



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Jobs and Fair Work Committee

Tuesday 20 December 2016

Session 5



The Scottish Parliament
Pàrlamaid na h-Alba

Tuesday 20 December 2016

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ECONOMY, JOBS AND FAIR WORK COMMITTEE
16th Meeting 2016, Session 5

CONVENER

*Gordon Lindhurst (Lothian) (Con)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

Jackie Baillie (Dumbarton) (Lab)

*Ash Denham (Edinburgh Eastern) (SNP)

*Liam Kerr (North East Scotland) (Con)

*Richard Leonard (Central Scotland) (Lab)

*Dean Lockhart (Mid Scotland and Fife) (Con)

*Gordon MacDonald (Edinburgh Pentlands) (SNP)

*Gillian Martin (Aberdeenshire East) (SNP)

*Gil Paterson (Clydebank and Milngavie) (SNP)

*Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Keith Brown (Cabinet Secretary for Economy, Jobs and Fair Work)

Mary McAllan (Scottish Government)

Chris Stark (Scottish Government)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Economy, Jobs and Fair Work Committee

Tuesday 20 December 2016

[The Convener opened the meeting in private at 09:30]

11:02

Meeting continued in public.

Decision on Taking Business in Private

The Convener (Gordon Lindhurst): Good morning and welcome to the 16th meeting of the Economy, Jobs and Fair Work Committee. We have apologies from committee member Jackie Baillie.

I welcome Keith Brown, Cabinet Secretary for Economy, Jobs and Fair Work. With him are Chris Stark, director of energy and climate change; Mary McAllan, director for economic development; and Hugh McAloon, the head of youth employment; all from the Scottish Government. Welcome to our guests.

Agenda item 1 is a decision on whether to take item 4 in private. Are we all agreed?

Members *indicated agreement.*

Draft Budget Scrutiny 2017-18

11:03

The Convener: We will start our evidence session by giving the cabinet secretary the opportunity to make a brief, five-minute statement before we move into questions.

The Cabinet Secretary for Economy, Jobs and Fair Work (Keith Brown): Thank you, convener. I am delighted to be with you this morning and I welcome the chance to give evidence of how my portfolio spending helps to meet the Scottish Government's manifesto commitments.

Our aim is to drive progress towards economic and productivity growth and to create a more competitive and inclusive economy. As Derek Mackay made clear in the budget last week, that is being done in challenging economic and political circumstances and, I should add, at a time of global economic uncertainty. Between 2010-11 and 2019-20, Tory austerity will see our fiscal departmental expenditure limit budget, which funds discretionary spending and capital investment, fall by more than 9 per cent, or £2.9 billion in real terms, with a share of a further £3.5 billion of cuts by 2019-20 still to come.

However, this Government places the utmost importance on the issues that my portfolio seeks to address. Despite the challenges that I have mentioned, my portfolio budget has risen overall in 2017-18 to £384.5 million, which is up 4.3 per cent on 2016-17. Our emphasis remains on the four strategic priorities identified in Scotland's economic strategy—internationalisation, innovation, investment and inclusive growth—to grow Scotland's economy and ensure it remains resilient.

Key actions that we will take to those ends include supporting Scotland's manufacturing base through continued delivery of the manufacturing action plan, and we will continue our work to develop the business case for a new manufacturing centre of excellence. We have retained funding support for the delivery of the forthcoming innovation action plan, boosting innovation in order to improve productivity. We will also further deliver the Glasgow region, Inverness-shire, Highland and Aberdeen city and shire city deals. We are also ensuring a continued emphasis on fostering the entrepreneurial culture that encourages everyone to reach their full potential. That includes activity specifically focused on encouraging greater entrepreneurial activity among women.

Following the result of the European Union referendum, it is vital that we continue to

demonstrate that Scotland continues to be a very attractive location for business growth and inward investment. We are committed to further funding to establish and embed innovation and investment hubs in London, Brussels, Dublin and now also Berlin. We will also ensure that the distinct needs and priorities of Scotland's businesses and investors are reflected in wider trading activity, by doubling the number of people working for Scottish Development International in Europe.

All that integrates with our trade and investment strategy, published earlier this year. The First Minister has announced the appointment of Nora Senior as one of the first members of our board of trade, and we will announce further appointments shortly.

This year's budget is the first of a multiyear £500 million investment towards the delivery of our commitment, in the programme for Government, to Scotland's energy efficiency programme. My portfolio's contribution this year is over £27 million for non-domestic energy efficiency and low-carbon heating—a £3 million increase on 2016-17—helping to fund commercial and industrial projects, including pilot projects, district heating and energy efficiency loans.

The Scottish Government has also consistently recognised the sizeable competitive advantages that Scotland has in the renewable energy and low-carbon sectors. In 2017-18, we are raising the level of support for low-carbon demonstrator projects and activity designed to bring an increased number of projects to investor-readiness stage.

We will also continue our work in existing areas, including in relation to fair work. We approach the task of creating more inclusive growth and fairer employment with the increased resources being allocated towards that, as demonstrated by a doubling in funding. Of course, other activities, such as partnership action for continuing employment, will have to be funded when called into action, as we have seen recently in relation to a number of redundancy situations.

Beyond that, I am delighted that we will fund and deliver a devolved employment support service in Scotland from 1 April 2017, through a transitional employment service for some of the most vulnerable people in society. That is ahead of delivering full employment services in April 2018. We will also meet our commitment to develop a new programme, specifically to support young people who have been in care into appropriate work, training or educational opportunities.

Finally, I am pleased that my portfolio will contribute to the establishment of a flexible workforce development fund—part of a uniquely

Scottish response to the introduction of the UK Government's apprenticeship levy.

The 2017-18 budget is, once again, I believe, a robust plan to deliver on the priorities that the Scottish Government has developed in its economic strategy. I am happy to answer any of your questions.

The Convener: Thank you very much, cabinet secretary. We will start with a question from Dean Lockhart.

Dean Lockhart (Mid Scotland and Fife) (Con): Under the draft budget, based on the Scottish Parliament information centre briefing papers that we have, the total budget for Scottish Enterprise will be reduced by either 33 or 28 per cent, depending on how you look at the numbers. Overall, the reduction in spending for SE is approximately £85 million, based on the SPICe briefing.

In the note to the level 4 figure set out in the budget, you explained that:

"Funding for SE through the draft budget has changed to better reflect the level of ... planned activities relative to ... funding and income streams"

and that the reduction will be

"negated by Scottish Enterprise reclamation of funding from the European Commission for expenditure associated with delivery of the SME Holding Fund".

Will you explain to the committee, please, what amounts you expect SE to reclaim through European funding? Will that reclaimed amount make up for the shortfall in direct funding from the Scottish Government?

Keith Brown: There are a number of different elements to that. First, you have more or less the right figure: £84.61 million is the figure that I would offer.

In the last three years, we have asked SE to make savings of around £17.3 million through the strategic forum—you will see that in previous budgets. We have not asked for that; we have taken it, but not asked for it. SE has made those savings in each of those three years, so that is now embedded. A £20 million cut has been effected in the capital that has been allocated, a £10 million cut in the amount we are providing for depreciation and the cut in the financial transactions money. Within that, the cut in grant in aid to Scottish Enterprise is about 7.5 per cent or £11 million. There are, as you mentioned, other sources of capital that will replace much of those cuts. For example, it should be possible for Scottish Enterprise to access up to £20 million of the £40 million small and medium-sized enterprises holding fund, which in turn could leverage around £250 million.

The other measures that we are taking are also supportive of enterprise, although not Scottish Enterprise directly. Previously, up to £30 million was provided to Glasgow; nearly the same amount again is being provided for the two additional city deals for this year. We have also provided for task forces. We have increased the money available for innovation funding by about £2 million and made provision for the manufacturing centre of excellence: £1.65 million for the business plan in the first place.

The figure on European funding was about £117 million—my colleagues can check that. It is, I understand, a complicated picture: money is moving around, and a straightforward cut is not how I would represent it, given those aspects. My colleagues can add to that.

Mary McAllan (Scottish Government): To clarify, Scottish Enterprise is in a position in which it has access to grant in aid from the Scottish Government. It also has access to a substantial amount of income that it has generated from its own activities. This year, that totalled approximately £117.7 million. That has been taken into account in this budget.

Dean Lockhart: If we look at the totality of all those moving parts, will the budget for Scottish Enterprise increase year on year, if sources of income other than from the Scottish Government are factored in?

Keith Brown: I do not think that we could say that at this stage: it would depend. For example, the £28 million that I mentioned is a potential figure and it depends how much is drawn down. There would be an increase only if those other things that are not going through Scottish Enterprise's budget are taken into account. The resources for city deals and innovation increase the amount. I think that you will still see a cut, however, to direct grant in aid to Scottish Enterprise.

Dean Lockhart: Given the need to stimulate the economy and some of the concerns expressed over Brexit, should we be significantly increasing the budget for Scottish Enterprise and Highlands and Islands Enterprise? For every £1 invested, Scottish Enterprise tells us that £9 is generated for the benefit of the economy.

Keith Brown: I am not responsible for the HIE budget. In relation to Scottish Enterprise, the budget that we have represents about a 5.8 per cent cut this year, it is about an £800,000 cash increase, but a real-terms cut of about 5.8 per cent. We have to live within our means.

I agree with your fundamental point that, at a time when we are facing the pressures of Brexit and see report after report telling us about projected fall off in investment, employment,

confidence and so on, that we should be stimulating the economy. I am confident that the other measures that I have mentioned, which are not part of Scottish Enterprise's budget, will help.

If we want to fund the city deals, and I know that Dean Lockhart is very interested in the Stirling and Clackmannanshire one in particular, we have to find money for those things as well. That is essentially a further devolution: a resource transfer to local authorities.

We should also fund innovation. It is not part of the Scottish Enterprise budget, but we are increasing the amount we spend on it. The manufacturing centre of excellence is additional money, as is the reduction in business rates. Although I appreciate that the financial relationship between SE and SDI can be confusing, there is an increase of around £2.1 million for SDI to fund additional staff. I agree with your basic point that at this time we want to be investing further in enterprise. Although it may not be Scottish Enterprise per se, I believe that we are doing that.

Dean Lockhart: My final question is on the related subject of the Scottish growth scheme. In one of your answers to a written question, you said that you anticipated that the support provided by the scheme would be mainly in the form of guarantees, although loans would also be offered, if appropriate. Do you have an expectation, or an approximation, of how much of the £500 million in the scheme will be in the form of cash and how much will be in guarantees?

11:15

Keith Brown: That depends on demand. There is diligence work being done on that now, both within and outwith Government. The scheme will be demand led. It was set up primarily to provide guarantees, which was the gap that we had seen developing in the market. In fact, it is the same argument that we have used with the United Kingdom Government in relation to the oil industry, where there has been a demand for guarantees for infrastructure development. However, we want to remain open to the idea that people might prefer loans.

We might have a better idea once the work is done, and I am happy to keep you updated on how that is shaping up. It looks as though it will be demand led, and we expect the bulk of it to be in the form of guarantees.

Dean Lockhart: Am I right in thinking that the budget does not have a provision set aside, because those are contingent liabilities, and therefore they will not appear on the budget until a loss event occurs?

Keith Brown: That is exactly right. They are contingent liabilities, so they will not show on this kind of budget.

Gordon MacDonald (Edinburgh Pentlands) (SNP): There are 28 national performance indicators that are relevant to this committee: 10 where performance has improved, 11 where performance has been maintained and seven where performance has worsened. Among the seven where the position has worsened are gross domestic product growth, exports, and research and development spend. What changes would the Scottish Government like to see in enterprise agencies' operating plans and budget priorities to help address those areas where performance has not improved?

Keith Brown: The enterprise and skills review, which we have announced, focuses on alignment. We want to see further alignment of the different agencies that come within the remit of the review—Scottish Enterprise, Highlands and Islands Enterprise, SDI and the Scottish Further and Higher Education Funding Council. We want to see, if you like, hard alignment, whereas up until now there has been alignment by encouragement. To achieve that, we have taken the initial step of announcing that we intend to establish a strategic board.

We also want to see increased accountability resulting from that—people being held to account on the performance measures that you have described.

We have had growth in GDP and we have been a resilient economy, but it has not touched the levels that we want to see. The same is true of productivity. We have seen an increase of around 4.4 per cent in productivity since 2007. By contrast, UK productivity has flatlined in that period, although the UK still has higher productivity rates than Scotland does. Most of our competitors in the European Union have higher productivity rates than we do, too. We want to see productivity increase.

One of the means by which we can achieve that is to increase internationalisation. The additional funds that I mentioned in the budget for SDI will be for promoting trade from Scotland, initially focusing on an increase across the EU, which we think is particularly important at the time of Brexit. Obviously we will also be keeping an eye on the rest of the world, including India and China.

It is about concentrating on the four strategic priorities—the four Is. We have to acknowledge that in the last 10 years we have gone through a substantial, long-lasting and deep recession and we now have the uncertainties of Brexit. We are determined to overcome those challenges by focusing on the four strategic priorities.

Gordon MacDonald: Some of the evidence that we received on the enterprise agencies, for example from Scotland's 2020 climate group, said that there was a need to declutter and simplify the system. Will introducing a board of trade help to declutter the system or make it worse?

Keith Brown: Obviously, we would not be doing it unless we thought it would help. We think that it will help and that it will have a substantial business element to it. It will seek to tap into the sectors that are very important to the Scottish economy, to make sure that we are as focused as we can be.

It is right to try to declutter, and we have something of a cluttered landscape. One of the workstreams in phase 2 of the enterprise and skills review will address precisely that—seeing what we do not have to continue doing. There should also be a sharper focus on things such as trade, which the board of trade is seeking to bring.

It is right that we review the system in any circumstances, but it is especially important that we do so in relation to Brexit to ensure that we are as focused as possible and that the different agencies and actors in Scotland are aligned. That will help to ensure that we represent ourselves to markets overseas in as focused a way as possible. By “focused”, I mean that the different agencies are not only working together but doing so in such a way that is likely to bring the maximum benefit. The board of trade idea is a good one and it will bring a lot of expertise, including very specific business expertise, to what we are trying to do internationally.

The Convener: I have a follow-up question. The level 4 budget figures show an increase in the business liaison and networking budget line, which relates to the trade centres, or hubs, in Berlin and elsewhere. Will there be a comparable budget increase for strengthening trade ties with international partners outside the EU? Is there an identifiable element in the draft budget that shows an increase in such expenditure?

Keith Brown: There is not in the level 4 figures, unless Mary McAllan wants to correct me on that. We are involved in existing baseline activity, and we will look for one-off opportunities—for example, we are in discussions with the UK Government about representation at a major oil event in Kazakhstan. Such things will come up and will require additional resources if we want to be part of them—as, for example, when we attended the recent Abu Dhabi international petroleum exhibition and conference.

At level 4, there is no separate budget stream that identifies work with countries outwith the EU. You are right to make the point that the additional resource of £2 million-plus is identified specifically

for the hubs and the additional SDI staff in the EU that we have previously announced.

The Convener: Do you agree that we need to focus on developing trade with countries outwith the EU?

Keith Brown: Absolutely—that is true. As an example, I recently spoke to about 100 chief executive officers from India. We have ministers visiting various countries, including China, where we will seek to develop trade links—you are right to highlight the importance of that. The Scottish Government cannot strike a trade deal in any event, but we can do a great deal of trade promotion underneath that.

I have said to the Secretary of State for International Trade, Liam Fox, that we are keen and willing to work with the UK Government, which has substantial resources around the world—outwith the EU—in the form of embassies and trade missions. I have said to him that we should work together and take advantage of those resources, which are, after all, paid for by Scottish taxpayers as much as by anybody else. There is a network.

I should have said—I am sorry, convener—that we have announced an additional £400,000 for the Scottish Chambers of Commerce for precisely such activity, which will relate both to the EU and to the wider world. The network of chambers of commerce is global, so if events are held in countries outwith the EU, we can tap into them and try to synchronise our activities with the chambers.

The Convener: That funding is not dependent on a certain percentage of it being spent in non-EU countries.

Keith Brown: No—the network of chambers of commerce is global, and the funding is not specific to one subset such as the EU.

The Convener: You accept that such funding or expenditure needs to be directed in the way that I described.

Keith Brown: Yes—if I did not, we would not be considering a substantial investment in Kazakhstan, for example. We have to focus on where we want to see such activity. The US is a substantial investor in Scotland, as is Germany, and there is the potential for much more activity in that regard. The BRIC countries—Brazil, Russia, India and China—are very important, too. We have to pick and choose where we can go, but we are not restricting ourselves to the EU.

Andy Wightman (Lothian) (Green): This year's budget is a one-year budget, which makes it a bit difficult to look further forward. I know that times are uncertain, but what is your view of the enterprise budgets beyond one year?

Keith Brown: The position will be a little different next year, in so far as it will depend on our success in bringing in income through the income tax powers that we now have but, as ever, it will also depend on UK Government support, as it does currently. The budget is predicated on that support.

It is unlikely that we will want to see—certainly in my portfolio—any reduction or downgrading in the emphasis that we have placed on enterprise, whether that is through agencies such as Scottish Enterprise and Highlands and Islands Enterprise or through the other business activity that we are undertaking. As ever, that will depend on the resources that are available to us.

Andy Wightman: Is there an intention to publish budgets that look forward over more than one year?

Keith Brown: It is Mr Mackay, rather than me, who would be doing that.

Andy Wightman: So you do not know.

The Convener: Do you not know, Mr Brown? I saw that you moved your head, but that does not go on the record. We all have a tendency to do that sort of thing sometimes.

Keith Brown: The decision is up to Mr Mackay—I would not take it.

Andy Wightman: That is fine. Thank you for that answer—it just makes it a bit difficult to assess the increases and decreases in budgets if one is not looking any further forward than one year.

I will revisit the question on the enterprise and skills review. You mentioned in your evidence on 29 November that Scottish Enterprise and HIE will remain as entities in law, but I presume that they will be somewhat different from how they exist now. Would HIE be able to sue Scottish Enterprise if it wished to, for example? I know that that scenario is unlikely, but if some dispute were to come up over a piece of land on Arran, for example, where both agencies have liabilities, would it be possible?

Keith Brown: I would never be keen for two Government agencies to be involved in legal action against each other. To the extent that they can do that now, the position will not change. As I have said, they will remain as agencies enshrined in law and they will both have their own chief executives. I am not sure whether they have sued each other previously—legal proceedings might well take place to resolve issues between them—but there will be no change to their status that would make it more or less likely for them to be involved in legal action.

Andy Wightman: So, in your view, the strategic board will not make a difference.

Keith Brown: The strategic board's main purpose is the alignment of the activities of the agencies. I hope that that will include discouraging legal action between them, but the purpose is not to limit their powers in such a way. The main consideration is the alignment that we want to take place. I would like more collaboration between the two bodies that you mentioned—Scottish Enterprise and HIE—when it is in their interest to collaborate and when there is a greater interest. For example, we have just announced a major investment in the smelter at Fort William. The expertise of Scottish Enterprise and HIE was used in relation to that, and I want much more of that to happen.

Andy Wightman: Given the increase in the number of SDI staff in Europe, how much thought has been given to the extent to which their effectiveness can be enhanced by collaboration with existing UK efforts through trade delegations and embassies? Are the hubs designed to be stand-alone centres?

Keith Brown: No—as I said in my response to the convener, we must use all the resources that are available to us. I do not think that embassies and other facilities that the UK Government operates have in the past been sufficiently open to the Scottish Government to use, and I am keen that they should be. As I mentioned, Scottish taxpayers pay for those resources as much as anybody else does. A recent tweet from the UK Foreign Office described the new Queensferry crossing while showing the old railway crossing, which highlights the fact that we need to be better connected to such facilities. As I have said directly to the Secretary of State for International Trade, I want that collaboration to happen.

The event in Kazakhstan that I mentioned will be an expression of that joint working, and I want more of that. The additional SDI staff who you mentioned will be responsible to this Government and this Parliament, and they will focus on Scotland's interests, but those interests are best served by working jointly with others, including the UK Government. There is substantial awareness among existing SDI staff of the joint activity between SDI and the DTI—I am sorry; it is now the DIT, which is the Department for International Trade—and we want that to increase.

The Convener: Scottish Enterprise said that it

“has helped create 55,000 jobs over the past four years or so. For every pound that we have invested, we generate about £9 back.”—[*Official Report, Economy, Jobs and Fair Work Committee*, 6 December 2016; c 50.]

Do you agree with that? If that is correct, is it not the case that direct funding should be increased

rather than matters being dealt with as you have outlined?

11:30

Keith Brown: I come back to two points that I have already made. If you have a 5.8 per cent cut, you have to make the resources fit what is available. However, it is possible to increase the impact of what we are doing through the other measures that I mentioned.

For example, city deals are important, but they require resources. There have also been changes—not in my budget but in Derek Mackay's—in relation to business rates. We have to respond to some of the innovation challenges, so there is additional money for that. We tend to back what we think will have the biggest impact, and what we have described is what we believe will have the biggest impact.

To answer your other point, I think that SE has been extremely successful in what it has done. We want to build on that success, and we can do that in a number of different ways.

Gillian Martin (Aberdeenshire East) (SNP):

The budget shows that you are focusing on putting funding support where there is the potential for growth and where there are opportunities. The largest increase in self-employment and business creation rates is among women, yet Women's Enterprise Scotland has said that self-employed women are not well served by enterprise support. Should more targeted support be available to women who are setting up in business and should unleashing the potential of women-led businesses be a priority of the strategic board?

Keith Brown: The latter point certainly should be a priority. I was recently involved in a Women's Enterprise Scotland event at Glencorse barracks. Unfortunately, the UK Government has announced that it is about to close those barracks, which it has just spent £60 million on improving.

The event involved military spouses and, in this case, they were all women. It was clear that Women's Enterprise Scotland did not just provide a new opportunity for the women concerned; it changed things such as their confidence and their ability to engage with the business community. The work that it did was hugely beneficial for a number of reasons.

Such work is hugely important. In relation to women's enterprise, we know that women are further from the market. We have an overarching economic strategy of inclusive economic growth and, if we do not have proper and full inclusion of the majority of the population, who happen to be women, we will not achieve maximum growth. It is hard to see how the strategic board could be other

than seized of the idea that we have to improve what we do in relation to women and direct support to women, including women in enterprise.

Gillian Martin: You mentioned the work that Women's Enterprise Scotland did at the barracks with the Army spouses. It took a completely different approach to hothousing talent and creating businesses. Is there a role for Scottish Enterprise and the strategic board to look at what WES did and adopt some of its practices to address the criticisms that WES has made of existing support?

Keith Brown: One of the points of the education and skills review is that not just Scottish Enterprise but the other agencies should be learning from each other and from others. That is the purpose of the alignment—to achieve the team Scotland approach. Where we have either best practice or—in this case—new ground being broken, it is extremely important that we learn lessons from that.

I am sure that the strategic board could take that forward. Perhaps it will be easier for the strategic board to do that than for four or possibly even five boards that have to communicate with each other.

It is worth saying that we are doubling the budget for entrepreneurial activity among women. That money is in the innovation and enterprise budgets. There is new money that can be used to support women.

I saw at first hand the difference—I saw the difference in confidence and in life experience—that the event at the barracks made to the women involved, whether or not they went on to establish businesses. Sometimes, as you will appreciate, there can be a degree of isolation and alienation for a military spouse. The event had other huge benefits as well; it made a change to their lives.

One woman did a thing called treats for troops, which involved packages being sent to active personnel in Afghanistan. When I asked her what the most popular element was, she said that it was without doubt Irn-Bru, but Barr had not been able to support her. I managed to get in touch with Barr, which has been brilliant in coming back with substantial support.

It is affirming that that woman was able to take advantage of the women in enterprise course and that she was able to start something as productive, useful and rewarding as what she has done. That is really what an inclusive society is about.

Andy Wightman: Cabinet secretary, you have twice mentioned a 5.8 per cent cut. Will you clarify precisely what that relates to?

Keith Brown: It would probably be better for one of the experts—my officials—to clarify that,

but that is what we perceive to be the overall real-terms budget decrease. I think that there is an £800,000 cash increase in our overall budget. Perhaps Mary McAllan or one of my other officials could say more.

I add that real terms is the only realistic measure. In the previous and current sessions of Parliament, I have heard people talk about cash increases, but in every other context we talk about real terms. The figures make sense only when we factor in inflation, low as it is. That decrease is in relation to the Scottish Government's overall discretionary spending.

Andy Wightman: The SPICe briefing says that the allocation of total managed expenditure is up in real terms by 1 per cent, that DEL resource is up by 0.7 per cent, that DEL capital is up in real terms by 8.7 per cent and that annually managed expenditure is down by 1.3 per cent.

Keith Brown: I have my own figures here, which show a 1.8 per cent real-terms cumulative change and a 9.2 per cent reduction—that relates to the longer period since 2010. I am happy to provide you with the figures that I have in writing and we can set them alongside what SPICe has provided.

Andy Wightman: That would be helpful, because one of the challenges lies in interpreting the figures. Is your 5.8 per cent reflected in a table in the draft budget?

Keith Brown: In the overall draft budget?

Andy Wightman: Yes. Does the 5.8 per cent appear there?

Keith Brown: I am sure that that is where I drew my figures from, so it should be there. I imagine that it is explicitly expressed or, if not, that it is deducible from other figures. However, I will certainly provide the figures that I have that underlie the 5.8 per cent cut.

Andy Wightman: That would be helpful—thank you.

Richard Leonard (Central Scotland) (Lab): Another set of figures that we have from SPICe—I think that Dean Lockhart referred to them at the beginning of the meeting—show that Scottish Enterprise's resource is down by 17.2 per cent in one year, its capital is down by 47.7 per cent, its non-cash is down by 58 per cent, its financial transaction figure is down by 100 per cent and its total is down by 33.2 per cent.

I understand you saying that there are other income streams that Scottish Enterprise can draw on—for the time being, there may be European Union funding that it can draw on. However, those are the figures for the allocation that you have given Scottish Enterprise, are they not?

Keith Brown: Yes, but if we take two of the figures that you mentioned—the financial transaction figure and the one that relates to depreciation—they reflect what Scottish Enterprise needs. The need has changed since last year, so the figures reflect that. As for the first figure that you mentioned—the 17.2 per cent—such a saving has been included each year, but it has been given to Scottish Enterprise and then taken back at the end of the year. It is not being given this year, so the position is the same as it was in previous years.

We should not rush past the fact that, if we are going to fund city deals to the extent that we propose and if we are to increase funding for innovation and SDI staff, the money has to come from somewhere. We cannot spend the same money twice. As I have said, there is an opportunity to more than recoup from other sources the £20 million cut in capital, which you also mentioned.

That is a balanced approach, but it is necessitated by the budget settlement that we have. We have to live within our means.

Richard Leonard: I accept that you have to live within your means, but is it not pretty clear that you are moving money away from Scottish Enterprise? Whether it is going to city deals or other activities that you propose to embark on—for example, through SDI—you are proposing to move money out of Scottish Enterprise.

Keith Brown: I have accepted that. In relation to your question, the most relevant figure is the 7.5 per cent cut—that is, about £11 million—to the grant in aid that is made available to Scottish Enterprise. However, that is more than made up for by the other things that we are doing that also help enterprise in Scotland.

Not all the work is being done through Scottish Enterprise; it is being done through other means as well. The benefit does not apply only to Scottish Enterprise's area; it applies across the country to Scottish enterprise plc. What Derek Mackay has done in relation to business rates, the demand for task forces—the two remaining ones are in Fife and West Lothian—to which we are providing direct assistance, and the increased money for innovation and enterprise are closely related to what Scottish Enterprise does, but the money is not going through Scottish Enterprise's coffers. That is the right thing to do and it increases the number of staff who are available for enterprise more generally. The new SDI staff will do more in the enterprise area.

In addition, we have to remember the baseline that we are working from. At the start of the summer, we announced the additional £100 million in capital investment to help with

addressing the effects of Brexit. There is no question but that we have a very strong commitment to enterprise in Scotland. That is not entirely reducible to what happens through Scottish Enterprise.

John Mason (Glasgow Shettleston) (SNP): To continue that line of thinking, on a wider level where are we on the balance between encouraging inward investment and growing our Scottish companies? On the one hand, we would like to grow Scottish companies so that they could export more. On the other hand, we are all pleased that the budget announcement yesterday included investment into Lochaber. How do we get the balance between the two?

Keith Brown: There is no textbook that would tell you exactly what the right balance is. You said “growing” Scottish businesses. That is one of the real challenges that we have. We have a higher number of companies in Scotland than ever before, but the issue is the extent to which we can, in the current jargon, scale them up.

We have some fantastically innovative companies but, even with those that are spun out from university collaborations, we have not had the same success in scaling them up. The growth fund, which I mentioned earlier, is specifically designed to do so. I mentioned the four Is, one of which is internationalisation, and we also do not export or get involved in international activity to the extent that we might have.

Wherever the correct balance lies, I think that it will include much more internationalisation and much more scaling up, so that the demographic of Scottish companies will go from being 95 or 96 per cent small and medium-sized enterprises, with a very small number of large companies, to one in which we grow the middle, companies that are currently successful scale up and we see more of the unicorns, such as Skyscanner and FanDuel.

Exactly what the right balance is I do not know, and not all companies want to grow. However, I do know that we have to do more on internationalisation and scaling up the UK or international markets.

John Mason: I know that we can only look one year at a time but, in the longer term, if we were successful in building up some of those locally based companies, whoever owns them, would that mean that there was less need for inward investment?

Keith Brown: I do not think so. We will always continue activity to encourage foreign direct investment, not least because, as you mentioned from yesterday, it is hard to overstate how important such an announcement is for a rural economy such as Fort William, with the guarantee of existing jobs and the potential for hugely

increased employment in an area. In rural areas, such an increase in jobs has a bigger impact than it would elsewhere.

Inward investment is absolutely vital, not just because of the money that comes in or the jobs that are created but because it very often brings with it new knowledge of how best to internationalise. Sometimes the investment comes from countries such as Germany that are more productive and competitive than we are, and we can learn important lessons from that. That will always be important in an open economy.

11:45

The Convener: You have mentioned business rates. You will be aware of the report by the Scottish Retail Consortium. It has some positive things to say about the Government's approach in some areas but, on the large business rates supplement, it issued a press release that said:

"Scottish Ministers have fumbled the opportunity to comprehensively reverse this year's doubling of the Large Business Rates Supplement."

The consortium's written submission to the committee said that the doubling

"is emblematic of the many problems with rates as a whole, with little regard paid to trading conditions or the changes affecting industry, no consultation or ... economic impact analysis underpinning it."

It goes on to say that it is

"at odds with the Scottish Government's Town Centres Action Plan".

Will you respond to what the SRC has said?

Keith Brown: I spoke directly to representatives of the SRC two or three weeks ago. That was one of the issues that they raised, but they also said a number of things that were quite positive. Obviously, the SRC has some very large companies in its membership—Asda, Tesco, Marks and Sparks and various others—that will be very concerned about that particular measure but, from our discussion, it was clear to me that they are concerned about a lot more than just that. I agreed with them that we would have a continuing dialogue so that—as you mentioned in your opening remarks—things did not take them by surprise, and we agreed that it was possible to establish a rapport. I have to say that that relates to both the UK Government and the Scottish Government.

I met representatives from the Scottish Grocers Federation at a meeting in Parliament of the cross-party group on independent convenience stores—of which Gordon MacDonald is the convener—and they made exactly the same point. They felt that if we were to make a change that came on top of—just before or just after—a UK Government

change, the whole picture would not be taken into account. I have agreed to meet them again; in fact, I offered to appear before that very large cross-party group with UK ministers so that we could explain ourselves separately.

I understand their concern, but the small business bonus, including its further extension—these are really areas for Derek Mackay's budget—has had a huge benefit. In my constituency, there are companies that either would not have taken somebody on, would have let somebody go, or might have gone out of business altogether if they had had to pay their business rates. That burden has been taken away, which was a measure that your party supported, convener.

We have to take the issue in the round and we are trying to help those who need it most. We will continue the dialogue with the Scottish Retail Consortium.

The Convener: Do you accept—as the SRC says—that as a result of that, for

"one in ten firms in Scotland the rates bill is higher than elsewhere in the UK"?

Keith Brown: It is also true that many businesses in Scotland pay a lower rate if they get the small business bonus. That was my point about taking these things in the round. The greater support goes to smaller businesses and to those in need of it most.

Andy Wightman: Earlier in the parliamentary session, I was surprised when I asked in Parliament whether any economic impact assessment was being done on the small business bonus scheme and I was told that there was not. The scheme has been in place for almost a decade, yet there is academic evidence that suggests that when non-domestic property is relieved of rates, if it is owned, its capital value rises and if it is leased, the rent goes up. Given that you have just cut the general rate poundage by 3.6 pence, what economic analysis has been done of whether the cut—and the extension of the small business bonus scheme—will deliver greater levels of economic growth?

Keith Brown: On the small business bonus scheme—which is an issue for me rather than Derek Mackay—I am happy to go away and look at the benefits. All I can say—I know that this is not a full economic analysis, but it is my experience over the 10 years that I have been in Parliament—is that it has been extremely well received and it has been the cause of a number of businesses staying in business and of increased local employment. My experience is that it has been very beneficial, but I am happy to look into that.

Derek Mackay would have to answer on business rates. I am willing to undertake to look at the small business bonus scheme and to come back in due course on whether there has been sufficient emphasis on what the benefits of it are or whether it is time for us to have a fresh look at those—although, as I have said, my direct experience is that it has been very beneficial for small businesses.

Andy Wightman: When I speak to someone who has had a tax cut, generally they do appreciate it, but the job of Government is to try to look at issues in the round and to see whether, in fact, what appears to be a benefit is, in the medium or long term, negated by higher costs. However, I am grateful for your response on that.

Keith Brown: I am not saying that the people who I have talked to have said, “That is great—you have given me a tax cut”; they have said that they have kept people on. I can point to small businesses in my own constituency that have said that either they kept somebody on or they kept the business going because of the scheme.

I know that it seems a bit distant now, but about four or five years ago, in the teeth of that recession, it was crucially important. Also, because it kept people in employment, it reduced the decrease in the level of demand in the economy. It is not just about people being grateful for a tax cut—it is not quite as simple as that; it is about the economic development and the economic generation activity, which, I believe, have been beneficial. However, I am happy to look at the scheme and come back to you.

As one last thing, you mentioned business rates. That is Derek Mackay’s area, but you will know that a review of business rates more generally is being undertaken by Ken Barclay. I think that a report will be issued in the coming months.

Dean Lockhart: Mr Brown, you made a point about the priority of scaling up SMEs. I completely agree with that and I think a lot of commentators agree with it as well. However, we have been told by business that the large business supplement, in many ways, acts as a barrier to scaling up. Once a company gets to a certain size, it is punished by the large business supplement in that it has to pay higher rates. For many businesses, that is a disincentive to expand. Do you acknowledge the analysis that the LBS is a barrier to expansion for some companies?

Keith Brown: To be honest, I would like to see the evidence of that. The large business supplement tends to be for much larger businesses. When I was talking about scale-ups, I meant small and medium-sized enterprises scaling up substantially. Sometimes that does not require

a huge new property or new land to be taken. I had in mind scale-ups more generally, such that the level of activity, and sometimes the level of job growth and profit, are also increased. I am not sure that the LBS is a disincentive, but if you send me evidence on that, I am happy to look at it.

If it is the case that the large business levy is a disincentive to scale-ups—which I do not accept, having not seen evidence of that—that information would have to be taken in conjunction with the support that we provide for scale-ups. I mentioned the Scottish growth scheme, which is going to predominantly look at tech and scale-up companies, although not exclusively. There are a number of measures in support of companies that are seeking to scale up, which should be counted against any other interventions such as the large business levy.

Ash Denham (Edinburgh Eastern) (SNP): I want to take the opportunity to raise with you the quality of Scottish export statistics, which has come up a number of times during our recent inquiry. Export Statistics Scotland says that its

“estimates only capture the first point of export.”

In my view, that could lead to two effects. One is that some Scottish exports could be counted as UK exports. The other is that, as we see with the Rotterdam effect, exports to the UK may be artificially inflated as a result.

My question is, if we are investing in our enterprise agencies and increasing spend on, for example, SDI in order to increase our exports, do we not need to be able to accurately assess the impacts that that spending is having and the increase in our exports? Is the Scottish Government seeking improvements in those areas?

Keith Brown: Yes. Mary McAllan might want to come in on that as well. Not only do we want to be able to measure and quantify any improvements from any intervention that we make, but we need to know what is happening now. You are right to say that the quality of the information is not what it should be.

As I have said to the committee before, I have asked Gary Gillespie, the chief economist, and the chief statistician to look at how we can improve our data in relation to not just exports but across the piece—in relation to economic and labour market data.

At present, we have quite a mixture. We get stuff provided by the Office for National Statistics, there is stuff that we buy or supplement from the ONS—we will do a Scottish boost—and some areas are completely blank. There might be some areas where we want to have new economic data. As I have mentioned before, some countries have

a measure called the whole of the economy, which we do not have in Scotland.

I entirely agree that we should be looking to improve the quality of the data that we have, and one of the workstreams that is being taken forward under phase 2 of the enterprise and skills review involves just that. As I said, work is being done by Gary Gillespie and the chief statistician to see how we can improve that.

Mary McAllan might want to say more.

Mary McAllan: The only thing that I would add is that we have put an extra £360,000 in the budget to help with some of the work that the cabinet secretary refers to.

Ash Denham: Okay. I will move on to my other question. The submission that we received from FSB Scotland, which you might have seen, highlights

“the importance of getting the maximum economic impact from public spending”.

Its point is that if we are about to embark on a large amount of capital investment, breaking contracts down into smaller projects gives local businesses the opportunity to benefit from them, and the money from that investment stays in the local economy. Will you comment on that?

Keith Brown: I agree with that. Sometimes, a project is of such a scale that it is not possible to reduce it. For example, the scale of the Queensferry crossing will always be what it is. However, looking at the other end of the spectrum, I recall that, when I was Minister for Transport and Veterans, we had a number of cycling and walking improvements around the country, such as national cycle network improvements and so on. Those were much smaller projects, which enabled local organisations to bid for them without having to be part of a consortium or a larger organisation. That had a disproportionate effect on local economies.

As I said, there are some larger projects that require to have scale, and there are important economies of scale that we want to achieve. For example, we got extremely keen prices for the major projects that we have going at present, partly because of the stage in the economic cycle at which we undertook them. However, there is a bigger picture, which is that we can sustain local employment and encourage local businesses by having contracts at a manageable level, and in doing so we can have a proportionately bigger economic impact, so I agree with that point.

Liam Kerr (North East Scotland) (Con): I want to follow up on a couple of questions from earlier. Given that, under the budget, certain business and personal taxes will be higher in Scotland, which could have a negative impact on decisions about

investment and whether businesses and individuals move to Scotland and stay here, what is the Scottish Government doing to offset any such impacts on the economy and what robust evidence do you have that those steps will negate any negative impact?

Keith Brown: The headline is usually about “The highest taxed part of the UK”, but saying that really has to involve closing one eye, because it discounts other aspects. There is no question but that personal taxation, which you mentioned, will be important to people, but if they are moving to Scotland, they will also take into account, for example, the benefits of free tuition for young adults who go to university, and even things such as the cost of living and prescription charges; I imagine that they will also take into account things such as the small business bonus scheme.

I really do think that, in talking about taxation, we have to include the whole range of elements—people and businesses might not know every detail of every provision, but they can take such things into account. When people make a judgment on—in shorthand—the attractiveness of a place that they might invest in, move to or live in, they make a whole series of calculations.

Liam Kerr: I accept the assertion in what you say, but what evidence do you have that people are making those choices? What empirical data can we point to that shows that when people make those decisions, they actively take into account prescriptions and tuition?

Keith Brown: It is hard to say what people’s individual motivations are, but there are some empirical facts that we can point to. We have almost a record number of people employed in Scotland. We have a higher population than we have had for many years. We also have more businesses in Scotland than we have had for many years. Also, during a time of substantial economic instability and the downturn in the oil and gas industry, we have a resilient economy that is still growing, although I accept that it is not growing to the extent that we might like. We can point to those things as endorsing the fact that people want to live, work, invest and learn in Scotland.

12:00

Liam Kerr: To go back to Andy Wightman’s point, is that something that the Scottish Government should be looking into so that we have a direct correlation between cause and effect, and can say that there is a link between having free prescriptions or free tuition and people making those decisions?

I have a further question, specifically on the Aberdeen western peripheral route. We noticed

recently that the timescale for delivery of services has slipped by six months. How confident are you that the timescale will be hit and we will have services by winter 2017? What steps are you taking to ensure that there will not be any further slippage? Are you comfortable that there will be no cost overrun?

Keith Brown: I normally report to the Rural Economy and Connectivity Committee on that, but I am happy to answer the question.

In answer to your first question, the other indicator would be foreign direct investment, in which we have had substantial success according to the Ernst and Young figures for 2014 and 2015. That demonstrates that people are willing to invest in Scotland.

On the AWPR, it is not the entire project that is now behind schedule. The Scottish Government advertised the contract with a timescale of spring 2018. The contractor said that it intended to finish earlier, because it is in its financial interest to do so. It was going to complete the Craibstone junction by autumn 2016; it completed that part early, in August. It was going to do the Balmedie to Tippetty section, which was the subject of the report to the RECC, by the spring of 2017, and that will now be later. However, the overall project is still scheduled for completion in winter 2017-18. It is the largest project that is taking place in the UK just now and, as always with such projects, the timescale is subject to contractual or weather issues.

Because of the overrun that you referred to, costs will in effect be postponed, because we only pay for roads when they become available. We will not start paying for the Balmedie to Tippetty section until we have the use of it. We are paying for Craibstone junction now; it was completed early, so those payments were advanced. The overall project is paid for by a unitary charge and we do not start paying that until the project is completed. Not having the Balmedie to Tippetty section ready by the date that the contractor committed to will not cost anything additional.

Gil Paterson (Clydebank and Milngavie) (SNP): Over the last recorded period, just short of 100,000 people have been taken out of fuel poverty. Although that is extremely welcome, the statistics show that 50 per cent of the reduction is due to the reduction in fuel costs. What influence can the Government have on fuel costs? Do you work with the industry in relation to people who may not have sufficient means once prices rise again, as they are bound to do?

Keith Brown: That is a good point. The member is right that just over half of the reduction in fuel poverty is attributed to the drop in the price in domestic fuels. About a third can be attributed

to improvements in the energy efficiency and performance of the housing stock and an element is also attributable to higher household incomes, although those have not increased at a very high rate in recent years. Those things have all had an impact on fuel poverty.

On the member's other point, the work with the industry is mainly done by my colleague Angela Constance, who holds the vast majority of the budget; she has about £114 million, whereas I have about £20 million.

Chris Stark may want to say more about that.

Chris Stark (Scottish Government): I will say a little more on that programme and those statistics, which I confirm are correct. There are a number of things that we do that do not involve spending money, and they stretch through the year. Most recently, there was a summit of the energy companies at which we spoke to them about the issue. We encourage better switching rates among consumers and there is another range of things that we do that involve intervening in the energy markets. We have helped to set up Our Power, which you took evidence on last time. That is there to address some of those needs more directly.

Gil Paterson: Sleeping in the same bed as fuel poverty is poverty itself—low incomes and wages. Is the Government actively doing anything to try to sort fuel poverty out at source, which is because people are poor?

Keith Brown: You will know as well as I do about the new powers that the Parliament has. Obviously, efforts are being made to reduce unemployment, which is one factor, and we now have responsibility for some in-work benefits as well. We believe that things such as not charging for prescriptions are important, although many of the people in poverty would have qualified for free prescriptions in any event—I understand that point.

Specifically in relation to fuel poverty, we will introduce the warm homes bill, which we hope will tackle fuel poverty. Consultation on the policy content of the bill will start in the next year. Fuel poverty is an issue that every Government has wrestled with. I am happy to be corrected, but I think that I am right in saying that the levels of poverty—poverty generally rather than fuel poverty—are lower in Scotland than in the other countries of the UK. However, there are still far too many people in poverty. Across a range of Government activities, even to the extent of not charging tuition fees, we are trying to increase the life chances of people so that they can get out of poverty, education being one of the main means of doing that. It is multifaceted.

Gillian Martin: I have a short supplementary to Mr Paterson's question. Fuel poverty rates are higher in rural areas. What is being done to address that in particular?

Keith Brown: I say first that 100,000 fewer households generally were in fuel poverty in 2015. If it is the case, as Gillian Martin has suggested, that fuel poverty is disproportionately high in rural areas, that reduction should have disproportionately benefited rural areas. Does Chris Stark want to say more about that?

Chris Stark: There are a few things that we do; for example, there are schemes that are tailored for the islands. More broadly, there is a programme of work that involves various people, including Highlands and Islands Enterprise. However, there is nothing in this budget that specifically addresses that issue.

Keith Brown: Local authorities will tend to reflect the rurality of their area. For example, in the northern islands we have district heating schemes, and in the Western Isles the council does a huge amount of work to try to address this issue. There is a proposal for an energy firm as well, which will seek to help address it too.

Gillian Martin: At our meeting last week, the existing homes alliance called for us to look at our welfare powers and new social security system as a way of addressing in part issues of fuel poverty. What discussions have there been in the Cabinet about tackling fuel poverty across the portfolios, given that it impacts on quite a few of the portfolios?

Keith Brown: There has been a general discussion about the bill that is to be produced. We discuss such things in the Cabinet before they enter the public domain. There have been discussions led by Angela Constance.

The Convener: Cabinet secretary, there was mention of a figure of 5.8 per cent earlier. I just want to clarify that. On page 4 of the draft Scottish budget, table 1.02 shows a figure of 5.8 per cent for 2017-18; the figure for 2016-17 is 6.8 per cent. Do you want to take the opportunity to clarify your comments about that figure?

Keith Brown: I can only go on the figures that I have been given. The real-terms change since 2010-11 is 5.8 per cent. That does seem different; I think that I was saying that that figure was for this year, but I see that it is a cumulative figure since 2010-11. I apologise for that. We run a trajectory of 9.2 per cent up to 2019-20. The 5.8 per cent is how far along we have gone in relation to that. Is that right?

The Convener: Can Mr Stark clarify that?

Chris Stark: Mr Brown is correct: 5.8 per cent is the cumulative figure for 2017-18. For 2016-17 it will be 6.8 per cent.

The Convener: Thank you.

Keith Brown: That is what happens when you try to look at somebody else's portfolio.

The Convener: I just wanted to give you an opportunity to clarify that against the figure that we see in the draft budget.

Richard Leonard: The existing homes alliance told us last week that it believed that a budget of around £190 million this year was needed to deliver a transformational step change, which clearly is not in the budget. If not this year, when will we see a transformational step change in the budget spent on energy efficiency?

Keith Brown: I believe that it is a transformational figure. The figure that we have committed to is £0.5 billion, and the amount that we expend on energy efficiency this year is proportionate to that £0.5 billion. That is what we have set out and we believe that we will achieve that. If you look at the moneys that are being allocated this year to the Scottish energy efficiency programme, you will see that the figure is proportionate to that £0.5 billion. Chris Stark may want to comment further on that, but I know that that is what is being lobbied for and I realise that the existing homes alliance would like to see more, and we would like to have more to spend, but we have to ensure that we can fulfil the commitment that we made, which was to £0.5 billion.

Chris Stark: The budget this year commits just over £140 million to energy efficiency measures, which is an uplift on the previous year. We might add to that some of the wider programmes, such as the energy company obligation, or ECO, which is a tariff on bills; we work co-operatively with the energy companies on that. A significant sum is being spent each year and there are also wider policies involved, such as the winter fuel payment. Over the course of the programme for government, we have committed to £0.5 billion of spending over the next four years. That allows us to develop a programme called the Scottish energy efficiency programme. As we begin to design that programme for roll-out in 2018, there are wider policy measures that we will bring to bear, not just through public spending but through regulations to help with some of the objectives.

Richard Leonard: The existing homes alliance is an expert in the field, and it says that, for a transformational change, a commitment of £190 million was required this year, but you have committed £140 million. Have you made any estimate of the financial benefits to other Scottish Government budget areas of an increase in

expenditure to tackle fuel poverty, especially for the national health service?

Chris Stark: Not directly. The Scottish Government has done work on what we call co-benefits, which are very big. One of the reasons for investing in energy efficiency is for those reasons, so that there are health benefits and wider economic benefits in developing a local supply chain, and there are benefits to the consumer from spending less on energy. We have not budgeted for them here, but that is one of the reasons why, when there was a fiscal stimulus package in the current year, we spent on energy efficiency improvements, because we could see those returns. It is a very good use of capital money for that reason.

Keith Brown: It is also true to say that a lot of work has been done on what we might call preventative spend. That has happened previously, but it is also the case that you have to provide those moneys up front, and the benefit comes subsequently. We have to make provision for that money to achieve those things now, and it is possible to measure the benefit in future years when those benefits have been experienced.

Richard Leonard: Would you consider putting the apparatus of Government behind some of that cross-referencing work with other departments in order to identify where expenditure can best be targeted?

Keith Brown: I am happy to discuss that with my colleague and come back to Mr Leonard or to the committee on that point.

12:15

Andy Wightman: I have a couple of brief follow-up questions. We are struck by the fact that the existing homes alliance's evidence is talking about a level of investment that is five times what is proposed over the course of this session of Parliament. No doubt we will return to that.

I want to pick up the point that Richard Leonard was leading towards. The existing homes alliance said:

"the Existing Homes Alliance has estimated that an objective of supporting all homes to reach at least a 'C' EPC rating by 2025 could save the NHS up to £80m per year by reducing the incidence of cold-related illnesses."

The Scottish Government aims to increase investment in the NHS by £500 million in real terms by the end of this parliamentary session, but of course it would be beneficial if we could avoid having to do that. When we hear evidence from you and others about how spending can help to reduce demand on the NHS, it seems self-evident that at some stage it would be useful for us to know whether those gains have been captured

and accounted for and whether they have been budgeted for in the health budget—I know that that is difficult, as you said in your answer to Mr Leonard.

Keith Brown: It might well be that demands on the health budget, which are increasing, can be reduced by the kind of investment that is being talked about, but the nature of the increased demand is much broader. As I said in response to Richard Leonard, I am happy to look at the issue. John Swinney did quite a lot of work on preventative spend, so if you give me the opportunity to check, I will be happy to come back to the committee on whether we can do further work in that regard.

Andy Wightman: That is helpful. I think that it is fair to say that it is not just this committee that has an interest. In the aftermath of the Christie report, and given that we have heard a lot about preventative spending, I think that we and other committees will want much greater scrutiny of how the issue is being followed up.

Liam Kerr: Cabinet secretary, you said that you are investing £140 million in energy efficiency. For clarification, will you confirm that that includes non-domestic energy efficiency, which I suggest might be important in relation to climate change but will not address fuel poverty or raise homes up to EPC C? Is that correct?

Chris Stark: That is correct. I am referring to the total budget for energy efficiency, and fuel poverty is part of that. In broad terms, Ms Constance's budget covers the domestic side and Mr Brown's budget covers the non-domestic side, but our approach to the energy budget, as we refer to it, has increasingly been to use Mr Brown's budget to develop the Scottish energy efficiency programme more broadly. SEEP will cover all types of building, in the main, and has fuel poverty objectives as well as the aim of overall improvement in the energy efficiency of the building stock.

Liam Kerr: Given what you just said, I appreciate that this might be difficult, but are you able to say what the budget was last year, if it is £140 million this year?

Chris Stark: I do not have the figures in front of me, but it was a similar figure. Of course, that figure was increased by the capital stimulus programme during the year. What is being spent this year is similar to what was spent last year, including the stimulus package.

Keith Brown: I would be happy to provide Mr Kerr with the exact figure.

Liam Kerr: If you would not mind. Thank you.

Dean Lockhart: May we have a brief update on the budget and implementation plans for the

Scottish business development bank, which I think Mr Swinney announced earlier this year? I want to get a broad understanding of the interaction between the Scottish Investment Bank, the Scottish business development bank, the Scottish growth scheme and the new board of trade. As Mr Brown said, there seems to be a cluttered landscape with quite a few players and agencies out there.

Keith Brown: I will ask Mary McAllan to say more about the business development bank, because she has been involved in the work. You mentioned the board of trade and the growth scheme; there is not an obvious direct correlation in that regard, although of course the work will overlap. The board of trade will look at activity that we can undertake to increase trade, which will inform us on where demand is coming from for the Scottish growth scheme.

Quite a lot of work is being done on the growth scheme and the business bank. I have had a number of parliamentary questions—from you, I think, and from Jackie Baillie—and as we have got the information we have provided updates in our responses. I think that the latest update was pretty recent, but Mary McAllan might have more to add.

Mary McAllan: As you will appreciate, segmentation of the market is required to ensure that the right product is being directed to the right place. We have covered the salient aspects of the growth scheme, which is novel. Ministers themselves have said that it is a particular response to a particular set of challenging circumstances and that it is about directing funding, whether through guarantees or loans as we discussed previously, to companies that find it difficult to access funding because they are at a stage of development that is not particularly attractive to standard lenders—that is a good way to put it. The companies that tend to be involved or that require such support are the companies that, as the cabinet secretary said, have quite a lot of scope and potential but pose quite a lot of risk, which is one of the reasons why standard lenders do not want to get involved.

There is evidence—I cannot cite it at the moment, but I am sure that you are aware of the work that has been done more or less since the crash in 2008-09—to show that SMEs in general have been less willing to get involved in accessing bank finance of one sort or another. They have tended to find finance from various other sources, including family and their own resources. That situation is beginning to change a bit, and quite a lot of work is done regularly to see what the market segments look like and what products can be developed to encourage SMEs to access the kind of tailored financing that they require for their particular business model.

The Scottish Investment Bank has been involved in that market for some time. It has taken on some new products, which it is pushing, and it is helpful in providing equity-type investment. We are trying to develop a suite of products that we can deploy in the marketplace so that we have something that suits everybody's needs, and some of those products are still in development, as the cabinet secretary said.

Dean Lockhart: Under which agency will the Scottish business development bank sit? Has it been decided who will operate, manage and have oversight of the Scottish business development bank?

Mary McAllan: We are working closely with Scottish Enterprise on all of that at the moment.

Dean Lockhart: I have one final question. Do you have any idea when the plans detailing how the bank will look will be announced?

Mary McAllan: It is difficult to be precise at this stage.

Keith Brown: Quite a lot of work on that is going on just now, and some of it is new ground for us, which is why we have taken quite a lot of outside opinion and advice. I am conscious that a number of members also have experience in the area. It is our responsibility to design the bank, and we will, but if members have other suggestions, we will be happy to receive those.

The Convener: Thank you. I thank the cabinet secretary and our other guests for coming here today.

12:23

Meeting continued in private until 12:32.

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