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Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 8 December 2010

Session 3

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CONTENTS

ECONOMY, ENERGY AND TOURISM COMMITTEE
34th Meeting 2010, Session 3

CONVENER

*Iain Smith (North East Fife) (LD)

DEPUTY CONVENER

*Rob Gibson (Highlands and Islands) (SNP)

COMMITTEE MEMBERS

*Ms Wendy Alexander (Paisley North) (Lab)
*Gavin Brown (Lothians) (Con)
Christopher Harvie (Mid Scotland and Fife) (SNP)
Marilyn Livingstone (Kirkcaldy) (Lab)
*Lewis Macdonald (Aberdeen Central) (Lab)
*Stuart McMillan (West of Scotland) (SNP)

COMMITTEE SUBSTITUTES

*Nigel Don (North East Scotland) (SNP)
Alex Johnstone (North East Scotland) (Con)
Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)
David Whitton (Strathkelvin and Bearsden) (Lab)

*attended

THE FOLLOWING GAVE EVIDENCE:

David Fotheringham (Scottish Government Housing and Regeneration Directorate)
John Swinney (Cabinet Secretary for Finance and Sustainable Growth)
David Wilson (Scottish Government Energy Directorate)

CLERK TO THE COMMITTEE

Stephen Imrie

LOCATION

Committee Room 4

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 8 December 2010

[The Convener *opened the meeting at 11:00*]

Decision on Taking Business in Private

The Convener (Iain Smith): Welcome to the 34th meeting in 2010 of the Economy, Energy and Tourism Committee. I apologise to everyone for the late start, which happened for very understandable reasons given the current weather.

We have received apologies from Marilyn Livingstone and Chris Harvie. Nigel Don is here as a substitute for Chris Harvie; I welcome him back to the committee. We have not yet heard from Wendy Alexander. We believe that she is on her way but stuck somewhere between Glasgow and Edinburgh.

Agenda item 1 is to consider taking in private item 4, which is consideration of our draft report on the budget. Do members agree to take that item in private?

Members *indicated agreement.*

Draft Budget Scrutiny 2011-12

11:01

The Convener: Agenda item 2 is our draft budget scrutiny. I welcome the Cabinet Secretary for Finance and Sustainable Growth, who has finally made it through the road system of central Scotland to get here. I invite John Swinney to introduce his team and to make opening remarks.

The Cabinet Secretary for Finance and Sustainable Growth (John Swinney): Good morning, convener. First, I apologise to the committee for my late arrival. As the convener said, getting here has been a bit of a challenge, as getting to their destinations has been for many of our citizens. For this item, on budget scrutiny, I would have had with me John Mason, who is the director of business, but I suspect that he is on a station platform in Linlithgow, or somewhere in the proximity. With me are David Wilson, who is the director of energy and climate change in the Scottish Government, and David Dow, who is from the finance directorate.

In the interests of time, I will not make an opening statement so that the committee can press on with questions. I am delighted to answer any questions that the committee wishes to raise with me.

The Convener: Thank you, cabinet secretary.

Chapter 2 of the draft budget, on the Scottish Government's economic ambition, states:

> "The key principles of our Economic Strategy have governed the allocation of resources in this Budget. This chapter sets out the steps taken to deliver the Budget's first strategic priority: supporting economic recovery and increasing sustainable economic growth."

In what ways do you think that the draft budget promotes sustainable economic growth?

John Swinney: What the budget aims to do—with reference to the themes through which the Government has undertaken consideration of its budget—is to meet the three objectives of supporting economic recovery, protecting front-line services and supporting the low-carbon economy.

In each of those three themes, there are strong points of emphasis, which we have set out in the budget document, on how the decisions that we have taken support economic growth and economic recovery. For example, the way in which we deploy local authority and health service expenditure comprehensively across the country contributes to economic activity and economic growth through the investment of public sector resource and capital in individual localities. In that sense, that expenditure contributes to the achievement of the Government's objectives by ensuring equity around the country in economic opportunity, and the investment supports that.

Equally, the committee will be familiar with the great challenge that we face on capital expenditure. Because of the reduction in capital expenditure across the United Kingdom, we face a capital expenditure reduction of 25 per cent in the first year, so the decisions that we have made on the transfer of resources, in total £100 million, from 2010-11 into 2011-12 to support capital expenditure, plus the emphasis that we have placed on the non-profit-distributing programme of investment, which is set out in the budget document, will undoubtedly contribute towards economic growth by sustaining our capital expenditure programme when it will be under enormous pressure.

The focus on the low-carbon economy resonates throughout much of the budget's approach. Our agencies and organisations are focusing on ensuring that the low-carbon economy represents a substantial economic opportunity for Scotland.

Those are some illustrations, which I have set out.

The Convener: I hear what you say, but the budgets for the matters to which you refer—such as the low-carbon economy, investment in infrastructure such as road and transport networks, tertiary education, regeneration, the enterprise agencies, VisitScotland and energy in general—all show significant reductions, whereas other parts of the budget, such as the provision for removing prescription charges, which the budget adviser to the Finance Committee says has no benefit for economic development, are being protected. Why have you decided to protect social programmes, even when they are not shown to be of economic development assistance, and to cut programmes that have a direct impact on the economy?

John Swinney: In the Scottish Parliament's current financial arrangements, I cannot avoid confronting a 25 per cent reduction in capital expenditure. Several of the programmes to which the convener referred are capital programmes, on which we must face the fact that capital expenditure has been reduced by decisions of the UK Government. However, we still have in the budget document a capital programme of about £2.5 billion. Budgets are reducing—we are all familiar with that fact in the current climate—but we must be mindful that a substantial investment in capital spending continues through the capital programme.

I made the point in my answer to the first question that a range of public expenditure—including local authority and health service expenditure—supports economic growth in all localities. If health service expenditure and local authority expenditure did not take place in some of our more fragile communities, individuals in those communities would have no employment prospects there. We must acknowledge the economic impact of all that.

In addition to the capital programme, we are still proceeding with a substantial additional NPD programme. That will enable us to invest in major elements of Scotland's capital infrastructure.

We are taking a focused approach to the opportunities in the low-carbon economy sector. In several areas, we are ensuring that we identify the opportunities to support and fund projects through the decisions that the Government and its agencies take.

The Convener: I am not sure whether you have answered my question, which was about why you have decided to protect measures that do not seem to support economic growth but to cut programmes that clearly assist economic growth. For example, the energy budget line will be cut from £43.2 million to £34.6 million, which does not suggest that you are putting additional resources or support into the renewable energy sector or the low-carbon economy.

John Swinney: I will make two points. Whether we like it or not, budgets are reducing—that is the settlement that we have from the UK Government and that cannot be avoided. A demand might be made for the Scottish Government to spend more money on some programmes, but the overall budget is reducing and the parliamentary majority is clearly in favour of providing a real-terms increase for the largest budget item, which is the health service—unless I am mistaken, that is where the parliamentary majority rests on that question.

Bear in mind that the Parliament must approve the budget or not on a wide variety of considerations. If the Government takes care to listen to and absorb the Parliament's views on protection for the health service and to ensure that its priorities are aligned with those views, it is difficult, if not impossible, to provide additional expenditure in all the areas in which we would ordinarily like to provide expenditure.

Secondly, the Government has made clear that it considers it important that, in the difficult economic circumstances that we face—not only as a public community, but as individuals and families throughout the country—we sustain the social contract that we have with people in Scotland, which recognises that we provide a certain range of social supports to individuals and families within our society. The budget essentially balances that consideration with the importance of investing in the country's long-term economic success. The cash sums that are involved show that substantial expenditure is made on long-term capital development in Scotland. That is part and parcel of the budget settlement.

The Convener: You refer to the reducing budget for next year. Everyone recognises that there is a reduction in the Scottish Government's budget for next year, but the enterprise budgets have been cut in real terms year on year throughout the Scottish National Party's Administration. That does not suggest that the SNP gives economic growth the priority that it claims in the budget document.

John Swinney: We have been round those houses probably every year of the budget process, convener.

The Convener: We have not had a proper answer to the question. That is why we keep raising it.

John Swinney: That may be your opinion, convener. You will forgive me if I disagree fundamentally with your view.

As I have said in committee before, although the enterprise budgets may have gone down in real terms, we have provided new, additional and novel support directly to the companies sector through the small business bonus scheme. That did not exist before the Government came to office and is a significant contributor towards the prospects of individual businesses and their ability to contribute to the economy.

If we are to have a discussion about contributions towards economic growth, let us do that in the round of all the different interventions that the Government has made. In 2007, the small business bonus scheme did not exist. The Government introduced and financed it and the small business community of Scotland has benefited enormously as a consequence.

The Convener: With the deepest respect, there was a small business relief scheme before 2007. I accept that you changed its name and increased its level, but there was a scheme beforehand. Let us be absolutely clear on that point.

John Swinney: The small business bonus scheme abolishes business rates for thousands of companies and reduces them for many further companies by 25 per cent and 50 per cent. More and more small businesses are benefiting from that scheme. If we are to consider all the Government's decisions in the round, let us bear in mind that there has been direct support to Scotland's companies sector as a consequence of the Government's investment decisions.

The Convener: I will not move on to transitional business rates relief schemes. Other members may wish to raise that issue.

Rob Gibson (Highlands and Islands) (SNP): Is there a particular reason for the reduction in grant in aid to Highlands and Islands Enterprise, which has been deeper than that in the grant in aid to Scottish Enterprise?

11:15

John Swinney: The background to that is that we have been working with the agencies to ensure that they are configured to carry out the focused role that Government wishes them to undertake. That process has been under way for some time. Our approach to the budget settlement was designed to work out with the respective agencies the resources that would provide the appropriate levels of support to enable them to undertake their functions. We have arrived at the budget settlement as a consequence of those discussions. The difference between the settlements for Scottish Enterprise and Highlands and Islands Enterprise reflects the stages that those organisations have reached in reducing their costs and head count, and the opportunities that exist for them to do that. It is a product of a number of factors of that character.

Rob Gibson: The changes to the organisational structures of Scottish Enterprise and HIE that were brought about after 2007 are probably still bedding in. Do the agencies need to reprofile all the time the money that is available to them? For example, we have heard that the Beechwood project for UHI's headquarters will be phased over several years. Will it not be more difficult for HIE to cope with such reprofiling of its budget over the next three or four years, given that demand for renewable energy projects and so on will rise during that period?

John Swinney: It goes without saying that we are moving into a period in which there will be more demand for programme support and more different projects than we will have the resources to support. That is a product of the changing financial landscape in which we now operate. There will be a challenge in that respect.

We must be mindful of the wider external market with regard to major public sector investments such as the Beechwood campus; that is always the case with such ventures. As I have indicated to the committee previously, the Edinburgh BioQuarter is a first-class initiative that provides a focal point for investment in life sciences and has been well supported over the years by the Government, Scottish Enterprise, NHS Lothian and the City of Edinburgh Council. However, it is undoubtedly facing a big challenge because of the wider market situation, which has affected its ability to attract investment. There will be times when we must test whether it is possible and practical for us to take forward different initiatives, given the prevailing market conditions.

Rob Gibson: We recognise the strictures of the budget settlement, but I wonder whether in future the enterprise agencies could be smarter and think about providing not only grant in aid but loans—the two go together. Has that option been discussed? It would be interesting to see whether people are able to cope more once a project has started and whether loans could be applied. In that way, the people involved in the BioQuarter and the Beechwood project—UHI, the Scottish Agricultural College and others—could pay back some of the start-up costs.

John Swinney: There are undoubtedly opportunities for that. There are also opportunities in a number of areas for us to identify ways in which the agencies can work more effectively to deploy their resources, work with other organisations to maximise the resources that are available and work more collaboratively to ensure that their objectives are achieved.

There are ways in which loan funding can be provided. The Government is putting in place different loan fund arrangements that may help in that respect. There is undoubtedly the potential to do that, and to find ways of ensuring that the resources can have a wider impact and cover a greater canvas.

In response to the question about renewables, I am sure that Mr Gibson is aware that HIE has recently announced funding for renewables projects in the north—in Scrabster, to support renewables developments around the Pentland Firth, and at Lyness, which is on the island of Hoy, if my geography is not letting me down. That builds on the investment over a number of years in the European Marine Energy Centre, which has been very successful.

Rob Gibson: That is very good news for the far north and for Orkney. You mentioned mechanisms in the budget for providing loan structures—are they able to begin this year? Are they on-going, or can we expect them to bring greater benefits starting this year?

John Swinney: Some loan funds and investment funds are available already, and others will be available in the run-up to the next financial year.

Lewis Macdonald (Aberdeen Central) (Lab): Good morning. I begin with Rob Gibson's point that the cuts in the HIE budget seem to be significantly greater this year—again—than the cuts in the Scottish Enterprise budget. In response you said, if I understood you correctly and got your words right, that that was

"a product of a number of factors of that character"

—namely, previous cuts in head count and overheads. Is it fair to say that it was a product of a decision by ministers, not just this year but in previous years, that HIE's Government funding should be cut to a greater extent than the funding for Scottish Enterprise?

John Swinney: Mr Macdonald may recall that for the duration of the period since 2007, and certainly by the time that this Government came to office, there had been a substantial one-off increase in HIE's base budget position—or rather, I should say, in the HIE budget that we inherited rather than the base budget position, because there is a fundamental difference between the two concepts. The budget that we inherited had been inflated by allocations that the previous Administration had made. They were always recognised as unique one-off investments, and any comparison should take account of the difference when the Government came to office.

It is clear that our objective has been to ensure that the budgets of HIE and Scottish Enterprise enable those organisations to fulfil the objectives that the Government seeks from them. As I explained a moment ago, in my response on the investment that HIE has made in the renewables infrastructure, HIE is clearly committed to supporting the renewables infrastructure agenda, as it has consistently done for a number of years.

Lewis Macdonald: Your point about the budget in 2007 is clearly relevant to that year, but the pattern of greater reductions in the HIE budget has continued since then. This year, the level 4 figures that you have provided suggest a real-terms reduction in HIE's budget of 12.6 per cent against 5.6 per cent for Scottish Enterprise—in other words, it is double the reduction.

Our committee adviser's calculations, although they produced different figures, confirmed a much more significant reduction in HIE's real-terms grant in aid this year. That clearly relates not to the position that you inherited three-and-a-half years ago, but to decisions that you have made. I am not saying that you are right or wrong to make those cuts on different scales, but I would like an explanation of why, year on year, HIE's budget has been cut to a greater extent than the budget for Scottish Enterprise.

John Swinney: I am pretty sure that I am correct on this point, but if I am not, I will write to the committee. Part of the explanation for Scottish Enterprise's position is that there was a netting-off of capital acceleration money that will essentially go back into Scottish Enterprise this year. The fact that there had been earlier adjustments in Scottish

Enterprise, to a greater extent than in HIE, accounted for some of the disparity in that position. I will check that detail to ensure that it is correct and get back to you.

Lewis Macdonald: That would be helpful.

You referred to the renewable energy sector. Clearly, the Government's announcement of the national renewables infrastructure fund was significant, but we have had some difficulty in pinning down exactly what funding is involved. Can you confirm whether any new money is involved in that fund for 2011-12?

John Swinney: The national renewables infrastructure fund will be supported out of the budgets of Scottish Enterprise.

Lewis Macdonald: The figures that the Scottish Government provided suggested that, in the first year of that fund—in other words, the year that is covered by the Government's one-year budget—£17 million would be allocated. When Scottish Enterprise gave evidence last week, it said that it had set aside £8.5 million in its business plan. Does that mean that the balance of that will come from somewhere else, or is it possible that all that will be spent in that year is £8.5 million?

John Swinney: It depends entirely on the demand for support under the national renewables infrastructure fund. You will understand, because of your knowledge of the situation with regard to previous funding streams in this area, that, although allocations of funding might have been made, it has not at all times proved possible to support projects up to that value, so there have been underspends in certain areas because it has not been possible to allocate the resources.

Scottish Enterprise has said that it will make a definitive allocation of £8.5 million, with a clear sight of how that might be spent, based on project intelligence. However, it will be in a position, subject to resources being shifted around during the year, to go up to a level of £17 million or—as I believe that it told the committee—£20 million. That addresses the fact that, in this area of activity particularly, we have to be open to the positive projects that emerge in particular areas and the extent to which we can find ways of supporting good projects that emerge, which might stretch the financial envelope that is available.

That is the type of in-year management that goes on in Government across a range of areas, and it also goes on within Scottish Enterprise. That is the approach that has been taken to get us into a position in which good-quality projects can be supported as effectively as possible.

Lewis Macdonald: I agree with the analysis and with the importance of bringing forward port infrastructure projects. However, do you agree that it is unusual for the Government agency that is responsible for the delivery of a programme to set one budget and for the Government to announce that the budget is twice as large as that?

John Swinney: The announcement of the national renewables infrastructure fund was a joint announcement between the Government and Scottish Enterprise. That is the approach that was taken.

Lewis Macdonald: When the First Minister announced that the budget would be £17 million in the first year, that appeared to be an announcement of his, but you are telling me that, in fact—

John Swinney: The announcement was made as a consequence of decisions that were taken by the board of Scottish Enterprise.

Lewis Macdonald: That is helpful. Would it be possible to see the documentation that supports the decision that Scottish Enterprise took?

John Swinney: I am pretty sure that the officials from Scottish Enterprise told the committee last week that the decision was approved at a board meeting on 29 October. I do not have a copy of the *Official Report* of the committee meeting before me, but the points that I have in front of me indicate that the chairman said that the numbers were £17 million, £24 million, £19 million and £10 million.

11:30

Lewis Macdonald: Indeed—the evidence that the chairman gave us reflected the figures that the Scottish Government announced. However, my question was whether the cabinet secretary agreed that it was unusual to have two separate figures put into the public domain—whether jointly by Scottish Enterprise and the Scottish Government, or separately. That seems an unusual approach to publicising a budget allocation.

John Swinney: I would not say so. It gives the opportunity to encourage interest and to encourage applications from good projects.

Lewis Macdonald: That is clearly a desirable objective.

John Swinney: Of course it is.

Lewis Macdonald: However, my question was simply whether it was not an unusual way to approach the matter.

John Swinney: I do not think that it is a particularly unusual practice.

Lewis Macdonald: That is very interesting.

I want to ask about Scottish Enterprise's responsibility for the SMART: Scotland fund. What discussions have you had with Scottish Enterprise about the proposals? You have cut funding for SMART: Scotland by some 25 per cent, if I understand the figures correctly.

John Swinney: The industry and technology grants are the umbrella for SMART: Scotland. We want to integrate, much more effectively than has been the case in the past, the range of financial interventions that can be made available to individual companies that are seeking support from Scottish Enterprise and from the public sector in general. We want to achieve greater efficiency from the drawing together of all those funds. Our objective is to ensure that we can maximise the impact and effectiveness of funds that are clearly at a lower level than the funds that were available in the past.

In the budget, I am keen to achieve—well, it is not that I am keen to achieve this, but we have to achieve it—a situation in which we can ensure that more limited resources can achieve greater outcomes. If we take the view that we will achieve greater outcomes only if we increase the money available, we will not go very far in the budget landscape that faces us over the next few years. We have to draw together the funding streams in a fashion that delivers a greater outcome from a reduced amount of money.

Lewis Macdonald: Nonetheless, the funding for innovation is reduced in the draft budget, as I understand it.

John Swinney: The SMART: Scotland level is £6.7 million, as compared with £8.8 million in the current financial year. We have to ensure closer integration of the points that we can achieve, and we have to deliver the greatest possible outcome from the way in which we deploy resources.

Lewis Macdonald: I understand that Scottish Enterprise will take responsibility for that fund in the new financial year. I think that my committee colleagues were surprised that Scottish Enterprise's evidence to the committee last week did not reflect an understanding of the level of the cut in the fund. The cut did not seem to have been taken into account in SE's budgeting. I therefore repeat my question: have you had discussions with Scottish Enterprise about SMART: Scotland funding?

John Swinney: Not personally, but discussions will have taken place with officials. As Mr Macdonald correctly says, transfer arrangements will be put in place on 1 April. Discussions on that are under way.

Lewis Macdonald: I wonder whether Mr Wilson will confirm that impression of the discussions.

David Wilson (Scottish Government Energy Directorate): I no longer cover that precise area, but the plan is to go ahead with a full transfer of the budget as of 1 April, together with the staffing resource and the capability to deliver grants.

Lewis Macdonald: Thanks.

Gavin Brown (Lothians) (Con): Cabinet secretary, the draft budget document refers to the Scottish Investment Bank. When you gave evidence to the committee before, you said that the bank was already functioning and able to lend over and above the previous Scottish Enterprise funds. Shortly after that, you gave us a written submission to say that that was incorrect but that the bank would be lending by the end of this year. Will it be lending by the end of this year?

John Swinney: With the correction that I made to the committee last time, the remark stands. The Scottish Investment Bank is taking forward activities that include a number of different funds that are currently active. I expect the Scottish loan fund to be fully operational at the start of 2011.

Gavin Brown: Let me clarify that the bank was made up of three funds that were previously held by Scottish Enterprise: the co-investment fund, the seed fund and so on. Will there be any lending before the end of this year over and above the three funds that existed long before the Scottish Investment Bank?

John Swinney: The new element is the Scottish loan fund, which I just referred to and which I expect to be lending at the start of 2011.

Gavin Brown: So no additional funds will be lending by the end of this year, as your previous written correction suggested to us.

John Swinney: I think that what I just said is consistent with my previous written correction—if I have picked up Mr Brown correctly.

Gavin Brown: Your written correction suggested that the additional element—£50 million, I think—would be available before the end of 2010.

John Swinney: My apologies. I expect the new additional element to be in place in early 2011—the start of 2011.

Gavin Brown: By early, do you mean January or February?

John Swinney: January.

Gavin Brown: Okay.

I will move on to something else. Does imposing increased business rates on larger retailers help economic growth?

John Swinney: It is a recognition of the fact that the Government has to explore, as the UK

Government has done, the balance between increasing income and reducing public expenditure. The UK Government has gone through the process of seeking opportunities, and it has taken decisions in both respects.

As Mr Brown will be aware, the Scottish Government has a more limited number of avenues available to increase income. One way in which we can choose to increase income is through non-domestic rates. We have taken the view that, given the performance of the large retail sector in these difficult economic conditions—supermarkets are still performing very well, despite the economic challenges—there is an opportunity to raise additional income as a consequence of the step that we are taking. For that reason, we think that it is an appropriate step to take.

Does that step assist economic growth? If we took that question to its logical conclusion, there would be no business taxation whatsoever. If we say that an additional piece of business taxation—I accept that the retailer levy is additional taxation—is an impediment to economic growth, the logical extension is that any business taxation is an impediment to economic growth.

Gavin Brown: I did not ask whether it was an impediment; I asked whether it would help economic growth.

John Swinney: I do not see it being an obstacle to economic growth.

Gavin Brown: You said that you had done quite a bit of exploratory work on how much the business rate increase would raise. How much will it raise?

John Swinney: I am planning and assuming that it will raise about £30 million in income in 2011-12.

Gavin Brown: You mentioned supermarkets quite a lot in your budget statement and have done so again today. Will the business rate increase apply only to supermarkets? If not, who will be caught by it?

John Swinney: It will be applied at a certain rateable value to retail properties. It is a classification-specific initiative based on a minimum rateable value and will be applied at different levels above that rateable value.

Gavin Brown: If a property were above the rateable value but in town—if it were a department store on Princes Street, for example—would it be caught by this additional tax?

John Swinney: Depending on its rateable value, it could be caught.

Gavin Brown: The narrative talks about supermarkets and out-of-town premises, but any property above a certain rateable value will be caught by this, regardless of location.

John Swinney: Within the retail sector.

Gavin Brown: Only within the retail sector?

John Swinney: Yes.

Gavin Brown: Could Jenners, Debenhams or John Lewis be caught?

John Swinney: It would depend entirely on their rateable value.

Gavin Brown: You expect £30 million to be raised. What will the impact be on an individual business? Will it be an increase of 5p in the business rate poundage that it pays?

John Swinney: It will vary, depending on the rateable value. It will be applied on a scale. I expect shortly to publish the order that will set out the detail of that, which will answer many of the questions that Mr Brown understandably poses. The order will be subject to consideration by Parliament.

Gavin Brown: I appreciate that you are going to publish the order, but you will appreciate that this came out of the blue for many in the business community. They do not feel that there was much, if any, consultation. Can you tell us anything at this stage—as opposed to in due course—about what those bands might be? Can you give us a rough indication of how many pennies in the pound businesses are likely to have to pay?

John Swinney: It will vary. There will be one increase in the poundage at the starting rateable value threshold and then, at different thresholds above that, higher poundage rates will be applied. I expect to set out the detail tomorrow, when I make a statement to Parliament on the local government finance settlement in which much of the detail will be covered.

Gavin Brown: Although you were trying to be helpful, that answer does not provide any additional clarity. Will tomorrow's statement provide clarity?

John Swinney: I will make a statement to Parliament tomorrow on the local government finance settlement, and I will set out the details of the non-domestic rates increase for retailers.

Gavin Brown: With the benefit of hindsight, do you think that you ought to have discussed this with the business community and the sector beforehand, or do you think that it is a better approach to provide surprises to the business community on taxation?

John Swinney: It is certainly not my objective to provide surprises on business taxation. Mr Brown will be familiar with the fact that finance ministers have to change taxation. If they notify organisations in advance of changes in taxation that they intend to make, they often get into trouble for doing that because of the necessity of announcing measures properly to Parliament. That is what I did in the budget statement.

Gavin Brown: In your view, there should be no advance discussion of matters of business taxation before they are announced.

John Swinney: I have discussed taxation matters with business on a regular basis. There is a difference between advance discussion of taxation matters and the announcement of a specific change that will have a financial effect on certain companies. I must be mindful of my responsibilities to announce that properly to Parliament, and I made a judgment that the most appropriate way for me to communicate that to Parliament was in my budget statement.

11:45

Gavin Brown: I take that point. Was there advance discussion with the business community about the increase in taxes? I am being told that there was not, but I am asking you whether there was.

John Swinney: There was no advance discussion on the specific proposition, but I regularly undertake discussions with the business community about its general attitude to business taxation.

Gavin Brown: Again, I take your point, but was there any discussion in advance of the announcement with the business community about increasing business taxation?

John Swinney: Maybe I am not expressing myself clearly enough, but I thought that I answered that a second ago. There was no advance discussion about the specific proposition that was in my budget. However, I have plenty of general discussion with the business community about the issues around business taxation. I took the steps that I did to ensure that I could fulfil my obligation to tell Parliament of a change that I intended to make to taxation that would have an effect on the budget. That was the substance of the statement that I made to Parliament.

Lewis Macdonald: For clarification, are you saying that there will be more than two poundage rates? One will be for retail businesses that lie below the threshold and for businesses that are not in retail. If I understood your answer to Mr Brown, there will be different levels of increased levy above thresholds that will be set out in the order that you will publish in the next few days.

John Swinney: That is correct.

Lewis Macdonald: A few months ago you were telling us that the rates poundage in Scotland was the same as it is in England, but in future there will be not just one additional Scottish rates poundage but a number of different poundage rates for different types and sizes of retail business.

John Swinney: That is correct.

Stuart McMillan (West of Scotland) (SNP): A couple of weeks ago, the committee heard evidence suggesting that the health budget should not be ring fenced and that the small business bonus scheme should be scrapped as it is of dubious value to the Scottish economy. We know from the budget statement that the enterprise, energy and tourism budget is decreasing. What is the rationale for maintaining the health budget while reducing the EET budget?

John Swinney: It is abundantly clear to us all that members of the public want an effective and well-supported health service to be available in all localities. It is equally clear that demands on the health service are increasing as the population lives longer, as health care becomes more sophisticated, and as treatments become available that address long-term conditions and individuals aspire to benefit from those treatments. None of those aspects comes without increasing financial demands.

The Government is acutely aware of the strength of the view within the population that we should have an effective and well-resourced health service. We are also aware of the evidence that demonstrates that the costs of the health service increase beyond what one would normally consider to be a general level of inflation within the economy. Over the past 10 years, the health service has received substantial additional resources at beyond the rate of inflation. That has undoubtedly funded increased capacity and effectiveness, but it has also addressed some of the challenges that come from the demographic issues and the availability of new treatments.

We are now going into a period in which such above-inflation increases will be difficult to deliver. In the draft budget, the Government has proposed an inflation-based increase in the health budget, but it is for a time when the demands on the health service will be increasing significantly. We have taken the view that additional resources are required to assist the health service in dealing with that challenge. Without an increase of that sort, the health service would undoubtedly be challenged in its ability to deliver.

That brings me to the consequence of that decision. If our budget is reducing in cash terms and the health service budget is increasing in cash and real terms, the implication for other areas of the budget is that their resources will have to reduce. That is one of the difficult decisions that I have had to face up to in drafting the budget.

Stuart McMillan: We received evidence a couple of weeks ago on the small business bonus scheme. Do you agree with the comment that the scheme is of dubious value to the Scottish economy? If so, should the investment that is put into the scheme be spent on something else? Perhaps even more money could be put into the health service, or the money could be put into another budget line in the EET budget.

John Swinney: The budget document includes a multiplicity of choices. It is all choices. I accept that they are the Government's choices, and we will set out our rationale for them. There are undoubtedly ways in which money could be spent differently—of course there are. There is no limit to the number of choices.

The Government's view on the small business bonus scheme is that it has been a successful initiative in providing support to the small business community in Scotland and enabling it to address many of the challenges that it faces in the current climate. Of course, we designed the scheme before the current economic climate. It was designed to ensure that the small business community could control more of its resources and shape more of its future. In that respect, it has been successful. It has certainly been warmly received by the small business community. Many small businesses have made the point to me that they are doubtful that they would have been able to survive in operation without that support.

Stuart McMillan: On that point, do you have any figures or estimated figures on how many businesses have survived as a result of the small business bonus scheme?

John Swinney: That is a bit of a hypothetical question. We can certainly provide the committee with the number of businesses that have benefited from the scheme. We have a range of different data indicators, many of which have been published. I think that they were published not so long ago. If the committee would appreciate having that data, I would be delighted to send it on.

Stuart McMillan: I turn to a different area—finance for capital spending as opposed to revenue. It is widely recognised that capital spending plays a significant part in economic growth. What more could or will be done to shift resources from revenue to capital spending? What progress has been made with the use of the NPD model in funding strategic infrastructure?

John Swinney: I have set out a £2.5 billion programme of NPD expenditure as part of the budget settlement, which will enable us to invest in a whole range of transport, health care and educational projects around the country. On transfers from capital to resource, I am holding back £100 million from 2010-11 to be spent in 2011-12, which is split about 50:50 between capital and resource expenditure. My reason for doing that is to supplement the capital resources that will be available in 2011-12, when we will face a very substantial fall in capital spending. That step is designed to provide a greater degree of complementarity between capital budgets this year and next year.

Ms Wendy Alexander (Paisley North) (Lab): In light of the time, I will ask for a couple of things in writing from the cabinet secretary. First, in answer to Lewis Macdonald, he indicated that the NRIF fund was a joint announcement by the Scottish Government and Scottish Enterprise. If he could write enclosing that joint announcement, that would be helpful.

The other, more substantial information that it would be helpful to have relates to the Government's three principal economic agencies: Highlands and Islands Enterprise, Scottish Enterprise and VisitScotland. There has been a lot of discussion about the trend and the cumulative change in their grant in aid from 2007-08 to 2011-12. It would be helpful if the cabinet secretary could write with the cumulative change in the grant in aid, not the total grant in aid, for those agencies. If, in addition, he wishes to provide adjustments for functional changes—for example, the removal of Careers Scotland—or for any exceptional items, that would also be helpful. It is certainly an issue in which the committee has struggled to get accuracy. Hearing from the Government what has been the cumulative reduction in grant in aid for the three principal agencies and what it is after exceptional items and functional changes are deleted would be very helpful.

John Swinney: We can certainly provide that analysis. There will be a lot of traffic in that analysis, because the agencies have undergone a lot of changes—changes in functions, reductions in functions and various other factors. We will certainly provide as clear a narrative as we can. However, I am sure that Wendy Alexander appreciates that we have gone through a reform programme of the enterprise networks, restructured Skills Development Scotland and changed some of the focus of SE, HIE and VisitScotland.

Ms Alexander: I completely understand that.

John Swinney: There is a lot of variability in there, but we will certainly provide as helpful a narrative as we can.

Ms Alexander: Not least because each of the agencies has provided us with its view and it would be unfair not to invite you to take a frank look at that information and see whether it accords with the Government's view.

I turn to a couple of substantive points. The level 4 information was very useful because it indicates that there has been an underspend of more than 25 per cent on the energy budget. Why has that happened? Obviously, it looks as if there has been a cut in the budget. You provided information subsequently to suggest that there is a marginal real-terms rise because the expected spend is less. However, an underspend in energy of in excess of 25 per cent is a big underspend. What is the driver for that?

John Swinney: The point that I will make to Wendy Alexander is similar to the one that I made to either Lewis Macdonald or Rob Gibson—forgive me if I have not got that correct—about the fact that, in some of the energy projects, we make an allocation of money that we wish to spend but whether we do is entirely dependent on propositions coming forward that we consider are supportable. I use the word "supportable" to cover a wide cross-section of assessment that will be made on a variety of considerations, such as whether a project is viable and whether we consider it to be a strong proposition. That set of judgments will be made about individual projects.

12:00

We may find, as we have done before, that it is not always possible for us to spend in some areas because the projects simply do not come forward or do not come forward in sufficient time for us to be able to spend the resources. We have been open on that with this committee and the Finance Committee in relation to the autumn budget revisions and some of the outturn analysis.

That is my explanation of why it can be a challenge to spend some of the energy budget entirely in that area. As we go through the year, we reallocate resources to emerging priorities within financial years based on the performance of individual budget lines. Wendy Alexander will be familiar with that practice.

Ms Alexander: I accept that, but a little more clarity on a 25 per cent underspend in year would be helpful.

David Wilson: The cabinet secretary is right about projects. We found that, within the wave and tidal energy support—WATES—scheme in particular, there were significant challenges to do with the profiling of projects coming forward and changes in the requirements from companies.

I do not recognise the 25 per cent underspend figure that has been referred to. A deliberate choice was made during last year to allocate around £10 million that was set aside in the draft 2010-11 budget for the saltire prize. During the budget development process last year, that was allocated to fund the wave and tidal energy research, development and demonstration support—WATERS—fund, which was the follow-on scheme from the WATES scheme. That money was transferred to Scottish Enterprise and it has been announced and spent. That was not an underspend; it was a deliberate choice. That may or may not be what the member refers to.

Ms Alexander: I will follow up on the matter, because it would be helpful for the committee to be clear. On the evidence that we have from the level 4 information that you provided, the budgeted figure that we have for the energy line from last year's draft budget does not include WATES or WATERS. Therefore, that issue seems to be a red herring. I may be wrong, but those schemes do appear on the energy line.

Last year, the draft budget spend was £43.2 million and the level 4 actual figure with which we have been provided is £31.4 million. It is likely that the £10 million for the saltire prize is included in that and it may be a large part of the explanation. If you would write to us clarifying that, that would helpful. The saltire prize is a reallocation issue; we are trying to get to the actual spend.

If we drill down to the renewable energy line in the draft budget and consider the spend budget to budget as opposed to outturn to budget, the cut is £9 million, which is a halving on the face of it. Indeed, there is a suggestion that it is £11 million. Particularly on a day such as today, some explanation of a 50 per cent cut in the renewable energy budget would be appreciated.

John Swinney: I ask Mr Wilson to deal with that.

David Wilson: I am happy to give the explanation that Ms Alexander asks for. We will provide a full statement—a reconciliation, if you like—of outturn, actual budget and spend.

The trend that we recognise is that some of the reductions that Ms Alexander has identified purely reflect the shift away from funding wave and tidal support, which is a capital spend that the Scottish Government has funded. Increasingly, we have been transferring that money to Scottish Enterprise and, in future, it will spend such support. We will provide further details on that in our further note.

A second point can be made on the comparison between last year's renewable energy budget and this year's. There has been a small change in the budget lines and how we report the information. Some of the spend that was in the renewable energy line—in particular, spending to support the renewables action plan—will come under the low-carbon economy line, which increases by £10 million. Again, we can provide a note on that. The key point to emphasise is that on non-capital energy budgets, the trend is a modest increase. There is a change on capital spend, but on resource spend there is a small increase.

Ms Alexander: The rest of that can be dealt with in correspondence.

May I ask one final final question? It is on a different matter.

The Convener: I am a little confused, because David Wilson said that the money for the WATERS scheme had been transferred from the energy line to Scottish Enterprise. Is that correct? If that money is now administered by Scottish Enterprise, where in Scottish Enterprise's budget does it appear?

David Wilson: I am sorry, but the spend during 2010-11 on the WATERS scheme that is being taken forward by Scottish Enterprise is being transferred from our budget this year—I think that that will be done in the spring budget revision. It is not in the Scottish Enterprise budget for this year yet, but Scottish Enterprise is assuming that it will become part of its budget. There is no transfer into Scottish Enterprise's budget before 2011-12. I apologise if I gave the wrong impression.

If, during the year, we choose to set up specific technological support schemes akin to the WATES and WATERS schemes, they will be part of the overall Scottish Enterprise commitment to energy, which it describes as its number 1 priority over the next few years. Again, we can clarify the detail of that, if required.

The Convener: I just want to clarify that, in effect, the equivalent of £10 million was available for the WATERS scheme in the current financial year. There is no allocation in the budget for that scheme for the next financial year, although some of the money might not have been spent yet.

David Wilson: That is the case.

Ms Alexander: I have a question on a different matter, which returns to what Stuart McMillan asked about.

As it has been the Government's stated position to support the NPD model for capital procurement since 2008, I am curious to know why no NPD schemes are listed on the Government's future deals website, apart from three transport schemes. There is not a single health, education or justice NPD project in the pipeline. Given the procurement times with *Official Journal of the European Union* adverts and the length of time that it takes to come to financial close, why are there no NPD schemes in the future deals pipeline for next year, the year after or the following year? Support for the NPD model has been Government policy for some 30 months, but the pipeline is bare. Clearly, supporting health or education projects could help us to deal with the decline in capital expenditure. Why is there nothing in the pipeline?

John Swinney: Wendy Alexander has a very harsh definition of what is in the pipeline. A number of projects are listed on page 42 of the budget document. The Borders railway project is an NPD project—it is actively under way.

Ms Alexander: I acknowledged that there were three transport NPD projects. I asked why not a single health, education or justice project is listed on the Scottish Government's future deals website, given that NPD has been the Government's preferred procurement model for the past 30 months.

John Swinney: One of the projects that we list in the health sector is

"revenue support to finance projects through the hub initiative".

That is all work that is under way with the Scottish Futures Trust. The different hub network arrangements are in procurement—I think that that is a safe definition of where they are—and there is the work on the transport projects into the bargain.

In addition, the NPD model requires revenue support, and the construction that we have put in place for the NPD programme recognises the fact that revenue support for those projects will be required at a time when our revenue budgets are beginning to recover from the difficulties that will be experienced in the next few years.

If we had taken forward a greater number of revenue-financed initiatives in, say, 2007-08, we would be facing the liability of paying for them now, so we would be facing even greater financial strain in a budget that is already under financial strain because of the reductions in public expenditure that are under way.

I hear what Wendy Alexander is saying, but we have taken a prudent approach to ensure that we can support capital programmes in a fashion that does not undermine our long-term budget.

Ms Alexander: Let me ask two follow-up questions. On the transport projects—which I class as three projects: the Borders railway, the Aberdeen western peripheral route and the three M8 schemes—the Government has pushed the financial close date further out in the last two months. Perhaps you could write to us with an explanation of that, because, for example, until last month the financial close date for the M8 projects was meant to be February 2010. Perhaps you can write to clarify where the deadlines on the transport projects are being pushed further out rather than closer.

If, as you suggest, health and education projects are in procurement at the moment, one has to ask why no health, education or justice projects of any sort appear in planned future deals. If they are in procurement, surely there is an obligation for them to be publicly advertised in the *OJEU*. If they are not yet in procurement, write to us and say so, but if they are in procurement, they should probably be publicly acknowledged in line with process. As I say, write to us if any projects are in process, because there has been nothing in health, education or justice for the last year and there is nothing for the next two years. Given the lead times, I cannot see how you can meet the procurement requirements and get them to financial close any time soon.

John Swinney: I said that I was choosing my words carefully when I said "in procurement". I may not have chosen my words carefully in the sense that Wendy Alexander may be defining "in procurement" with a capital I and a capital P. When I said "in procurement", I meant that the hub arrangements for community infrastructure are in the process of being established. I will give the committee an update on where they are, but I can assure Wendy Alexander that the projects are very well advanced by the Scottish Futures Trust.

Another point about financial close is that one difficulty with the Aberdeen western peripheral route is that we are wrestling with a court case, which is undermining our ability to take forward the project. I deeply regret the fact that we are having to endure that, but it explains why there is a challenge in that respect.

Ms Alexander: Can you explain the challenge on the three associated M8 projects, which were due for financial close last February?

John Swinney: A decision on the three projects is imminent. At question time the other week, Wendy Alexander raised a fair point with the Minister for Transport, Infrastructure and Climate Change about the timescale for resolution of the issue. I concede that she had a more than fair point. The Minister for Transport, Infrastructure and Climate Change and I share that concern and are actively pursuing it within the system.

Ms Alexander: I am grateful for that. I will leave it there.

Nigel Don (North East Scotland) (SNP): Good afternoon, cabinet secretary. I am conscious that I am here as a substitute for Chris Harvie, so I would like to ask the questions that I am sure he would want to ask, but I am also conscious that Marilyn Livingstone is not here. She wears the hat of convener of the cross-party group on construction, and it so happens that I am her deputy on that group, so I would like to pursue an issue that I am sure members recognise that she would have pursued.

As the construction industry has less money to spend—that is where we are going—there will be an ever-greater difficulty in maintaining the skills within the industry, which the industry needs, because you cannot just go back to them if they have disappeared. What is the cabinet secretary doing within the budget process to protect the skills in the construction industry for the better days, that are, I hope, not too far round the corner?

12:15

John Swinney: Nigel Don will be familiar with the apprenticeship support that the Government has in place for those who are involved in the construction sector and other sectors. More than 4,000 individuals have been supported into an apprenticeship through the £1,000 apprenticeship grant. The budget involves the commissioning of more than 30,000 training places as part of the settlement. Obviously, that will be of significance for the construction sector. We have supported more than 3,300 new apprenticeships in the construction and related sectors. I hope that the other measures, such as adopt an apprentice and safeguard an apprentice, will all assist the construction sector.

One of the most important points is about the sector having a decent workload. In the past two years of the economic difficulties, we have tried to put as much public sector activity as possible into construction, recognising that the private housing and property market has experienced a very significant negative impact in the past two years. We are trying to ensure that we sustain public activity while private activity recovers.

Nigel Don: I am sure that Christopher Harvie would have wanted to ask about support for rail freight, which is a subject that is also fairly near to my heart at the moment. Clearly, putting freight on to the railways is good in every sense that one can think of—it reduces the carbon footprint and takes heavy vehicles off our roads. I cannot see why anybody would want to object to that, except, of course, when such vehicles work as additional snow ploughs, which they might be doing at the moment. Will the cabinet secretary give us some thoughts on where we are going with rail freight? There is a perception that the budget line for it might have been cut.

John Swinney: I went through this detail with the Transport, Infrastructure and Climate Change Committee yesterday. In terms of the budget numbers, there is a reduction in the support that is available for the freight sector in Scotland. I do not have all the numbers in front of me today, so Mr

Don will have to forgive me if I do not have all the detail readily to hand—I had it yesterday. On many occasions, although we have had a budget allocation—if my memory serves me right—of about £10 million, we have never been able to spend it on supporting schemes to develop freight activity in Scotland.

The long-term trend of the resources shows that around £2.9 million per annum, which is largely the size of the budget that is available for the forthcoming financial year, will support the schemes that we have in place to encourage various freight development activities. For example, the freight train that I think goes from Eurocentral to Inverness has about 30 wagons every time it goes up the road—or up the rails, I should say, because the point is exactly that it goes up the rails, not the road. It takes 30 lorries off the road and takes them by rail. Such schemes will continue to receive support.

That is my explanation of where the resources have gone. We have had to take a hard look at the performance of individual programme budgets. Although there was £10.3 million in the budget in 2010-11, we were not able to spend it. The resources were reallocated elsewhere. We have a budget of £2.9 million for next year, which we are confident will meet our commitments in that respect.

The Convener: I want to conclude on a technical issue of concern to the committee: our scrutiny of the budget has been severely hampered by the delay in receiving the level 4 figures, which we received only last Thursday, after we had completed our two evidence sessions. Can the cabinet secretary explain why it takes so long to produce the level 4 figures?

John Swinney: I apologise to the committee for the delay in getting that information to you. I will endeavour to ensure that we supply information more timeously. The material is to hand—it is there for budget monitoring purposes—so I can only apologise to the committee and I will endeavour to get it to you more swiftly.

The Convener: With respect, cabinet secretary, you tell us that every year, but it never seems to get any better. It is extremely difficult for the committee to take evidence from the likes of Scottish Enterprise, Highlands and Islands Enterprise and external witnesses in relation to energy spending, for example, if the level 4 figures are not available. Saying that you will try to do better next year is something that we hear every year; it does not seem to get any better.

John Swinney: I will endeavour to ensure that that is resolved, convener.

The Convener: That concludes the evidence on the budget scrutiny. We will suspend for a few moments to allow the cabinet secretary to change his supporting cast before we move to the next item.

12:21

Meeting suspended.

12:25

On resuming—

"Low Carbon Scotland: The Draft Report on Proposals and Policies"

The Convener: I welcome the cabinet secretary back for the next item on the agenda, which concerns "Low Carbon Scotland: The Draft Report on Proposals and Policies". The cabinet secretary is, again, joined by David Wilson. I ask Mr Swinney whether he wishes to make any opening remarks before we open the discussion to questions.

John Swinney: In the interests of time, I will pass on that, although I will make some brief remarks. David Wilson is now here in his proper role. David Fotheringham, who has just joined me, is from our housing and climate change team.

The draft report on proposals and policies has been published. It reflects the Government's ambitions to create a low-carbon society in Scotland and recognises the significance and importance of that. There are clear economic opportunities from Scotland's natural advantage in renewable energy sources, but there are also opportunities for us to pursue an energy efficiency agenda and to contribute to the wider health, welfare and environmental benefits that arise out of the report.

We are co-operating with other Administrations on many of the issues. Indeed, the Minister for Enterprise, Energy and Tourism, Jim Mather, is currently participating in the United Kingdom Government's delegation to the conference of the parties to the United Nations Framework Convention on Climate Change in Cancún dealing with climate change issues.

The RPP is one of a set of documents that set out our comprehensive approach to building a low-carbon economy. We have published our energy efficiency action plan, a low-carbon economic strategy and a draft electricity generation policy statement, and we will publish our public engagement strategy by the end of the year. Those documents provide the approach that the Government is taking to tackling climate change issues.

The Convener: Will the budget, which we discussed earlier, allow the ambitions that are contained in the RPP to be delivered?

John Swinney: The budget and the RPP are complementary. As the committee will be aware, the report contains a range of initiatives and propositions over a long period. The budget is crafted in such a way as to support the direction of travel that the RPP envisages.

The Convener: In its energy efficiency inquiry, the committee explored the suggestion that there would need to be a substantial increase in the budget for energy efficiency measures in domestic premises if we are to achieve the fuel poverty and carbon reduction targets. Two or three years ago, the figures suggested that those policy areas would require £100 million a year. To date, the budget does not reflect that. The amount for energy efficiency does not increase to the level that it is suggested is required to achieve those targets. What is the Government's thinking on those issues?

John Swinney: The Government shares the committee's objective on energy efficiency. Over the past few years, we have put in place additional schemes and initiatives—most, I readily accept, in dialogue with our colleagues in the Green party—about expanding the range of available energy efficiency schemes. In the coming period, we face significant budget challenges, with the available resources reducing.

In all our interventions, we have tried to ensure that we marshall public investment, private sector energy companies' investment and individuals' investment to make as much of an impact as possible on the issues. Undoubtedly, Government expenditure will not be the only expenditure that is critical to achieving our energy efficiency objectives.

12:30

The Convener: To put it slightly more bluntly, will the amount of money that the Government is putting into energy efficiency deliver its energy reduction targets?

John Swinney: That is a difficult question for me to answer because, as I said, it is not only Government activity that will achieve that but private investment, investment by utility companies and the various initiatives that they have. However, the Government is committed to working in that direction to achieve those objectives.

Rob Gibson: You said that you were co-operating with other Governments, including the UK Government. Could it be said that it is co-operating with us? The budget for the enterprise network is around £400 million; the fossil fuel levy for one year would be £191 million. Given that that money is badly needed now, is that not an example of how our activities on the low-carbon economy and renewables are extremely constrained at this critical take-off period?

John Swinney: I would certainly welcome an approach on the fossil fuel levy that made those resources available to us. There is a huge opportunity. With a clear direction through UK accounting regulations, we could make progress.

It is not that more money requires to be found. The problem is normally that we are looking for more money and cannot find it, but that is not the case in this instance. The resources exist and have no consequential impact on demand for public expenditure within the United Kingdom, but we need a different approach to their deployment.

We certainly need a different approach from the one that the UK Government has proposed, because the UK Government's proposal is a displacement approach that requires the Scottish Government to change public spending priorities. We are trying to escape precisely that and to get some additionality out of the fossil fuel levy. That opportunity undoubtedly exists for us, and delivering that approach would be welcome.

Rob Gibson: You talk of lobbying and co-operation. I presume that the Treasury rules have had to be changed to shift the fossil fuel levy money into the green investment bank's working capital.

John Swinney: I do not think that sufficient detail is available on the green investment bank's status to provide a clear answer on that. For example, I do not yet know how the bank will be classified or where it will sit in relation to public expenditure and public borrowing. There are a range of uncertainties around the proposition.

Mr Gibson makes the substantial point that this is the critical moment for investment. Investment is required now to ensure that we sustain our leadership role in renewables. Having timeous access to the resource of the fossil fuel levy would make a significant difference for Scotland.

Rob Gibson: So the implementation of the renewable energy section of the RPP is severely hampered by not having that resource to back up the budget that we are able to afford due to the other cuts.

John Swinney: We certainly could achieve more if we had access to the fossil fuel levy.

Rob Gibson: Is there any likelihood that discussions with the Treasury will clarify matters?

John Swinney: We have asked the Treasury for dialogue on the proposals that have been put together. We will, of course, take that forward. We gave the new Government plenty of time to consider the proposals that we put to it on how to find a way of deploying this expenditure in an additional fashion. In no way can we be criticised for the way in which we handled the issue. As I said, we gave the new Administration plenty of time; we raised the matter privately with it and gave ministers plenty of time to think about it without putting unrealistic timescales in place. Obviously, I hope that we can make more progress, and we will endeavour to do that.

Rob Gibson: We note that the UK Committee on Climate Change is making demands on the UK Government to increase the target range for carbon reduction over the next period of time. Should we take it from that that there is a dichotomy between what the UK Government is doing with regard to the Scottish potential to help and the obvious need for agreements to meet the new and enhanced targets?

John Swinney: Obviously, targets have been set and we are working to achieve them. That reflects the ambitions of the Scottish Government.

Lewis Macdonald: I have a follow-on question to Nigel Don's question on the freight facilities grant. Clearly, the grant is significant in terms of our carbon footprint and transport policy. I think that you told Nigel Don that the £2.9 million that remains in the budget is sufficient to meet existing commitments. Can I take it that there will be no opportunity for any additional businesses to seek support from the freight facilities grant in the forthcoming year?

John Swinney: There will be some capacity to do that, but it will not be extensive.

Lewis Macdonald: Within the budget that has been allocated for next year, what capacity is there beyond the existing commitments?

John Swinney: I do not have that degree of detail in front of me, but I am happy to make it available to the committee.

Lewis Macdonald: The freight facilities grant works not unlike some of the renewable energy funds that we have discussed today. One would imagine—certainly, it is my recollection from previous years—that most of the £2.9 million will be taken up by existing commitments. In that regard, I look forward to hearing the cabinet secretary's clarification on the matter. Does that mean that the Scottish Government has concluded that shifting freight from road to rail will no longer be a significant component of carbon reduction in transport policy terms?

John Swinney: Not at all. In my answer to Nigel Don, I simply made the point that we have struggled to find projects to support. When I was at the Transport, Infrastructure and Climate Change Committee yesterday, Charlie Gordon mentioned feedback from the freight industry that the bureaucracy and approachability of the grant scheme make it difficult to wrestle with. I explained that I suspected that some of that was required, because the area is redolent with state aid issues, therefore there is a requirement for a process to be gone through, however tiresome and irritating people might find it. We have to observe those constraints. I said that, if the freight industry wishes to make representations on those matters, I will be happy to consider them.

Lewis Macdonald: I recall from previous discussions with the freight industry that similar points were made. Does the cabinet secretary conclude that, because the scheme is a bit difficult to access and operate, there is no requirement or benefit in finding an alternative mechanism for encouraging the transfer of freight from road to rail?

John Swinney: I want to reassure Mr Macdonald on the matter. We did not go into this thinking, "How can we construct a scheme that is difficult for people to apply to?" We went into it saying, "How can we encourage people to transfer from road to rail or other mechanisms?" We did that mindful of compliance with state aid requirements. From his ministerial experience, I am sure that Mr Macdonald knows the challenges of state aid issues.

Since 1 April 2007, the capital budget for the freight facilities grant projects has totalled more than £40 million, while the awards of freight facilities grants have totalled less than £8 million. That puts into perspective the challenge that there has been. Resources have been available and have been reallocated to other projects, because we have not been able to get the demand. If I am suddenly inundated with requests from companies with good proposals that are state aid compliant and supportable, and which transfer freight from road to rail, I will be more than happy to search for the additional resources that will be required to address that demand. I do not want in any way to put people off. I am simply saying that, in a tight budget, I have to look at areas where spending programmes are not performing. The intention is not to signal to people that we are not interested—I am hugely interested in such transfer, and the RPP supports it. If we find ourselves in a position in which there is more demand for support, I will willingly address the challenge of how we address that demand.

Lewis Macdonald: Thank you. That is helpful.

The documents that you have produced make a commitment to maintaining the energy assistance package and the home insulation scheme, but they do not indicate how and to what degree that will be done. Do you anticipate that the number of homes that will benefit from energy efficiency measures will be bigger or smaller next year compared with this year?

John Swinney: I know that the committee will be keen to have the details, but a number of issues are still the subject of negotiation, which the Minister for Housing and Communities is taking forward. In a sense, the answer to Mr Macdonald's question lies in the negotiations that Mr Neil is having. With the passage of time, we would be happy to share that information with the committee.

Obviously, I come at the issue from the point of view that we want to maximise the number of houses that are affected by home insulation and energy efficiency measures. We are very keen to do that.

Lewis Macdonald: With whom is Mr Neil negotiating? Is this a matter of allocating resources within Government or negotiating with external parties?

John Swinney: It is about negotiating with external parties.

Lewis Macdonald: In relation to some of the existing energy supply company arrangements that are in place.

John Swinney: That would be a fair guess.

Lewis Macdonald: Thank you very much—that is helpful. In taking the matter further forward, we have talked about the number of homes that are affected. The aspect that is perhaps under Mr Swinney's immediate control is the amount of Scottish Government funding that is made available for these matters. Is Scottish Government funding for domestic energy efficiency set to increase or decrease next year compared with this year?

John Swinney: Again, that is part and parcel of the work that Mr Neil is doing, so I am not in a position to give absolute clarity on that point today. I am sorry that I cannot give more information.

Lewis Macdonald: And that relates to the Scottish Government's contribution as well as to the wider funding packages.

John Swinney: Yes.

Lewis Macdonald: Thank you for that information. I look forward to hearing more on the matter.

On funding for community renewable energy schemes, as I understand the budget figures, the funding for community renewable energy has been reduced and the new low-carbon economy budget line appears to apply only to business and public sector premises. Is that the case? Does that mean that those who seek to install microgeneration or microrenewables of one sort or another will no longer be able to do so with Scottish Government support?

John Swinney: I ask David Wilson to provide a bit of detail on that issue.

David Wilson: We are developing the detail of how we will allocate resources even within the level 4 figures that we have now passed to you. On the community renewables line, there is quite a complex interaction between the grant funding that we provide to implement the community and renewable energy scheme—which we have done over the year—and the new feed-in tariff scheme that the UK Government has introduced, which applies across the board. It is clear that it will not be possible for people to receive grant support alongside the feed-in tariff support from the UK Government, which is revenue collected from consumers more widely, so we are having to change that support. We have a proposal to introduce what is in effect a loans scheme for community renewables, which can be taken forward alongside the feed-in tariff. The amount of money that will go into that will be correspondingly less than we have been used to, but significant support will still be available to communities. Further detail will follow.

12:45

Lewis Macdonald: That sum is not currently in the budget lines or indicated in the documents that you have let us have at this stage.

David Wilson: That money is in the budget lines.

Lewis Macdonald: Is it in the level 4 figures as the renewable energy entry?

David Wilson: Yes.

Lewis Macdonald: Can you confirm that the low-carbon economy line will not be available for either domestic or community purposes? Apparently it relates to business and the public sector.

David Wilson: It is primarily about business and the public sector—technological support and support for industry.

Stuart McMillan: I have a question about energy efficiency. Having stronger building regulations to deal with energy efficiency in the commercial sector would be one tool in the Government's toolbox, but that would deal with future build, as opposed to existing build. The retrofitting of many premises will be a massive undertaking for the private sector.

We heard this morning about the large supermarkets and the rates issue. Can the Scottish Government work with the private sector to come up with schemes to help the large supermarkets, particularly those with large aircraft hanger-style facilities, which are hugely energy demanding? Is there any work between the Government and some of those companies to come up with solutions to improve their energy efficiency?

John Swinney: Those matters are primarily for the individual companies concerned, although I would be surprised if, in this day and age, companies were investing in new plant without taking into account the opportunities for significant improvements in and benefits from energy efficiency. We can certainly provide good and strong advice on energy efficiency. The Sullivan report on building standards from 2007 gave us a pretty dynamic agenda on the question of building standards and future energy requirements. We are pursuing that as part of the Government's approach to developing building standards in Scotland.

Ms Alexander: In the draft RPP, there is, quite reasonably, a reliance on a high level of uptake of home energy efficiency measures. What assumptions have been made about the future take-up of schemes such as the home insulation scheme and the energy assistance package? Are the levels of take-up in the RPP significantly more than recent levels of take-up, on the assumption that people will become familiar with the schemes? You might not have the detail to hand. Perhaps the officials can help.

John Swinney: I am not sure whether David can help. It helps when all your officials are called David—you can just randomly ask one of them to answer. My officials might have that detail, but Wendy Alexander makes an important comment about the point at which householders taking energy efficiency measures becomes routine, rather than exceptional. That fundamentally shapes some of the retrofit issues that Stuart McMillan spoke about. I know from my experience of going through some of this work that significant gains can be made with relatively small investments, but getting around to it is the greater challenge. There is an important point in there.

David Fotheringham (Scottish Government Housing and Regeneration Directorate): The analysis is based on the experience of other schemes, but some of those schemes are at a fairly early stage, so we do not necessarily have definitive information on uptake. Assumptions had to be made about the level of uptake in future years.

Ms Alexander: It would be helpful if you wrote to the committee on that, because the central debate around the RPP is about whether we are relying on policies and proposals. Although in some cases it is reasonable to rely to some extent on proposals, there is an issue about making sure that we do not make hockey-stick assumptions about uptake. Some sense of the magnitude of the uptake would be helpful.

John Swinney: From what David Fotheringham has said, it does not seem to me that any hockey-stick assumptions are being made. There might be something between existing programme assumptions and hockey-stick assumptions that we are not picking up, such as a reasonable assumption about how consumer practices might change over time, which would be worthy of further consideration.

Ms Alexander: On a related matter, what sort of territory are we in about assumptions for the rate of compliance with new building standards over the RPP's time horizon?

I have one other question. It has now become clear that the UK Government's green deal is not expected to be available until 2013, which means a two-year hiatus. The cabinet secretary might be aware that the Energy Saving Trust Scotland conducted a pilot scheme in Scotland on home loans, and that loans are to be the centrepiece of the green deal. The principle of the pilot scheme was that householders should have a loan so that they can invest. An evaluation of that pilot scheme was due out last August. There is real interest in seeing that evaluation. Is there a likely date for it to be published?

David Fotheringham: I am not aware of a specific date, but it is intended to be produced soon. We can write to you with the detail of that.

Ms Alexander: That would be great.

I have one final point. As a result of the Office of Gas and Electricity Markets probe, Consumer Focus Scotland and others are now saying that we are facing the highest levels of fuel poverty in Scotland that we have ever seen, and we face a huge challenge in meeting the 2016 target. I will spare the cabinet secretary having to tell us whether we will meet the 2016 target. However, in light of that, clarity in the budget process around the total sums of money that are being spent on the energy assistance package and the home insulation scheme would be helpful, simply so that committees can fulfil their proper role. That seems to be the sort of territory in which committees could make amendments. I understand that negotiations are on-going, but it would be helpful to have some sense of the sums of money that are allocated to those initiatives in advance of the final budget negotiation.

John Swinney: I entirely accept that, and I am not trying to be difficult in any way, but a process is under way and I cannot provide the clarity that you seek because I do not have it to offer. I will certainly relay your points to Alex Neil so that we can help the committee.

Ms Alexander: That would be helpful. Three committees have a finger in that pie. It is an issue of growing concern, not least because of the weather. Having clarity by Christmas would allow us to reflect on the situation.

The Convener: We need clarity for our Christmas pie.

Nigel Don: I want to pursue energy generation, particularly microrenewables, rather than energy efficiency. My question is less about money than it is about the system working. The cabinet secretary will be well aware that microrenewables not only use a free primary source but increase the resilience of the electricity system and reduce the need for investment in the distribution system, so we win on every count.

The whole system requires planning permission, quality assurance schemes, financial support, technical skills and probably a few other things that I have forgotten about. However, that is enough to tell me that we need to think about the whole system for getting the country into microrenewables. Can you reassure me that your department is thinking not just about sums of money for this and that but about how we are going to make the whole thing work?

John Swinney: Actually, it is markedly less to do with money and more to do with process. We have certainly looked at a number of questions on microrenewables. To say that the thinking on microrenewables is divided is to understate the conflict that exists around some of the questions. However, we have tried to simplify and clarify matters. As members will be aware, we have taken that approach with the planning system in general. I want to keep the issues under constant review because, to go back to Wendy Alexander's point, as public attitudes about energy efficiency and microgeneration change, we must ensure that we do not have a regulatory system that is an obstacle to people doing their bit for the process. I am keen to avoid that if at all possible.

Nigel Don: I agree that we must not have a regulatory system that gets in the way—that would be the worst possible thing—but the cabinet secretary will be aware that we need, for example, a good manufacturer of small wind turbines. If that is what we want—and I am not suggesting that it is the only thing—we need to have supply. We certainly need permitted development rights, but we also need to ensure that we have quality assurance one way or another for installers, so that the man or woman in the street can buy equipment, have it installed and know that it is going to work and that they will get their investment back.

John Swinney: That all fits together in a culture of enablement, in which people are not put off by their first encounter with microgeneration because it looks too hard. Wendy Alexander made the completely fair point that public attitudes are changing: people are more engaged in these subjects and want to do more. We will have to ensure that members of the public do not find the process too difficult and obstructive, with too many hurdles, because that would undermine their enthusiasm for contributing.

The Convener: I can say from personal experience that there are minefields in that system.

As no other members have questions, I will pick up on one of my pet issues, which is district heating and combined heat and power schemes. Can you expand on what the Government is doing to get more joined-up thinking within government? For example, when looking at things such as the hub project, is the Scottish Futures Trust investigating whether there are opportunities to develop district heating or CHP schemes?

John Swinney: Part of the challenge with low-carbon activity and the RPP—it comes into budget scrutiny as well—is to ensure that we encourage budget holders not to think simply that unless there is a budget for district heating schemes, nobody should think about them. There are plenty of opportunities in the construction and development sectors to pursue some of the objectives. I assure you that those items are very much on the agenda as part of the guidance on delivering more sustainability in energy generation that the Government issues across its various areas of interest.

David Wilson: I will add briefly to that. One of the key parts of the energy budget that we discussed earlier is the specific funding to the Energy Saving Trust and the Carbon Trust. Through a wide range of mechanisms, they provide significant support to organisations and individuals and actively encourage them to come forward with particular types of renewables generation.

The Convener: That concludes our questioning on the RPP. I thank the cabinet secretary and his officials for their attendance. Given your difficulty in getting here, cabinet secretary, I am sure that you will want to have a quick word with the Minister for Transport, Infrastructure and Climate Change before his statement this afternoon.

John Swinney: Surely. We have been talking.

The Convener: Before I close the public part of the meeting, I inform members that next week we will take evidence from George Mathewson and Professor Hughes Hallett on the annual report of the Council of Economic Advisers and consider our draft reports on the draft budget scrutiny and the RPP.

13:00

Meeting continued in private until 13:21.

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