Economy, Jobs and Fair Work Committee

**Scottish Government's Draft Budget 2018-19 –
Submission to the Finance and Constitution Committee**

Introduction

1. The Committee's consideration of the Scottish Government's Draft Budget 2018-19 (published on 14 December 2017) was informed by evidence sessions with the enterprise agencies on 12 September 2017, West Lothian Chamber of Commerce on 28 November 2017, and the Cabinet Secretary for Economy, Jobs and Fair Work on 19 December 2017.

2. We received written submissions from Audit Scotland, Existing Homes Alliance Scotland, Energy Action Scotland, Women's Enterprise Scotland, Institution of Civil Engineers, and nine of the chambers of commerce.

3. This paper sets out the main issues that emerged from that evidence, under the headings of enterprise spending, infrastructure, fuel poverty, gender pay, the timing of this year's budget and our approach to future budget scrutiny.

Enterprise spending

Analysis

4. The Draft Budget shows a £270m (or 64%) cash terms increase in the Economy, Jobs and Fair Work budget between 2017/18 and 2018/19. The table below includes budgets for the enterprise agencies, City Deal capital and funding for the newly devolved employment support service, Fair Start Scotland.

Economy, Jobs and Fair Work	**2017-18 £m**	**2018-19 £m**	**Change £m**
Employability and Training	43.0	52.9	9.9
Enterprise and Energy	314.6	508.6	194.0
Accountant in Bankruptcy	1.2	3.6	2.4
Parliamentary Business and Government Strategy	60.8	124.7	63.9
Total EJFW	**419.6**	**689.8**	**270.2**

5. The 'Parliamentary Business and Government Strategy' budget line more than doubles over the year, increasing by £64 million. The following table shows this increase comes from the 'Cities Investment and Strategy' budget, which funds the Glasgow and Clyde Valley City Deal, the Aberdeen City Region Deal, the Inverness City Region Deal and the Edinburgh and South East Scotland City Region.

Parliamentary Business and Government Strategy	**2017-18 £m**	**2018-19 £m**	**Change £m**
Cities Investment and Strategy	56.9	122.2	65.3
Office of the Chief Economic Adviser	0.5	1.0	0.5
Strategic Research & Analysis Fund	0.8	0.8	0.0
Council of Economic Advisers	0.1	0.1	0.0
Citizens Advice Direct	0.6	0.6	0.0

6. Looking specifically at the 'Enterprise and Energy' budget line within the EJFW portfolio, the Draft Budget document provides a more detailed breakdown.

Enterprise and Energy	**2017-18**	**2018-19**	**Change (£m)**
Enterprise	223.8	299.3	75.5
Energy	80.1	93.6	13.5
Innovation and Industries	10.7	115.7	105.0
Total	**314.6**	**508.6**	**194.0**

7. The above table shows a significant increase, of £105m, in the 'innovation and industries' budget line. Much of this is financial transactions money for the Scottish Growth Scheme and Building Scotland Fund.

8. Some details of the Building Scotland Fund were also included in the Draft Budget—

> "*the establishment of a Building Scotland Fund to support construction jobs and further accelerate delivery of housing development, industrial premises and research and development, drawing together public sector interventions in housing, regeneration and infrastructure*" (p.34).

Summary of Level 4 budget figures

9. The Scottish Government also provides so-called 'Level 4' figures, which break down budget lines even further than they are presented in the Draft Budget document. This provides details of changes over the year, breakdowns by resource, capital and financial transactions, and some explanation for changed budgets over the year.

10. The following table shows the Level 4 breakdown of the SG's budget allocation to Scottish Enterprise, which is part of the 'Enterprise' budget line in the above table—

Scottish Enterprise Budget 2017/18 and Draft Budget 2018/19

	£m			
	2017/18	2018/19	Change	Cash Change (%)
Resource	138.0	138.0	0.0	0.0%
Capital	21.9	41.4	19.5	89.0%
Financial Transactions	35.0	68.5	33.5	95.7%
Non-cash	10.6	8.3	-2.3	-21.7%
Total	**205.5**	**256.2**	**50.7**	**24.7%**

NB Level 4 figures also show £10 million for the new South of Scotland enterprise agency

11. The SG's budget allocation to Scottish Enterprise increases by £51m, or 24.7% in cash terms over the year. The above table shows that the big gains come from increased capital and financial transactions allocations. Resource budget sees no increase over the year, which translates into a slight 'real terms' reduction.

12. The Scottish Government defines financial transactions as: "loans and equity investment to the general public, third sector or private sector organisations that are not in the public sector. These funds have to be repaid." On the repayments to the UK Treasury, the Scottish Government anticipates "a fairly even repayment pattern based on at least an 80% repayment rate".

13. The following table shows the Level 4 breakdown for the Highlands and Islands Enterprise budget (this sits within the Rural Economy and Connectivity budget):

Highlands and Islands Enterprise Budget 2017/18 and Draft Budget 2018/19

	£m			
	2017/18	2018/19	Change	Cash Change (%)
Resource	29.5	30.4	0.9	3.1%
Capital	26.2	26.2	0.0	0.0%
Other	0.3	0.1	-0.2	-66.7%
Non-cash	11.0	15.0	4.0	35.8%
Total	**67.0**	**71.7**	**4.6**	**6.9%**

14. The SG's budget allocation to Highlands and Islands Enterprise increases by £4.6m, or 6.9% (in cash terms). However, most of this is accounted for by an increase in the 'non-cash' budget line, which covers depreciation in HIE

assets. Excluding this nominal sum from the budget shows a very slight ‘real terms’ decrease over the year in HIE’s budget.

Summary of Scottish Enterprise and HIE session (12 September 2017)

15. The Committee heard from Scottish Enterprise and Highlands and Islands Enterprise on 12 September. The organisations were questioned about previous performance, budget changes over the years, current spending plans and their contributions to the Scottish Government’s economic ambitions.

16. Key points from the 12 September session included—

HIE session

- HIE confirmed that it had not accessed the Scottish Growth Scheme.
- HIE once again met all its targets in 2016/17. The organisation has introduced a new target relating to average wages across the region.
- HIE’s ‘business values ladder’ enables it to measure innovative workplace practices within account-managed companies.
- HIE claims its community and place-based interventions contribute to the SG’s inclusive growth agenda.

Scottish Enterprise session

- Scottish Enterprise’s income from the Scottish Government has declined considerably since 2010.
- Despite significant budget reductions, SE claims “the work that we do with businesses has not changed at all”. (The Committee intends to explore this assertion and look at the return on investment and value added by both SE and HIE in its forthcoming inquiry into business support.)
- SE has seen a sharp increase in demand for research and development and innovation funding.
- Iain Scott set out details of the Scottish European Growth Co-investment programme.
- Members asked about account-management criteria and whether or not SE is supporting enough SMEs.
- Members also asked about announced increases to internationalisation support, including local and regional export partnerships, as well as international investment hubs in London, Brussels, Dublin, Berlin and Paris.
- The Oil and Gas Taskforce was mentioned in terms of support for the North East.
- Members asked about SE’s new target to help companies “develop approaches to fair and progressive workplace practices”.
- SE highlighted a number of fair work-related interventions, including promoting Scottish Business Pledge awareness, “particularly in high-employing, low-productivity sectors, such as tourism, food and drink, and construction”.

- Regional Selective Assistance (RSA) was discussed, specifically its role in job creation and safeguarding.
- An internal SE email was referenced, where the director of the Scottish Investment Bank advised staff that SE will “need to prioritise our funding and people resource ... which will ultimately mean us investing in some companies and not others, even when they might be strong investment propositions”.

Chambers of Commerce

17. Continuing our pre-budget evidence gathering, the Committee’s session with West Lothian Chamber of Commerce focused on Scottish Enterprise and Business Gateway support from an SME perspective. We subsequently decided to write to Scotland’s 25 other chambers asking for views from their local perspectives. The letters summarised West Lothian’s main insights and asked whether these were consistent with experiences in other areas.

18. The main issues highlighted by West Lothian were—

    - There is a perception that Scottish Enterprise's focus is mostly on larger companies;
    - There is a gap in Scottish Enterprise support particularly for SMEs;
    - The time taken by Scottish Enterprise to process Regional Selective Assistance (RSA) grant applications is too long. These delays could be hampering expansion and employment growth;
    - Research conducted earlier this year by WLCC indicated that many companies are not aware of or are not interested in exploring new export markets;
    - The business support landscape in West Lothian is quite cluttered;
    - One of the biggest barriers to growth in West Lothian is recruitment;
    - Business Gateway services in West Lothian need improvement - more experts are needed in Business Gateway;
    - On the issue of the Scottish Business Pledge, Linda Scott observed "I haven't heard a lot of companies mention that (the SBP) since it was launched"

19. The Committee received responses from the following chambers: the Aberdeen and Grampian, Ayrshire, Borders, Edinburgh, Lochaber, Glasgow, Moray and Caithness chambers. Dumfries and Galloway chambers responded but did not answer our specific questions.

20. To summarise, the Glasgow and Edinburgh chambers are broadly positive about business support provided by Scottish Enterprise and Business Gateway. The Aberdeen and Grampian Chamber of Commerce also provided a positive preface to their submission, setting out their belief that “the various agencies and partners delivering business support in the North East work well together to deliver support services to business”.

21. However, most of the other chambers, i.e. those out with Scotland's three largest cities, appear to agree with many of the points raised by Linda Scott of West Lothian Chamber of Commerce.

22. The perception in Moray, Caithness and Lochaber is that HIE does more with SMEs than SE does with smaller businesses in its rural areas.

23. There is total agreement on two issues: 1) recruitment and skills shortages are problems for many businesses; and 2) there is limited awareness of the Scottish Business Pledge among chamber members.

Audit Scotland submission

24. Audit Scotland produced a written briefing to help inform the Committee's scrutiny of the draft budget. Analysing Scottish Government Consolidated Accounts for 2016/17, Audit Scotland show that there was a £19 million underspend in the Economy, Jobs and Fair Work portfolio last year. This was mainly in demand-led budgets such as capital grants and other grant schemes for renewable and energy efficiency.

25. In their most recent audit of Scottish Enterprise, Audit Scotland found that SE and HIE "performed well against their agreed performance measures". However, repeating the findings of last year's Supporting Economic Growth report, they also concluded that "measuring the impact of economic development activity is difficult".

Scottish Government position

26. The Cabinet Secretary was "delighted" at the increase in allocation to his budget of £270 million, a 64% rise, and representing "the largest increase" to any portfolio. He pointed to the establishment of the enterprise and skills Strategic Board as "vital to the realisation of Scotland's four strategic priorities" (innovation, investment, internationalisation and inclusive growth).[1]

27. He highlighted a "70% uplift" in business research and investment funding, funding for a centre of excellence in manufacturing; the low-carbon innovation fund; the role of the Scottish National Investment Bank "to provide patient capital to support innovation and drive productivity"; the Building Scotland Fund "providing further support for capital investment in research and development"; a £25 million increase for the SME holding fund; the City Region Deals commitment; enhancing SDI's presence in Europe; and the funding of Fair Start Scotland.[2]

28. Asked about the slight real terms decrease in Scottish Enterprise's resource budget, while the same line for HIE increased slightly, Mr Brown referred to "a much larger increase" in total budget for SE compared with HIE. He told the Committee—

---

[1] Official Report (OR), 19 Dec, Cols 3-4
[2] OR, 19 Dec, Cols 3-4

"*That does not include what is going into the south of Scotland and a substantial increase in both capital and financial transactions. That is why there is a difference between the two enterprise agencies*."[3]

29. He said—

"I am much more aware now of some of the excellent work that Scottish Enterprise does. Much of what it does is unreported, because of business confidentiality, but it regularly saves businesses and jobs."[4]

30. Mr Brown described "the very substantial increase" in financial transactions (FTs) to support companies to expand and to start up the Scottish National Investment Bank.[5] The "vast bulk" of funding for the Bank and the Building Scotland Fund would come from the FTs money. In terms of the difference between the role of the Bank and existing support from Scottish Enterprise and HIE, he cited its scale – with £350 million of "initial capitalisation" – and its role and purpose.[6]

31. On the direction of the SNIB, Mr Brown said—

"*…at this stage, we do not know what the final constitution or definition of the activities of the National Investment Bank will be…and I am happy to come back to the Committee when we know, which I expect to be in January or February next year*."[7]

32. The growth scheme might become part of that but the role was "not yet defined" and he said there should be "more clarity on that in January". Of the growth scheme and FTs, "about £19 million has been disbursed so far, to 18 companies", though for reasons of commercial confidentiality he said he could not highlight the names.[8]

33. Of the concerns highlighted by a number of the chambers of commerce, the Cabinet Secretary agreed that "some people" saw Business Gateway as catering for start-ups and Scottish Enterprise being "for larger companies". However, he said the perception was "not borne out" by the companies on the agency's books. Underlining the aim of developing "a whole-system approach", he explained that Business Gateway had not been included within the enterprise review – as it was a matter for local authorities – but COSLA was now represented on the strategic board in what he described as "a coalition of the willing". He described moving to "an ecosystem" that could be understood better by all and said—

[3] OR, 19 Dec, Col 5
[4] OR, 19 Dec, Col 13
[5] OR, 19 Dec, Cols 5-6
[6] OR, 19 Dec, Col 8
[7] OR, 19 Dec, Col 31
[8] OR, 19 Dec, Col 8

"*We are aiming to get to a situation in which it does not matter at which point a person accesses the system or what contact they make with it, because they will get the right response and the right person. At the moment the situation is a little bit clunky, but we are trying to resolve it*."[9]

34. Addressing the concerns expressed by some of the chambers about the level of business gateway support, the Cabinet Secretary said local authorities were aware that service provision "across the country is not consistent". Describing Business Gateway as "a core partner" in working towards that ecosystem or whole-system approach, he said—

"*We want to try to make things as consistent as possible across the country, while observing local government's right to deliver such services*."[10]

35. The integrated approach favoured by the three Ayrshire councils was cited as a good model, integrating Business Gateway closely with their other work and that of Scottish Enterprise. Mr Brown suggested that looking at the spending per head across different local authorities would reveal "a remarkable range". He wanted best practice to be shared across them all and added that research on the variation in spending and approach could "be quite useful for the committee".[11]

36. All chambers having highlighted problems with skills and recruitment in their areas, the Cabinet Secretary was asked how the budget would address that. He spoke about the expansion of the modern apprenticeship scheme (to 30,000 starts a year) and foundation apprenticeships (up to 5,000 by 2019); the flexible workforce development fund (directed at in-work training); Fair Start Scotland (directed at those "furthest removed" from the labour market); and the graduate apprenticeship scheme.[12]

37. Another issue highlighted by the chambers was the low awareness and appetite among their members for exploring export opportunities. On which topic Mr Brown spoke about SDI's work in Europe; local and regional pilots in export partnership; and the Scotch Whisky Association's export mentoring scheme. He said—

"*…given that the figure for exporting businesses is 7% in Scotland and 70% in Bavaria, the situation is one that we need to address…Internationalisation is a very big challenge for us…*"[13]

38. Regarding the role of the strategic board in terms of budgetary allocation, best value and targets for the enterprise agencies, the Cabinet Secretary said budget decisions would remain with ministers and the board's key function

[9] OR, 19 Dec, Col 11
[10] OR, 19 Dec, Cols 14-15
[11] OR, 19 Dec, Cols 15-16
[12] OR, 19 Dec, Cols 16-18
[13] OR, 19 Nov, Cols 19-20

was “to ensure alignment between different agencies and improve general economic performance”.[14]

Conclusions and recommendations

39. **The Committee welcomes the 64% increase in the budget for the Economy, Jobs and Fair Work portfolio, noting that much of this increase comes in the form of financial transactions money.**

40. **Further to the Cabinet Secretary’s letter of 8 January in which he advised us that publication of the implementation plan for the Scottish National Investment Bank was “not due before February”, and noting his undertaking to provide us with more information in due course, we request in particular more detail on the bank’s role, purpose and direction.**

41. **We recognise that the national picture for business gateway can be inconsistent quality-wise, but welcome the Cabinet Secretary’s assurance of endeavours to build on good practice; the aim being to create a whole system approach – a framework in which businesses can readily find or be appropriately directed to support by an adviser well versed in their sector.**

42. **The Committee’s forthcoming inquiry into business support will build on the information we have received from chambers of commerce and we will also seek the views of business gateway. Taking the Cabinet Secretary up on his suggestion that research on the levels of spend and activity could be useful, we will be writing to local authorities to determine levels of spending on business gateway, quality assurance and customer feedback, and whether outsourcing or in-house is the approach taken. We shall also explore the return on investment and value added by the enterprise agencies.**

43. **Noting the Cabinet Secretary’s comments[15] (see paragraph 29) about the work undertaken by Scottish Enterprise which cannot be reported due to commercial confidentiality, the Committee will seek an informal briefing from the agency.**

44. **Having discussed the role of the Strategic Board with the Cabinet Secretary, the emphasis being on its role in seeking better alignment, we will seek a briefing from the board as soon as possible.**

45. **Internationalisation is something our predecessor committee looked at, but is increasingly topical in light of leaving the EU and future trade scenarios. It is not the central focus of our current inquiry into Scotland’s economic performance, but – given the linkages to growth**

[14] OR, 19 Nov, Col 25
[15] OR, 19 Dec, Col 13

and productivity – will doubtless feature in the discussion. We note also the gap in robust trade data for Scotland, a matter which has been raised in our economic data inquiry and the basis of a recommendation directed at both the Scottish Government and Office for National Statistics.

Infrastructure

Capital and Infrastructure

46. The 2018-19 capital budget from HM Treasury is £3,413m, a 6.3% increase in real terms compared with 2017-18. The Scottish Government is able to borrow up to £450m per year, up to a cumulative limit of £3bn. In addition, the Scottish Government has £489m allocated for financial transactions in 2018-19. In total, this gives a capital budget of £4,352m.

Non-profit distributing (NPD) and hub programme

47. In 2018-19, the Scottish Government plans to progress a number of existing projects using NPD financing and via the 'hub (revenue)' programme. The planned NPD investment for 2018-19 includes the Aberdeen Western Peripheral Route, the NHS Lothian Royal Hospital for Sick Children and the Balfour Hospital, Orkney as well as a range of schools and community health projects. NPD investment is a form of revenue funding which means that the Scottish Government does not pay the upfront construction costs, but is committed to making annual repayments to the contractor, typically over the course of 25-30 years.

48. As a result of new European accounting guidance (European System of Accounts 2010 – ESA10), the budgeting treatment of NPD projects has changed. NPD projects are now deemed to be public sector projects and require upfront budget cover to be provided from the capital budget over the construction period of the asset. This compares with the budget treatment for private sector projects, where the costs are treated as revenue costs and are spread over the period (usually 25-30 years) over which the asset is used and maintained. The change in treatment means that affected NPD projects impact on the capital budget, thereby limiting the capital funds available for other projects. No new NPD projects are currently being considered.

Borrowing powers

49. The Scottish Government is able to borrow up to £450m in 2018-19 for capital investment. The Draft Budget states that—

"*In order to maximise our commitment to investing in infrastructure, we will make use of the full £450 million available in 2018-19*."

50. The Draft Budget also notes that—

"*Final decisions on borrowing arrangements will be taken over the course of the year reflecting an ongoing assessment of programme requirements*."

51. As at December 2017, borrowing powers had not yet been used to increase capital investment, although they have been used to provide budget cover for the NPD projects transferred to the public sector (see previous section).

A note on financial transactions

52. The Draft Budget also includes £489m in 2018-19 for "financial transactions". This relates to Barnett consequentials resulting from a range of UK Government equity/loan finance schemes (primarily the housing scheme, Help to Buy).

53. The Scottish Government has to use these funds to support equity/loan schemes beyond the public sector, but has some discretion in the exact parameters of those schemes and the areas in which they will be offered. This means that the Scottish Government is not obliged to restrict these schemes to housing-related measures and is able to provide a different mix of equity/loan finance.

54. The Scottish Government will be required to make repayments to HM Treasury in respect of these financial transactions. The repayments will be spread over 30 years, reflecting the fact that the majority of FT allocations relate to long term lending to support house purchases and the construction sector. The repayment schedule is based on the anticipated profile of Scottish Government receipts. The first repayment to HM Treasury is scheduled for 2019-20.

55. In order to provide assurances that capital investment projects remain affordable, the Scottish Government stated in 2011 that borrowing repayments resulting from these commitments should not exceed 5% of the SG's total DEL budget (see Scottish Government, 2011). The list of repayment commitments categorised as "borrowing" is included on page 39 of the 2018-19 Draft Budget document—

"*The commitments included in the calculation are the Scottish Government's share of the ongoing costs of: previous PPP contracts that are now operational; the current Non Profit Distributing (NPD) and hub programmes; rail investment (financed via the Regulatory Asset Base – RAB) and the costs of borrowing for capital investment under Scotland Act powers*."

56. As in previous years, financial transactions repayments (FT) are not included in the list of borrowing commitments. Also in previous years FT spend was not included in the definition of total DEL.

Submission from Institution of Civil Engineers Scotland

57. In its submission to the Committee, ICE Scotland highlighted the potential benefits of an independent Scottish National Infrastructure Commission in prioritising future infrastructure spend.

58. ICE Scotland suggests that a Scottish National Infrastructure Commission should be—

- a politically neutral body with cross-party support;
- able to take the long-view, beyond political cycles;
- able to focus on creating an evidence-base to support informed decision making, taking into account different levels of governance and decision making;
- able to take a cross-sectoral view, considering the intersections and interdependencies between infrastructure areas, and inform infrastructure investment prioritisation decisions;
- in the context of the development of a Scottish Investment Bank, a Scottish Infrastructure Commission could work with the Bank to inform how it develops and prioritises its infrastructure investment approach

59. However, ICE Scotland noted in their submission that: “in its response to the Independent Review of Planning, which recommended the consideration of a Scottish Infrastructure Commission, the Scottish Government declined the Review’s recommendation”.

Climate change consideration

60. The Committee notes that the Convener of the Environment, Climate Change and Land Reform Committee wrote to us on 29 September 2017 regarding “scrutiny of those elements of the Draft Budget falling within your remit in the context of climate change”.

61. While climate change was not a focus of the Cabinet Secretary for Economy, Jobs and Fair Work’s budget evidence, the Committee did provide a detailed submission on the Draft Climate Change Plan in which we focused on electricity generation; reducing energy demand; renewable energy (renewable electricity and renewable heat); interconnection; grid issues; and fuel poverty.[16]

62. The Committee also provided a submission to the Scottish Government on its draft Energy Strategy in which we considered: an overview of the strategy (including public information, demand-side response, thermal capacity and behavioural change); the international perspective; Scotland’s Energy Efficiency Programme (evaluation, governance and resourcing); district heating/hydrogen (the decarbonisation of heat); the work of Home Energy Scotland; long-term policy planning and accountability; the energy grid;

[16] http://www.parliament.scot/parliamentarybusiness/CurrentCommittees/103928.aspx

carbon capture and storage; transmission charging; Blackstart; and the energy trilemma. Climate change, particularly in the context of energy efficiency and fuel poverty, as well as that of infrastructure, continues to be of keen interest to the Committee.[17]

Scottish Government position

63. Asked about borrowing powers, the Cabinet Secretary told the Committee—

"*…we intend to borrow the maximum amount available to us under the devolved powers, which is around £450 million. Following agreement of the fiscal framework, we will be able to borrow up to £3 billion*."[18]

64. He said "a substantial NPD programme of work…continues". Some projects had been reclassified, meaning "more pressure on public sector borrowing" but the Scottish Government was "seeking to compensate for that by borrowing to the maximum".[19]

65. He continued—

"*More worrying in relation to the Aberdeen western peripheral route and the M8 bundle…is the fact that both projects were heavily invested in by the European Investment Bank, which has now said that it will do no more business in the UK in advance of Brexit.*"[20]

66. The Scottish Government was looking at how far it could work through the Scottish Futures Trust to continue with NPD "and other methods that may be available to us". He touched on the possibilities of tax incremental financing and growth accelerator models "to maximise our investment in infrastructure".[21]

67. Asked whether £234 million of the £450 million ceiling for borrowing was already on the balance sheet, officials said they would clarify in writing. Mr Brown added "it does not affect the infrastructure…it simply means that the projects will be paid for in a different way".[22]

Conclusions and recommendations

68. **There is a degree of imprecision with the spending plans for infrastructure, given factors such as the impact of the European Investment Bank's decision on UK projects, and the change in treatment**

[17] http://www.parliament.scot/S5_EconomyJobsFairWork/Inquiries/20170630Convener_to_Minister-EnergyStrategy-Web.pdf
[18] OR, 19 Dec, Col 29
[19] OR, 19 Dec, Col 30
[20] OR, 19 Dec, Col 30
[21] OR, 19 Dec, Col 30
[22] OR, 19 Dec, Col 30

of NPD-budgeted work. The Committee wishes to be updated as and when the picture becomes more defined.

69. **We also ask the Scottish Government to reflect – given the decision not to establish a Scottish Infrastructure Commission – how it can best secure cross-party support for its projects, plan beyond political cycles, focus on evidence-based decision making, ensure investment is prioritised for low carbon projects, and – accounting for the interrelationships – take a cross-sectoral view.**

70. **The Committee requests details of how financial transactions are currently used in the calculation of the Scottish Government's 5% borrowing cap, specifically whether FT spend is included in the total DEL denominator.**

Fuel poverty

Summary of budget figures

	2017/18 (£m)	2018/19 (£m)	Change (£m)
HEEPS resource	10.1	12.3	2.2
HEEPS capital	74.0	72.0	-2.0
Financial transactions	30.0	30.0	0.0
Total	**114.1**	**114.3**	**0.2**

71. The budget for the Scottish Government's Home Energy Efficiency Programmes for Scotland (HEEPS) increases in cash terms by £0.2m over the year. However, this represents a £1.5m (or 1%) 'real terms' *reduction* between 2017/18 and 2018/19.

72. As with last year's budget, £30m of the total HEEPS budget is 'financial transactions' money, i.e. it takes the form of loans, specifically funding the Home Energy Efficiency Programmes for Scotland (HEEPS): Loans and Help for Homes scheme.

Fuel poverty statistics

73. Fuel poverty statistics for 2016 were published in December 2017. These show that in 2016, the fuel poverty rate declined by about 4 percentage points, equivalent to around 99,000 fewer households living in fuel poverty compared to 2015.

74. According to Scottish Government statisticians, almost two thirds of the reduction in fuel poverty rates between 2015 and 2016 can be attributed to the drop in the price of domestic fuels over this period. Around a third can be attributed to improvements in the energy efficiency performance of the housing stock.

75. Nevertheless, 649,000 households (26.5% of all households) were still living in fuel poverty in 2016. Members will recall that the Housing (Scotland) Act

2001 required the Scottish Government to eradicate fuel poverty by November 2016 “so far as reasonably practicable”. This has not been met.

76. The 2017/18 Programme for Government confirmed that the SG intends to introduce a Warm Homes Bill which will, amongst other things, set a statutory fuel poverty target.

Policy

77. In June 2015, the Scottish Government announced that Scotland’s Energy Efficiency Programme (SEEP) will become the cornerstone of this National Infrastructure Priority, and stated “over the next 15 - 20 years, SEEP will offer support to ensure that all buildings (domestic and non-domestic) in Scotland can achieve a good energy efficiency rating”.

78. The SG consulted on SEEP earlier this year. According to the SG’s Programme for Government, during 2017/18—

“We will accelerate our work on Scotland’s Energy Efficiency Programme (SEEP), to be rolled out from 2018. SEEP makes energy efficiency a national infrastructure priority and seeks to decarbonise heat provision over the long-term. Its multiple benefits include—

- providing more affordable energy for consumers
- creating a market for energy efficiency services and technologies, with an estimated 4,000 jobs supported each year once the programme is fully developed
- substantially reducing greenhouse gas emissions”

79. Also within its 2017/18 Programme for Government, the SG confirmed it would include recommendations on a Government owned energy company within its soon-to-be published Energy Strategy

Submission from Existing Homes Alliance

80. In its 2016/17 Programme for Government, the SG confirmed its commitment to investing more than half a billion pounds to SEEP over the next four years.

81. This sum was discussed in some depth in the Existing Homes Alliance’s recent submission to the Committee—

“The Programme for Government states that the Scottish Government will make available more than £0.5 billion over the next four years for energy efficiency and combating fuel poverty through the new Scotland’s Energy Efficiency Programme (SEEP). This commitment to multi-year funding is welcome, though it falls well short of what is required for a National Infrastructure Priority, and to meet climate change and fuel poverty targets.

82. Indeed, the current (2017/18) spend of £114.5m is a move backwards – it represents a reduction on what was spent in 2015/16 even though the energy

efficiency of buildings now has the status of a national infrastructure priority. SEEP will also stretch this budget further, given the scope of SEEP to include nondomestic buildings and low carbon heat.

83. Furthermore, with a commitment for 'more than £0.5bn' over four years, one would expect at least an annual spend of £125m per year – the spend for 2017/18 was £10.5m less than this average. Just to meet the minimum commitment of £0.5bn over the course of this parliament, an average of £128.5m per year must be allocated to energy efficiency going forward."

Scottish Government position

84. Responding to a question about meeting the commitment of £0.5 billion, the Cabinet Secretary told the Committee—

"*…the total stipulated budget for this year was £141.9 million, which was made up of the £114 million…which was for fuel poverty and domestic energy efficiency, and £27.8 million for non-domestic energy efficiency. The draft budget that Derek Mackay has announced would make available a further £144.1 million, which, I think, would ensure that the target of £0.5 billion was met*."[23]

85. Chris Stark, the Scottish Government's Director of Energy and Climate Change, said "we are well on track" to meet the commitment of £0.5 billion for energy efficiency over four years. Asked about the focus on residential rather than non-residential properties, he said—

"*I can confirm that the £0.5 billion is for energy efficiency in the round…The allocation for domestic properties is £114 million. However, other schemes are relevant to the domestic setting, and we would have to disaggregate those headings underneath the overall budget line to identify the total allocation, which is higher than £114 million*."[24]

86. Asked to break that figure down, Mr Stark told us—

"*Our plan is that £72 million would be capital, £12.3 million would be resources and £30 million would be financial transactions or loans*."[25]

87. On the issue of the suitability of the loans as opposed to grants approach and prioritising support for households who were worst off in fuel poverty terms, rather than those with energy efficiency issues, Mr Stark said—

"*I accept that capital grants are more suitable than financial transactions for some recipients, but the scheme is well targeted and will be even better targeted when we sweep it up into the new scheme*."[26]

[23] OR, 19 Dec, Col 31
[24] OR, 19 Dec, Col 32
[25] OR, 19 Dec, Col 32
[26] OR, 19 Dec, Col 33

Conclusions and recommendations

88. **When we heard from the Scottish Fuel Poverty Strategic Working Group during last year's budget scrutiny, Professor Sigsworth, its chair, told us it was momentum and not hiatus that was now needed. Failure to meet the statutory target of eradicating fuel poverty by November 2016 *so far as reasonably practicable* has since been confirmed. The Committee also encouraged the Scottish Government to examine forthcoming policy initiatives through a fuel poverty lens: the energy strategy, climate change plan, fairer Scotland action plan, newly devolved welfare powers, the Energy Companies Obligation and Scotland's Energy Efficiency Programme. Better collaboration across the sectors must be a priority, we said, other budgets better aligned, and greater emphasis given to affordable warmth.**

89. **The Committee will explore further – informed by our consideration of the draft energy strategy in 2017 – the collaboration across sectors and alignment of budgets and targets when we come to look at the Scottish Government's recently published Energy Strategy.**

90. **A recurring finding in this Committee's and our predecessor's budget scrutiny (in 2014 and 2015) has been the need to fully assess the scale of fuel poverty. In each of these years, and last year, we recommended a robust and up-to-date cost analysis. If it is our ambition to end fuel poverty, we must understand the measure of the reality behind the concept.**

91. **We recommend therefore that the Scottish Government include in the financial memorandum for the forthcoming Warm Homes Bill a fully costed assessment of what it will take to end fuel poverty. We consider this would accord with the accountability/scrutiny theme as highlighted in the Scottish Government's response to the reports of the Scottish Fuel Poverty Strategic Working Group and the Rural Fuel Poverty Task Force.**

92. **Given the Existing Homes Alliance's view that the current spend on energy efficiency and combatting fuel poverty of £141.9 million represented "a reduction on what was spent in 2015/16" and the Scottish Government's statement that it was on track to meet the £0.5 billion commitment over four years for energy efficiency "in the round", the Committee requests a breakdown of how much of that four-year sum will be for domestic and how much for non-domestic properties.**

Women in Enterprise Framework

93. The Committee wrote to the Cabinet Secretary on 19 October to seek views on funding made available for the Women in Enterprise Framework, previous spend, outcomes and plans for future spend in the 2018-19 budget. As part of our pre-budget scrutiny we also sought further information regarding the gender pay gap.

94. A reply was received on 7 December highlighting various policy initiatives and spending commitments. It stated—

"*The Women in Enterprise Action Framework, launched on 04 March 2014 by Mr Swinney and Ms Constance, was refreshed on 31 August 2017 to reflect the emerging post Enterprise and Skills Review support landscape. It was clearly signalled as being co-owned across the whole enterprise ecosystem and as the start of a journey, not a definitive solution*."

95. Women's Enterprise Scotland provided the Committee with a written submission that welcomed the approach of "putting equality at the centre of economic policy", suggested a figure of "£7.6bn economic opportunity" lay in addressing the gender pay gap, and stated: "Gendering economic development spend is critical to making progress".

96. WES recommended "a more strategic approach" be taken to the funding of women's enterprise "than the fragmented approach to date". It also listed the challenges for women-led businesses as including "gender blindness in policy development, discrimination, achieving credibility for the business, and balancing work and family commitments". A recent survey had shown that 78% of respondents wanted business advice services to "be more aware of the differences in support needs between women and men in business".

Conclusion and recommendation

97. **The Committee's *No Small Change: The Economic Potential Of Closing The Gender Pay Gap* report[27] sought development of a suite of indicators to measure the underlying causes of the gap. In budget-related correspondence the Scottish Government referred to its Gender Index Working Paper – aimed at improving Scotland's evidence base on gender and exploring the development of domains and statistical indicators designed to aid policy making. The Committee asks (just as we have done via our economic data report) to be kept updated as that work progresses. The gendering of economic development spending – as Women's Enterprise Scotland stated – is critical.**

Timing of this year's budget and future approach to budget scrutiny

98. The Convener wrote to the Scottish Government on 14 September 2017 outlining the Committee's concerns about the time available to scrutinise the draft budget being severely constrained, exactly as had been the case last year. We asked if the Scottish Government was able to address the timing difficulties or, at least, provide the Committee with some advance information to allow us to scrutinise the draft budget in a meaningful way. We also requested that when the draft budget is produced, the accompanying notes provided clarity and transparency in exactly what each budget line relates to.

[27] http://www.scottish.parliament.uk/S5_EconomyJobsFairWork/Reports/EJFWS052017R06.pdf

99. Our letter acknowledged the work of the Budget Review Group and its recommendations and the value of year around scrutiny. Indeed, the Committee has already moved in that direction, taking evidence from the enterprise agencies on their 2017-18 spend and gathering pre-budget input from the chambers of commerce, Women's Enterprise Scotland, Existing Homes Alliance, ICE Scotland and others.

100. The Cabinet Secretary for Finance and the Constitution replied on 7 October 2017, setting out the "transitional process for the 2018-19 Draft Budget ahead of the implementation of the recommendations of the Budget Process Review Group in time for the 2019-20 Budget". He suggested the Scottish Government already produced a range of information "on budgets and outcomes" to support the existing budget process, but said he had indicated to the Finance and Constitution Committee "my intention to implement the Budget Review Group's recommendation on increasing transparency in the Draft Budget, as part of the 2018-19 Draft Budget document".

Conclusions and recommendations

101. **The Committee welcomes the co-operation of Scottish Enterprise and HIE in seeking to fulfil our request that they publish their annual reports by the end of August (so enabling us to take evidence from them for the purposes of in-year/full-year budget scrutiny). We recommend the Scottish Government and Audit Scotland adjust their processes in order to allow the enterprise agencies to do so. We shall continue to pursue more meaningful scrutiny of the enterprise agencies in this way, examining their spending plans as they become clearer during the year.**

102. **We also welcome the additional information in the Scottish Government's Draft Budget document – particularly in respect of chapter 4 (Enterprise and Skills Review) – in response to recommendations 23 and 44 of the Budget Process Review Group.**

103. **The Committee seeks confirmation from the Scottish Government, SE and HIE that the individual agency goals detailed on pages 43 to 46 of the document will be included in the agencies' business/operating plans to be published in the spring of 2018; the expectation being that the agencies' spending plans will be aligned with these goals.**

Conclusion

104. **The Committee draws the attention of the Finance and Constitution Committee and the Scottish Government to the points outlined above, particularly the conclusions and recommendations as set out in bold.**