Forum partners to provide further detail on how they will make these savings and report to us as soon as possible after 1 April 2014, to outline what action they have taken to ensure such individual savings were achieved.

¹⁵³ The Scottish Parliament’s Financial Scrutiny Unit made a request for this information but was unable to obtain a figure from the Scottish Funding Council on its projected 2014-15 efficiency savings

¹⁵⁴ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report, 30 September 2013*. Col 3334

¹⁵⁵ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report, 30 September 2013*. Col 3334

Asset disposals

212. The grant in aid budget for Scottish Enterprise in 2014-15 is £248.9 million while its total expenditure is £336.7 million (see Table 1 below provided by Scottish Enterprise). Part of this difference is to be made up through property disposals, which Scottish Enterprise projects will bring in £4 million income, and £26.3 million from what it refers to as 'further asset realisations'.¹⁵⁶ The Committee received confirmation from Scottish Enterprise that these 'asset realisations' are effectively further property sales.¹⁵⁷

213. It should be noted that the £26.3 million income which Scottish Enterprise will need to raise in order to maintain its previously planned expenditure level of £336.7 million¹⁵⁸ is in addition to the projected £17.5 million savings to be achieved through its membership of the Strategic Forum.

| | 2013/14 | 2014/15 | Change | Change | Explanatory Notes |
|---|----------------|--------------|--------------|------------|-------------------|
| | Published Plan | Draft Budget | | | |
| | £m | £m | £m | % | |
| Grant in Aid - baseline | 231.1 | 220.1 | -11.0 | -5% | |
| Contribution to the Strategic Forum Savings | -10.8 | -17.3 | -6.5 | 60% | |
| Anticipated in-year transfers (net) | 44.2 | 46.1 | 1.9 | 4% | |
| Total anticipated Grant in Aid | 264.5 | 248.9 | -15.6 | -6% | 1 |
| EU Funds | 7.3 | 8.2 | 0.9 | 12% | |
| Property Disposals | 16.5 | 4.0 | -12.5 | -76% | |
| Property Income | 6.5 | 6.0 | -0.5 | -8% | 2 |
| Co-Investment Fund | 10.0 | 10.0 | 0.0 | 0% | |
| Scottish Loan Fund | 15.0 | 16.0 | 1.0 | 7% | |
| Other Business Income | 16.6 | 17.3 | 0.7 | 4% | |
| Additional income from further asset realisations | | 26.3 | 26.3 | 100% | 3 |
| TOTAL INCOME | 336.4 | 336.7 | 0.3 | 0% | |

214. In its evidence to the Committee, Scottish Enterprise stated that—

“This may not be the best time, in the economy, to dispose of or to realise money from those assets. We need therefore to make a tough choice either to hold on to those assets for another few years, which might realise more money for the public purse, or to realise what we can at the moment, which may not be the best that we could ever achieve, but which we could reinvest in the economy for an economic development outcome that would be much better for us. We will consider those choices and will maximise the amount

¹⁵⁶ Scottish Enterprise. Written submission (table 1)

¹⁵⁷ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 30 September 2013. Col 3307

¹⁵⁸ Scottish Enterprise. Written submission (page 11)

that we can get back, which will fill the gap next year in order to maintain the overall level of expenditure.”¹⁵⁹

215. The Committee notes that in 2013-14, Scottish Enterprise’s income from property disposals was projected at £16.5 million but that drops to a projected £4 million in 2014-15. This drop in projected income reflects the current property market conditions which Scottish Enterprise highlighted. Given this projected drop, the Committee was interested in how Scottish Enterprise was going to secure the additional £26.3 million in income, again through property sales.

216. The Committee notes that Scottish Enterprise has discussed with the Scottish Futures Trust how to “get the best value out of public sector assets” and that Highlands and Islands Enterprise has also met with the Trust.¹⁶⁰

217. The Committee asked the Cabinet Secretary if the current climate was the best time for a Scottish Government agency to be selling capital assets to fund a shortfall in its income. He responded—

“In selling any asset, Scottish Enterprise will be obliged to satisfy itself that it can secure the appropriate market value for that asset. If it is not securing that market value price, it should not be selling the asset in question. Those are the rules that are in place.”¹⁶¹

218. The Committee asked the Cabinet Secretary whether the Scottish Government was concerned that Scottish Enterprise is selling capital assets to fund a shortfall in income. He replied that—

“We have to be careful how we view this. Part and parcel of the financing of Scottish Enterprise is that it will be using other sources of income beyond grant-in-aid. That is not something new; part of the character of Scottish Enterprise for more than 20 years has been that it generates income as a consequence of some of its other business activities. However, ultimately, when it comes to the issue of property disposals, Scottish Enterprise has to make a case-by-case judgment about whether the tests can be fulfilled in relation to property disposals.”¹⁶²

219. The Committee is not clear what contingency plans are in place should Scottish Enterprise fail to realise the income through property sales that it is required to generate to meet its projected shortfall between its grant in aid and its planned expenditure. The Committee also considers that there must

¹⁵⁹ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 30 September 2013. Col 3307

¹⁶⁰ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 30 September 2013. Col 3335

¹⁶¹ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 2 October 2013. Col 3403

¹⁶² Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 2 October 2013. Col 3404

be careful monitoring of whether Scottish Enterprise does secure the best value for these public assets.¹⁶³

220. The Committee notes that capital receipts for Highlands and Islands Enterprise, which comprise mainly property sales, in 2013-14 are projected at £3.3 million with a higher forecast income of £4.5 million in 2014-15.¹⁶⁴

221. Based on the information available to the Committee, the 2014-15 budget appears to project potential shortfalls of £26.3 million for Scottish Enterprise and £4.5 million for Highlands and Islands Enterprise. The Committee is unclear how these shortfalls in funding would be met.

222. One option would be for the Scottish Government to increase its grant assistance to both agencies. Consequently, the Committee invites the Scottish Government to confirm whether it plans to make up any shortfall in income for both enterprise agencies through an in-year adjustment or whether it has/will require the agencies to produce contingency plans for expenditure reductions in the event of asset sales not being achieved.

223. If an in-year adjustment is not to be made, both enterprise agencies may have to meet any shortfall through further asset sales and property disposals, which raises the question of whether these would realise a reasonable price in the current climate and whether any further sales would represent value for money when comparing the price realised with the book value of any asset.

224. In this event, the Committee invites Scottish Enterprise to detail what action it will take should it be unable to meet its £4 million and £26.3 million income projections through further property sales or disposal of assets.

225. It also invites Highlands and Islands Enterprise to detail what action it will take should it be unable to meet its £4.5 million income projection through property sales.

226. Furthermore, the Committee invites both enterprise agencies to detail, with regards those properties which they will be seeking to sell, (a) how much it paid for each property when originally purchased; and (b) what the current approximate market value of each property is. The Committee gives notice that it intends to return to this subject in 2014-15 to review the sums which both agencies have been able to raise by property sales and disposal of assets to see if they represent value-for-money.

227. The Committee draws this issue to the attention of the Finance Committee and the Public Audit Committee, for their respective interests, and the Auditor General for Scotland.

¹⁶³ There was a vote on an amendment to this recommendation. The detail of this vote is included in Annex A

¹⁶⁴ Highlands and Islands Enterprise. Written submission (page 19)

Provision of draft budget information

228. The Committee welcomed the provision of the more detailed, level 4 figures from the Scottish Government within the agreed 10 working days of the publication of the draft budget.¹⁶⁵ However, the Committee would highlight that these figures were not available until after the Committee had begun its oral evidence sessions and therefore was unaware of what specific funding lines were, in discussions with some witnesses.

229. The Committee also highlights that the figures it requested from the Scottish Government on climate change funding were not made available to it until the day before its oral evidence session with the Cabinet Secretary. The receipt of these figures would have assisted the Committee, and key external organisations, in the scrutiny process. For example, in oral evidence to the Committee, WWF Scotland highlighted that the Scottish Government has provided a breakdown of figures to level 4 and—

“has tried to put the figures to budget headings that correspond with the RPP. Such a breakdown would help greatly in giving us confidence that sufficient funding is there to match the step change in renewable heat provision that we need in Scotland”.¹⁶⁶

230. The Committee recommends that the Finance Committee reviews this issue and invites the Scottish Government to consider whether it will in future make available, alongside the requested level 4 figures, the figures on climate change funding.

Alternative spend/budget transfers

231. The Finance Committee can propose alternative spending plans in its report. Whilst it will consider its own position and possible recommendations, it must also consider any proposals put forward by other committees and set out whether it agrees or disagrees with these. Any changes must keep within the overall spending limit set by the draft budget and therefore, any proposed increases should be offset by proposals for decreases elsewhere.

232. In its call for evidence this Committee invited respondents to indicate what alternative spend they would propose to better support each core area of interest and from what area should such resources be diverted. The Committee here highlights some comments made in response.

¹⁶⁵ Written agreement between the Finance Committee and the Scottish Government on the budget process in Session 4 of the Scottish Parliament. Available at: www.scottish.parliament.uk/S4_FinanceCommittee/General%20Documents/Written_Agreement_with_Scottish_Government_-_Revised_June_2012.pdf

¹⁶⁶ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 18 September 2013. Col 3272

233. The STUC believes the ‘substantial’ spend currently allocated to the Small Business Bonus scheme ‘would be much more effectively spent on effective business support for growing firms or innovation support mechanisms’.¹⁶⁷

234. Sustrans considers that more resources ‘should be directed towards helping develop, maintain and promote cycling and walking routes and that additional funds should be directed towards improving public transport infrastructure’. To achieve this, ‘funding should be redirected from large scale infrastructure projects, such as road schemes’. It believes that this would help deliver three National Indicators: “reduce traffic congestion”, “reduce Scotland’s carbon footprint” and “increase the proportion of journeys to work made by public or active transport”.¹⁶⁸ Similar points on the spending on large-scale transport infrastructure projects were made by Transform Scotland which considers this approach to be ‘misdirected’.¹⁶⁹

235. Unison highlighted public procurement, and related concerns about zero hours contracts and energy efficiency. It believes that funding on these areas could come from ‘spending on expensive PPP/PFI schemes and on consultants and, as mentioned above, among other possible taxation measures, the council tax freeze should be ended to give councils greater autonomy and flexibility in protecting key public services and supporting communities and action on climate change’.¹⁷⁰

236. The Committee discussed these issues with witnesses in oral evidence. WWF Scotland drew a parallel between spending on roads and the funding required for the Scottish Government to meet its climate change targets.¹⁷¹ Unison stated that—

“There is always a demand for new roads and everything else, but we really need to start to make some of the shifts to recognise that climate change is not just about the energy industry or energy efficiency, but about the transport budget. If we do not begin to make some shifts in that area, we have little chance of meeting our very ambitious climate change targets.”¹⁷²

237. The Committee recommends that the Finance Committee reviews this issue and invites the Scottish Government to consider whether it will in future make available, alongside the requested level 4 figures, the figures on climate change funding.

Budget co-production

238. A final issue raised during our oral evidence that of ‘budget co-production’. Social Enterprise Scotland stated that “we must look not simply at where we distribute the money, but at what other instruments are available in terms of co-

¹⁶⁷ STUC. Written submission (page 5)

¹⁶⁸ Sustrans. Written submission (page 2)

¹⁶⁹ Transform Scotland. Written submission (page 2)

¹⁷⁰ Unison. Written submission (page 4)

¹⁷¹ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 18 September 2013. Col 3255

¹⁷² Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 18 September 2013. Col 3288

production, the design of services and how they can achieve the best economic and social outcomes”¹⁷³ and that the draft budget process could provide “an opportunity to create markets and opportunities for social enterprises”.¹⁷⁴ There was support for this approach from the Scottish Council for Voluntary Organisations (SCVO) which stated that it had been “calling for some time for the budget to be a co-produced effort”.¹⁷⁵

239. Whilst we do not necessarily agree with Social Enterprise Scotland and SCVO comments on “co-production” of the draft budget we invite the Scottish Government to ensure that they and other key stakeholders are fully consulted.¹⁷⁶

¹⁷³ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report, 18 September 2013*. Col 3248

¹⁷⁴ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report, 18 September 2013*. Col 3262

¹⁷⁵ Scottish Parliament Economy, Energy and Tourism Committee. *Official Report, 18 September 2013*. Col 3256

¹⁷⁶ There was a vote on an amendment to this recommendation. The detail of this vote is included in Annex A

ANNEX A – OFFICIAL REPORTS AND EXTRACTS FROM MINUTES OF THE ECONOMY, ENERGY AND TOURISM COMMITTEE

[20th Meeting, 2013 \(Session 4\) Wednesday 19 June 2013 \(445KB pdf\)](#)

1. Decision on taking business in private: The Committee agreed to take items 3 and 5 in private.

5. Work programme (in private): The Committee agreed its approach to scrutiny of the draft budget 2014-2015 and the Bankruptcy and Debt Advice (Scotland) Bill at Stage 1.

[21st Meeting, 2013 \(Session 4\) Wednesday 26 June 2013 \(398KB pdf\)](#)

Budget Strategy Phase 2014-2015 (in private): The Committee considered and agreed its approach to appointing an adviser for the Budget Strategy Phase 2014-2015 and locations for holding a proposed external meeting.

[23rd Meeting, 2013 \(Session 4\) Wednesday 11 September 2013 \(542KB pdf\)](#)

Draft Budget Scrutiny 2014-15: The Committee took evidence on the Scottish Government's Draft Budget 2014-15 from—

John Anderson, Chief Executive, Entrepreneurial Exchange;
Professor Sara Carter OBE FRSE, Head of Department, Hunter Centre for Entrepreneurship;
Belinda Roberts, Founder, WeDO Scotland.

Draft Budget Scrutiny 2014-15 (in private): The Committee reviewed the evidence heard earlier in the meeting.

[24th Meeting, 2013 \(Session 4\) Wednesday 18 September 2013 \(508KB pdf\)](#)

Draft Budget Scrutiny 2014-15: The Committee took evidence on the Scottish Government's Draft Budget 2014-15 from—

Fraser Kelly, Chief Executive, Social Enterprise Scotland;
David Lonsdale, Assistant Director, CBI Scotland;
Gordon McGuinness, Head of Industry Engagement and Employer Offer, Skills Development Scotland;
Ruchir Shah, Policy Manager, Scottish Council for Voluntary Organisations;
Dave Watson, Scottish Organiser, UNISON Scotland;
Dr Sam Gardner, Head of Policy, WWF Scotland;
Elizabeth Gore, Deputy Director, Energy Action Scotland;
Jenny Hogan, Director of Policy, Scottish Renewables.

Draft Budget Scrutiny 2014-15 (in private): The Committee reviewed the evidence heard earlier in the meeting.

[26th Meeting, 2013 \(Session 4\) Monday 30 September 2013 \(447KB pdf\)](#)

Draft Budget Scrutiny 2014-15: The Committee heard reports of the outcomes of the workshop sessions involving local organisations held before the start of the meeting.

Draft Budget Scrutiny 2014-15: The Committee took evidence on the Scottish Government's Draft Budget 2014-15 from—

Forbes Duthie, Director of Finance and Corporate Services, and Alex Paterson, Chief Executive, Highlands and Islands Enterprise;
Iain Scott, Chief Financial Officer, and Adrian Gillespie, Managing Director Operations, Company Growth, Innovation and Infrastructure, Scottish Enterprise;
Malcolm Roughead OBE, Chief Executive, and Ken Neilson, Director of Corporate Services, VisitScotland.

Draft Budget Scrutiny 2014-15 (in private): The Committee reviewed the evidence heard earlier in the meeting

[27th Meeting, 2013 \(Session 4\) Wednesday 2 October 2013 \(542KB pdf\)](#)

Draft Budget Scrutiny 2014-15: The Committee took evidence on the Scottish Government's Draft Budget 2014-15 from—

John Swinney, Cabinet Secretary for Finance, Employment and Sustainable Growth, John Mason, Director of Business, and Mary McAllan, Director of Energy and Climate Change, Scottish Government.

[29th Meeting, 2013 \(Session 4\) Wednesday 30 October 2013 \(393KB pdf\)](#)

Draft Budget Scrutiny 2014-15 (in private): The Committee considered a draft report to the Finance Committee on the Scottish Government's Draft Budget 2014-15. Various changes were agreed to, and the Committee agreed to consider a revised draft, in private, at its next meeting.

31st Meeting, 2013 (Session 4) Wednesday 13 November 2013

Draft Budget Scrutiny 2014-15 (in private): The Committee agreed its report to the Finance Committee on the Scottish Government's Draft Budget 2014-15. Various changes were agreed to, five by division.

Record of divisions in private:

Alison Johnstone proposed the following paragraph after paragraph 153. The proposal was disagreed to by division: For 4 (Murdo Fraser, Alison Johnstone, Margaret McDougall and Hanzala Malik), Against 5 (Christian Allard, Chic Brodie, Mike Mackenzie, Dennis Robertson and Marco Biagi).

The Committee is disappointed that some factors outwith the Scottish Government's control have delayed certain aspects of the Home Energy Efficiency Programme. Nevertheless, we regret the proposed budget transfer from the Home Energy Efficiency Programme due to an underspend (coupled with savings from the enterprise bodies and other budget lines) to provide support to people as a result of the impact of the UK Government's under occupation charge and recommends that the Scottish Government should consider using an alternative budget line given the importance we attach to tackling fuel poverty.

Alison Johnstone proposed the following paragraph after paragraph 168. The proposal was disagreed to by division: For 3 (Alison Johnstone, Margaret McDougall and Hanzala Malik), Against 6 (Christian Allard, Chic Brodie, Mike Mackenzie, Dennis Robertson, Marco Biagi and Murdo Fraser).

The Committee reiterates its support for community owned renewable projects and has reservations that the budget reduction in "Renewable and Community Energy" will slow this type of development.

Murdo Fraser proposed adding the following text to the beginning of paragraph 219. The proposal was disagreed to by division: For 4 (Murdo Fraser, Alison Johnstone, Margaret McDougall and Hanzala Malik), Against 5 (Christian Allard, Chic Brodie, Mike Mackenzie, Dennis Robertson and Marco Biagi).

The Committee is concerned that Scottish Enterprise is seeking to fill a shortfall in its current year income through extraordinary asset disposals at a time of depressed commercial property value.

Alison Johnstone proposed the following paragraph after paragraph 238. The proposal was disagreed to by division: For 1 (Alison Johnstone), Against 5 (Christian Allard, Chic Brodie, Mike Mackenzie, Dennis Robertson, Marco Biagi and Murdo Fraser) and Abstentions 2 (Margaret McDougall and Hanzala Malik)

The Committee invites the Scottish Government to respond to the Committee on the points made by Social Enterprise Scotland and SCVO about "co-production" of the draft budget.

ANNEX B: WRITTEN EVIDENCE

Written evidence

[Carnegie UK Trust \(166KB pdf\)](#)
[CBI Scotland \(163KB pdf\)](#)
[Equality and Human Rights Commission \(204KB pdf\)](#)
[Energy Action Scotland \(76KB pdf\)](#)
[Enterprise Research Centre \(148KB pdf\)](#)
[Entrepreneurial Exchange \(264KB pdf\)](#)
[Highlands and Islands Enterprise \(685KB pdf\)](#)
[Homes for Scotland \(212KB pdf\)](#)
[Oxfam \(227KB pdf\)](#)
[Royal Society of Edinburgh \(240KB pdf\)](#)
[Scottish Council for Development and Industry \(221KB pdf\)](#)
[Scottish Council for Voluntary Organisations \(209KB pdf\)](#)
[Scottish Enterprise \(827KB pdf\)](#)
[Scottish Federation of Housing Associations \(156KB pdf\)](#)
[Scottish Renewables \(246KB pdf\)](#)
[Scottish Trades Union Congress \(151KB pdf\)](#)
[Skills Development Scotland \(287KB pdf\)](#)
[Social Enterprise Scotland \(68.4KB pdf\)](#)
[Sustrans \(138KB pdf\)](#)
[Transform Scotland \(197KB pdf\)](#)
[UNISON \(153KB pdf\)](#)
[VisitScotland \(478KB pdf\)](#)
[WeDO Scotland \(148KB pdf\)](#)
[WWF Scotland \(256KB pdf\)](#)

Follow up written evidence:

[Energy Action Scotland, 18 September 2013 meeting \(63 KB pdf\)](#)
[Skills Development Scotland, 18 September 2013 meeting \(191KB pdf\)](#)
[Highlands and Islands Enterprise, 30 September 2013 meeting \(39.2KB pdf\)](#)
[Scottish Enterprise, 30 September 2013 meeting \(193KB pdf\)](#)
[Scottish Government, 2 October 2013 meeting \(1.22MB pdf\)](#)