Economy and Fair Work Committee
Wednesday 21 January 2025
3rd Meeting, 2026 (Session 6)

Scottish Government Budget 2026/27
Note by the Clerk

Background

1. The Committee will consider the Scottish Government's response to its pre-budget letter and take evidence on the Scottish Government's budget for 2026/27 published on 13 January.

2. The Finance and Public Administration Committee-led conveners' debate is scheduled for Wednesday 21 January, with a broad theme of fiscal sustainability. The stage 1 debate on the Bill is yet to be scheduled.

Pre-budget scrutiny

3. To inform its pre-budget letter, the Committee held evidence sessions with Scottish Enterprise, Highlands and Islands Enterprise, and South of Scotland Enterprise on 17 September and from SNIB on 24 September. The Committee also held the hospitality and tourism sectors.

4. On 7 November 2025, the Committee wrote to the Deputy First Minister and Cabinet Secretary for Economy and Gaelic with its pre-budget views. The letter is included at **Annexe A**. The Deputy First Minister and Cabinet Secretary for Economy and Gaelic's response to the Committee's letter is included at **Annexe B**.

Witnesses

5. Today, the Committee will hear from—

   - Kate Forbes, Deputy First Minister and Cabinet Secretary for Economy and Gaelic;
   - Colin Cook, Director of Economic Development;
   - Aidan Grisewood, Director of Jobs and Wellbeing Economy; and
   - Kathleen Swift, Head of Director General Economy Finance Unit, Scottish Government.

Clerks to the Committee
January 2026

The Scottish Parliament
Pàrlamaid na h-Alba

Economy and Fair Work Committee

Kate Forbes MSP
Deputy First Minister and
Cabinet Secretary for Economy and Gaelic
Scottish Government

7 November 2025

Dear Kate

Pre budget 2026/27 Views

In anticipation of the Scottish Government budget, now due on 13 January, this letter sets out the Committee's views on spending and funding priorities and the key points from evidence that informed our views.

Growing the economy remains one of the Scottish Government's stated four overarching priorities alongside tackling the climate emergency. This Committee's spending priorities remain **supporting business**, **women's enterprise** and **workforce skills development.** Aligning the Scottish budget with these spending priorities will contribute to the conditions that support economic growth.

Last year, the Committee highlighted two key delivery barriers; the lack of multi-year funding and the need for housing to support jobs. This year, the Committee adds two further potential barriers; pace and consistency of digital upskilling and progress in adapting to new sustainable technologies. The Committee has commenced a short piece of work to consider the economic opportunities of AI for business in Scotland. This work is intended to inform the Scottish Government's work.

As the budget is finalised and anticipation of the Scottish Spending Review and updated Infrastructure Investment Plan, I trust this letter is helpful. The Committee looks forward to your response and then attendance to give evidence in the New Year.

Yours sincerely,

Daniel Johnson MSP
Convener

Contact: Economy and Fair Work Committee, The Scottish Parliament, Edinburgh, EH99 1SP. Email: economyandfairwork.committee@parliament.scot. We welcome calls through Relay UK and in BSL through Contact Scotland BSL.

Context

The aim of the Scottish Government's ten-year economic strategy (NSET) is to achieve a step change in Scotland's economic performance. The Scottish Government budget – equivalent to nearly 30% of onshore GDP - is one of the primary levers it can pull to deliver this.

Throughout 2025, Scotland's economic performance has been mixed. GDP growth has slowed overall, but this conceals varying performance by different sectors. The services and construction sectors have grown at their fastest pace since 2022, but manufacturing output has contracted. Nevertheless, the Committee is pleased that business optimism has increased, earnings growth continues to outpace inflation, and Scotland remains the UK's top destination for inward investment outside London.

The Cabinet Secretary for Economy and Gaelic's portfolio budget (£1.3bn in 2025-26) is one of the more capital-intensive. Amongst other things, it funds City Region and Growth Deals, Scotland's enterprise agencies and capitalising the Scottish National Investment Bank.

The UK Government's Autumn budget will take place later this month from which there are likely to be UK-wide changes that affect Scottish business. Scotland's Barnett consequentials will be confirmed after the UK budget.

The 2025/26 budget for the economic development agencies was:

£ million	Resource budget	Capital budget
SNIB	-	200.0
Scottish Enterprise	132.4	90.1
Highland and Islands Enterprise	28.0	25.2
South of Scotland Enterprise	14.4	14.1
VisitScotland	38.8	2.3

Evidence sessions

This Autumn, the Committee took evidence from the Scottish National Investment Bank (SNIB), the enterprise agencies and VisitScotland. These are the key public spending bodies this Committee has responsibility for scrutinising. Earlier this year, the Committee held evidence sessions on Scotland's skills development landscape and on productivity and regional inequalities.

SNIB has a funding commitment from the Scottish Government of £2bn over 10 years. Its three missions, set by the Scottish Government, are net zero, place-based development and innovation. These focus SNIB's activities and investment strategy intended to create inclusive, long-term economic growth. SNIB told the Committee that investment in housing was an important element of its place-based mission, it had investor interest in housing across multiple tenures and is working on a number of initiatives.

Key points from SNIB's most recent accounts are that income has increased to £34.5m, more than double its operating costs, £785m in investments has been made since its launch in 2020, crowding in £1.4b from partners, £145.1m was committed during 2024/25 (down 35.4% compared to 2023/24). SNIB recorded an unrealised loss of £76.9m due to the drop in value of investments held. SNIB’s current leverage ratio is 1:1.75, a figure it hopes to improve on with increased focus on work with institutional investors, including local government pension schemes. The Committee notes that SNIB, in contrast to the National Wealth Fund, is not permitted to invest into, or alongside, local authorities. Instead, it is creating joint venture companies with the private sector and local authorities.

SNIB’s investment portfolio now consists of 43 businesses, however distribution of investment funding remains concentrated in the central belt. This raises questions about regional equity. The Committee also notes that female-led companies only receive a small share of the investment funds available; 4.2% of available investment in 2024. The Committee is pleased that SNIB has a good pipeline of investment opportunities however SNIB told the Committee it has seen evidence of a “significant sliding rightwards” in economic activity related to net zero and a lack of co-investor appetite, due to concerns around broader growth and stability.

SNIB’s recent Financial Conduct Authority accreditation is welcome, however SNIB remains reliant on capital received from the Scottish Government. To enable it to raise third party capital, beyond receiving FCA accreditation, it requires a track record. Related to that, is the aim of becoming a perpetual capital institution. As regularly noted, UK Treasury rules prevent SNIB from retaining and re-investing its investment returns or carrying forward unspent capital, but SNIB does now have some flexibility to manage investments at year end. This is to £25m, from the Scottish Reserve.

Parliament’s intention was for SNIB to function as a perpetual fund, however public capital funding will continue to be required until the UK Treasury restriction is resolved. SNIB is now on a working group with HMT representatives with a view to demonstrating compliance with new public finance institution framework criteria. But the Committee is disappointed that there has been little progress on perpetual fund status, since this time last year. The Committee will write to HM Treasury about this.

Enterprise agencies

Budgets for Scotland’s enterprise agencies have reduced over the last two cycles. This has meant reduced spending power, a need to be more efficient and a greater reliance on other sources of income. The context is the public service reform agenda which requires public bodies, including enterprise agencies, to find efficiency savings, share more back-office functions, exercise pay restraint and reduce their workforces. The Committee welcomes this as having prompted a refocus of enterprise agencies’ priorities to better align operations with NSET economic objectives. Scottish Enterprise (SE) stated that it now focuses on activities that will accelerate the energy transition, scale innovation and boost capital investment. SE also leads the Grangemouth Investment Taskforce on behalf of the Scottish Government, UK Government, Office for Investment, SNIB and the National Wealth Fund.

At the time of last year’s pre-budget letter, the Committee sought a progress report from the Scottish Government on improving inter-agency collaboration on common functions and reforming the delivery of economic development support. In your response of December, you advised that an exercise was underway to understand the systems landscape in each organisation and the potential for moving towards more shared systems. During the recent evidence session with SE, the Committee asked again about shared services. SE mentioned existing information systems and a shared audit service, but the Committee was surprised that no further areas had been identified.

Also last year, you advised that the Scottish Government was developing a comprehensive programme to align economic development infrastructure and support mechanisms with best practices from leading European economies. The priorities identified for this work were the design of an efficient and streamlined model for business support, more focus on strategic priorities and measurable returns on investment, revenue-raising reform and structural reform to clarify the roles of different partners and ensure better co-ordination. The Committee is keen to understand the stage that programme is at now.

The Committee asked SE what the distinction is between its work and that of SNIB. SE advised that it provides early-stage support that can create a pipeline of investments that go on to access SNIB or other funding. SE stated that it provides support to companies to trade internationally whereas SNIB is focussed on scale-up funding.

The Committee also questioned SE about the sectors and types of business that feel unable to access SE support. For example, Ceteris which runs the Business Gateway contract for Clackmannanshire, has expressed frustration that some small successful businesses that have outgrown Business Gateway have not been able to secure SE support. In response, SE said it supported companies that are innovating, scaling and growing internationally but, as a national economic development agency, it does not look to replicate its function across Scotland, although it works with regional partners. SE pointed to the business support portal where, in its view, there is plenty of available support. The Committee is concerned that there may be a gap in the business support available from SE, SNIB and Business Gateway.

The Committee asked all the enterprise agencies about their impact, value for money and additionality. In particular, the Committee questioned HIE’s statement that it had achieved an average increase in productivity of 54 per cent. The Committee noted that most of the enterprise agencies’ headline performance targets had been met or exceeded, although SOSE missed 2024-25 performance targets on some key measures such as value of funding leveraged, value of inward investment opportunities secured, and number of jobs supported. SOSE advised this was due to targets having been set from a low evidence base and that these had since been reviewed. The Committee was advised that work is underway on shared metrics as it had been accepted that there were some anomalies and large inward investments / projects had skewed the stats. The Committee is of the view that there remain questions about how enterprise agency targets are being set, how appropriate they are and the process whereby performance is measured and reviewed, including those relating to value added and additionality.

Tourism and Hospitality

The Committee also recently took evidence from industry leaders in the hospitality and tourism sectors. The Committee recognises that Scotland's tourism sector is key due to the economic activity generated and the number of jobs supported. Those sectors have the potential to deliver increased productivity and growth. The Committee welcomes that in Q1 2025, Scotland saw an increase in trips, number of nights and spend by people visiting Scotland, compared to the same period in 2024.

However, business concerns about the introduction of the visitor levy cannot be ignored. The Committee has written to the Minister for Public Finance emphasising the importance for the tourism and hospitality sectors of clarity on plans for the levy and timescales for next steps. The Committee awaits the Minister's response.

Women's Enterprise

This Committee regularly asks about the availability of gender-disaggregated data on women's business activity. In December 2022, the then Deputy First Minister said he expected Ana Stewart's review to make recommendations on the collection and reporting of gender-disaggregated data on women's activities in business and access to and uptake of finance and business support. Next steps were to be considered once the review had published.

The Pathways review report did make recommendations about data collection. It recommended that a disaggregated common database should be made accessible to stakeholders within the entrepreneurial ecosystem. The database should combine both public and private sector entrepreneurship/ start-up statistics and be capable of disaggregating data, at least by gender and ethnicity dimensions. The review also recommended that there should be a requirement for organisations receiving financial assistance, and those in co-participation arrangements involving public money, to make data available to this platform. The review also concluded that the Scottish Government should publish an annual analysis of entrepreneurship participation trends, disaggregated by gender and ethnicity dimensions.

In response, the Scottish Government said it would work with delivery and academic partners to improve data collection and develop a dashboard of measures to show how women were supported by business support systems, the actions taken to close the gender gap and to widen participation in entrepreneurship. The Committee notes that the envisaged disaggregated data is still not publicly available.

Workforce Skills development

Concerns about Scotland's skills pipeline and the reduction in workplace learning have featured in much of this Committee's inquiry work. Earlier this year, the Committee took evidence over five meetings from employers and stakeholders to consider progress since the Withers Review and further actions needed to meet industry demand for skills in Scotland, including green skills. Following this, the Committee wrote to the Minister for Higher and Further Education.

Amongst other things, the Committee asked what actions were being taken to improve provision for older learners to retrain, to address concerns about capacity and flexibility of colleges and others to respond to business need and to make it easier for SMEs to take on more apprentices, for example using a shared apprenticeship model. The Committee also asked the Scottish Government how it would ensure that industry and employers continued to be central to the apprenticeship system. The Committee emphasised that despite significant demand for skills, spending by employers had reduced and it was vital that there should be effective action from both the Scottish Government and employers to reverse this trend.

During the Committee’s recent evidence session with you, we were pleased to hear that SDS has recently produced a regionally based, industry-led audit of future skills requirements. At the time of writing, the Committee notes this is still to be launched. The Committee seeks your assurance that investment in employability support and skills development will be demonstrably prioritised in the next budget.

Just Transition Fund

The government has committed £500 million over ten years for the North East and Moray. Previously, the Committee called for this to be a mix of revenue and capital funding to support capacity-building in communities. The Committee notes the independent evaluation of the Fund published in July 2025. The evaluation found that over the first two years of the Fund, £43m had been disbursed and a further £30m private sector funding had been leveraged. The Fund had helped create 110 jobs and safeguard 120 – around £187,000 per job created or safeguarded.

Many projects supported by the Fund are early stage and long-term. The evaluation made 16 recommendations, centred around four themes: strengthening the Fund’s administration and disbursement, expanding community and social engagement, supporting workforce transition and skills development and advancing environmental and economic diversification.

These recommendations align with those of the Committee in its report on a Just Transition Inquiry for the North East and Moray. Our recommendations included multi-year funding cycles, clearer and measurable outcomes for the Fund and increased support for community-led initiatives. The Committee seeks confirmation of how the Scottish budget will reflect these.

Consumer Scotland

The Committee recently held a scrutiny session with Consumer Scotland and was disappointed that the 2024-25 annual report had not yet been published. The Committee has requested further information from Consumer Scotland on its activities, performance and impact. The Committee is unclear about Consumer Scotland’s focus, what its intended outcomes are and how these are being communicated.

Committee conclusions and recommendations

The Committee notes that little progress has been made towards the objective of SNIB being able to recycle capital as a perpetual fund and as a result SNIB remains wholly reliant on Scottish Government capital funding. What recent discussions has the Scottish Government had with HM Treasury about this?

The Committee notes the capital funding received by SNIB and its current leverage ratio. Looking ahead, the Committee would like to see clear evidence of SNIB's leverage ratio increasing.

The Committee notes that SNIB is keen to work on joint development with local authority pension funds, an example of this could be in the delivery of housing. The Committee recommends that efforts to explore this be accelerated.

The Committee would be grateful for confirmation of the Scottish Government's continued commitment to £200bn over ten years capitalisation of SNIB and that the budget for 2026/27 will include a further £200m.

The Committee acknowledges the enterprise agencies' positive contribution to Scotland's economic development. Nevertheless, the Committee is of the view that there are gaps in the provision of business support, particularly for businesses looking to scale-up.

The Committee has a longstanding interest in scrutinising the outcomes that the enterprise agencies deliver in return for the around £300m of annual funding received. The Committee believes that more should be done to ensure performance targets have a clear rationale, that outcome measures provide stronger evidence of additionality and are subject to greater independent scrutiny. The Committee seeks assurance on how the enterprise agencies ensure the outcomes they deliver are additional.

Improving the economy's productivity performance is one of Scottish Enterprise's missions and the Committee notes that it is using AI to find companies it has not worked with but that have the potential to increase productivity. The Committee asked for more information from SE on this and their criteria for businesses receiving funding to improve their productivity.

The Committee asks the Scottish Government for an update on how the Pathways review recommendations are being implemented and asks the Scottish Government to set out how the budget will facilitate this. The Committee notes that the disaggregated data envisaged in the review is not yet available.

The Committee seeks your assurance that investment in employability support and skills development will be demonstrably prioritised in the next budget.

On the Just Transition Fund, the Committee asks the Scottish Government what the Fund's expected outcomes are and how the Fund fits with the wider strategy for North East and Moray's transition to net zero. Considering last

year's budget allocation of £16m, the Committee seeks confirmation that the Scottish Government's commitment to £500m over 10 years for the Just Transition Fund still stands.

Finally, as already noted, the budget is one of the primary Scottish Government levers it can pull to deliver NSET, the ten-year economic strategy and bring about a step change in Scotland's economic performance. The Committee draws the Scottish Government's attention to the evidence it took in May from the IFS, the Resolution Foundation and the Productivity Institute. The Committee was told that NSET could be clearer on what was being prioritised, it could have a clearer regional focus and metrics were described as "disparate". Two omissions, within devolved competency, from NSET were noted; a focus on intermediate skills (specifically whether the acquisition of skills by those between high school and university levels was being addressed) and how the Scottish Government's tax policy supports NSET. The Scottish Government is asked to respond to these observations.

Deputy First Minister and Cabinet Secretary for Economy and Gaelic
Leas Phrìomh Mhinistear agus Rùnaire a' Chaibineit airson Eaconamaidh agus Gàidhlig
Kate Forbes MSP
Ceit Fhoirbheis BPA

T: 0300 244 4000
E: scottish.ministers@gov.scot

Scottish Government
Riaghaltas na h-Alba
gov.scot

Daniel Johnson MSP
Convener - Economy and Fair Work Committee
The Scottish Parliament,
Edinburgh,
EH99 1SP

14 January 2026

Dear Convener,

ECONOMY AND FAIR WORK COMMITTEE PRE-BUDGET SCRUTINY 2026-27 VIEWS

Thank you for the Committee's letter dated 7 November 2025 to share your views and priorities for the Scottish Budget 2026-27 and the Spending Review Period, as well as the evidence which had informed your recommendations.

In that letter, you set out the evidence you received and highlighted key issues for the coming financial year. I note your priorities remain focused on supporting business, women's enterprise, and skills development.

You also shared your views on the barriers to delivery represented by the pace of digital upskilling and the adoption of new technologies, as well as your longstanding concerns about the uncertainty of multi-year funding and the supply of housing to support jobs.

I am pleased to say that this year's budget for Enterprise, Innovation and Entrepreneurship will enable us to deliver the next phase of our plan to ensure that Scotland is recognised as a rapidly growing start-up economy. This will include continuing support for our Pathways programme that aims to widen participation in entrepreneurship and expand the number of women starting and scaling businesses. I also anticipate that through our Enterprise agencies and along with our Chief Entrepreneur Ana Stewart, we will strengthen the support we provide for businesses that have the potential and ambition to scale their operations in Scotland.

We are continuing our investment of £90 million per year throughout the spending review period in devolved employability services, which will enable Local Employability Partnerships to continue to support people experiencing barriers to employment to move towards and into sustainable, fair work. We are also capitalising the Scottish National Investment Bank with £800 million over the spending review period to help raise our productivity and economic resilience.

Please find within the Annex to this letter responses to the questions and requests for information raised within your report. I trust you will find this information useful.

I look forward to engaging with you further when I give evidence before the committee next week.

Yours sincerely,

KATE FORBES

ANNEX

1. **The Committee notes that little progress has been made towards the objective of SNIB being able to recycle capital as a perpetual fund and as a result SNIB remains wholly reliant on Scottish Government capital funding. What recent discussions has the Scottish Government had with HM Treasury about this?**

Scottish Ministers have had a number of engagements with HM Treasury regarding the level and sustainability of future Financial Transactions budgets and about the possible implications of recent changes to the investment landscape at the UK level, which may have implications for Scottish Government's funding arrangements and the Bank. This includes meetings of the Joint Exchequer Committee and the Finance: Interministerial Standing Committee.

It remains the Scottish Government's ambition for the Scottish National Investment Bank to operate like a perpetual investment fund. As the Bank is classified as a non-departmental public body it is subject to the UK public finance rules which include restrictions on the retention and recycling of investment returns. However, the Bank is able to reinvest income from investments within its budget allocation for that financial year, subject to the agreement of the Scottish Government.

Scottish Ministers have also made exceptional arrangements to support the Bank further, ensuring that up to £25m of unutilised capital can be carried forward for investment in the subsequent financial year. While Ministers are committed to exploring options to go further, the size of the Reserve, how it can be used, and the tight fiscal position must be taken into account.

2. **The Committee notes the capital funding received by SNIB and its current leverage ratio. Looking ahead, the Committee would like to see clear evidence of SNIB's leverage ratio increasing.**

The Bank's investments have already crowded in over £1.4bn of third-party co-investment.

The Bank has been set three missions, which are:

- *Net zero: Address the climate crisis through growing a fair and sustainable economy.*
- *Place: Transform communities, making them places where everyone thrives.*
- *Innovation: Scale up innovation and technology, for a more competitive and productive economy.*

While the amounts crowded in by each investment will vary according to its respective nature, the Bank does anticipate improvement of its overall crowd in ratio over time as the businesses and projects in its portfolio mature and raise additional private capital in the market.

Announcements of further private investment in gigabit broadband provider HBN by AlphaReal Capital and in vessel operator North Star Renewables by a range of strategic private sector investors are all illustrative of this process.

The Bank has also been working to deepen and strengthen its relationships with a range of strategic and institutional investors, with the potential to develop further co-investment opportunities.

3. **The Committee notes that SNIB is keen to work on joint development with local authority pension funds, an example of this could be in the delivery of housing. The Committee recommends that efforts to explore this be accelerated.**

As set out above, the Bank has been working to deepen and strengthen its relationships with institutional investors. As the Committee would anticipate this includes local authority pension funds. The Bank has already invested alongside pension funds, including local authority pension funds, on a number of occasions. For instance, the Bank invested alongside the Strathclyde Pension Fund to launch a new Par Equity venture fund to boost innovative technology companies.

The management of its relationships with other investors is an operational matter for the Bank and they will be able to provide further updates to the Committee in due course.

4. **The Committee would be grateful for confirmation of the Scottish Government's continued commitment to £200bn [sic] over ten years capitalisation of SNIB and that the budget for 2026/27 will include a further £200m.**

Ministers are fully committed to providing the Bank with £2bn of capitalisation over ten years. The Bank recently celebrated its 5-year anniversary and has committed more than £990m of capital.

The Scottish Government budget and the spending review which were published today include a multi-year allocation for the Bank.

5. **The Committee acknowledges the enterprise agencies' positive contribution to Scotland's economic development. Nevertheless, the Committee is of the view that there are gaps in the provision of business support, particularly for businesses looking to scale-up.**

To help accelerate support for businesses looking to scale-up, Scottish Enterprise (SE) is developing and delivering tailored pathways, advisory services, bespoke funding package and targeted investments in infrastructure. This includes the development of an International Scale Up Service aimed at innovation-driven companies with scaling potential. This service will offer support to help scale-ups to: build and upskill their senior teams; secure investment; maximise product and service development for revenue growth; and develop robust go-to-market strategies.

Highlands and Islands Enterprise (HIE) is committed to helping businesses across the Highlands and Islands to grow and scale, through a range of interventions. It provides grants and loans for capital asset investment and works with partners to lever in other funding into businesses. It also offers various programmes and advice services to support leaders in pre-scale and scaling businesses to develop their skills in entrepreneurship, leadership, and workplace innovation. Through its innovation programme, it supports businesses to scale up through new product development, investment in new R&D, digital technology and advanced manufacturing technologies. HIE also provides various types of business accommodation, from high quality office space to light industrial units.

One of the additional steps taken by South of Scotland Enterprise (SOSE) is the introduction of specialist high growth/scale-up coaches who have themselves founded businesses and are able to share their experience of scaling up. This focused support is contributing to the growth and success of high-potential companies in the South of Scotland.

Ana Stewart has announced that her priorities as Chief Entrepreneur will focus on support for scaling firms and we are committed to working with the wider ecosystem to make Scotland a leading scale-up nation. This includes multi-year funding for Scottish EDGE and the launch of the Scottish Entrepreneurial platform, powered by Dealroom. We will also look to build on the insights provided by the 'Scaling Scotland' report, produced by Shane Corstorphine.

6. **The Committee has a longstanding interest in scrutinising the outcomes that the enterprise agencies deliver in return for the around £300m of annual funding received. The Committee believes that more should be done to ensure performance targets have a clear rationale, that outcome measures provide stronger evidence of additionality and are subject to greater independent scrutiny. The Committee seeks assurance on how the enterprise agencies ensure the outcomes they deliver are additional.**

The enterprise agencies' performance measures and targets are aligned with Scottish Government priorities and expectations, as set out in their annual letters of strategic guidance, and included in their corporate plans. In setting targets, the agencies take into account their performance in previous years and the factors that contributed to this, as well as the strength of their pipeline of opportunities. The agencies' Boards approve their targets for the year and ensure that they are sufficiently ambitious. The agencies are currently working with the Scottish Government to develop a set of common performance measures.

Additionality is factored into the impact modelling developed by each of the agencies. HIE and SOSE use a "base case" approach, comparing the position without agency support with the forecast position with agency support. SE records additional / safeguarded outcomes that are a result of the support it provides. The assessment of additionality is informed by follow-up engagement with businesses, regular internal monitoring and programme evaluations.

7. **Improving the economy's productivity performance is one of Scottish Enterprise's missions and the Committee notes that it is using AI to find companies it has not worked with but that have the potential to increase productivity. The Committee asked for more information from SE on this and their criteria for businesses receiving funding to improve their productivity.**

SE has analysed trends in company performance to identify businesses in Scotland which have potential to contribute to a step change in productivity at a national level. It is using AI to identify options to support the future growth of those businesses, and to inform development of tailored products and services to help them improve their productivity further.

Businesses seeking funding from SE to improve their productivity must demonstrate their potential to: deliver measurable improvements in their productivity; generate capital investment in new equipment, facilities, new products, or technology adoption; and support jobs that are at, or moving to, sector median or above. This approach ensures that SE maximises its impact by targeting businesses which can absorb capital investment at scale and contribute to increasing wage levels for employees.

8. **The Committee asks the Scottish Government for an update on how the Pathways review recommendations are being implemented and asks the Scottish Government to set out how the budget will facilitate this. The Committee notes that the disaggregated data envisaged in the review is not yet available.**

We are supporting the long-term implementation of the Pathways review recommendations. This includes work to widen access to Pre-Start business support, continuing to fund a pilot in the South of Scotland and working with HIE to support delivery in their region. Both pilots will be independently evaluated. We are considering options to support delivery of similar programmes across Scotland in the next financial year.

We have continued to support the entrepreneurial ecosystem through the Scottish Ecosystem and Pathways Ecosystem funds, enabling programmes that widen access to entrepreneurship and provide support for women and under-represented or under-supported entrepreneurs at all stages of their business journey.

We will continue to work with partners to improve the collection and reporting of disaggregated data on business participation. Projects like the cross-agency Master Customer Record will support a better understanding of how businesses engage with our support systems.

St Andrew's House, Regent Road, Edinburgh EH1 3DG
www.gov.scot

9. **The Committee seeks your assurance that investment in employability support and skills development will be demonstrably prioritised in the next budget.**

We remain firmly committed to prioritising investment in employability support in this year's budget. The Scottish Government has been clear that certainty of funding is critical for delivery partners to plan provision effectively, and this principle will guide our approach for 2026–27. We will continue to prioritise frontline services and maintain flexibility for Local Employability Partnerships to design support that meets local needs. As per commitments set out in the No One Left Behind Strategic Plan 2024-27, we will ensure that employability services remain aligned with the Government's ambitions to tackle poverty, address economic inactivity, reduce disability employment gap, and strengthen Scotland's labour market to grow the economy.

We remain committed to prioritising investment in skills development in the budget, including as part of our ongoing reforms of the post-school education and skills system. This includes our investments in universities, colleges and apprenticeships, alongside funding for careers support through Skills Development Scotland (SDS), the Developing the Young Workforce (DYW) Employer Network and the third sector.

10. **On the Just Transition Fund, the Committee asks the Scottish Government what the Fund's expected outcomes are and how the Fund fits with the wider strategy for North East and Moray's transition to net zero. Considering last 8 year's budget allocation of £16m, the Committee seeks confirmation that the Scottish Government's commitment to £500m over 10 years for the Just Transition Fund still stands.**

Since 2022, we have allocated £85 million to projects and communities across the North East and Moray. We remain committed to a 10-year programme of support as part of the Just Transition Fund (JTF).

The Just Transition Fund is responding to the needs of the region, delivering benefits for businesses, workers, and communities as we transition to a net zero future. The Fund is continuing to create jobs, support innovation, and secure the highly skilled workforce of the future, as the region transitions away from a reliance on employment in the high carbon oil and gas sector. This includes investing £9.7 million on a package of skills interventions to meet the needs of the net zero transition including a digital offshore energy skills passport and the Energy Transition Skills Hub.

We have published an evaluation of the first two years of operation of the fund. This outlines the impact of the first phase of the Fund and demonstrates our commitment to ongoing improvement in its delivery. In its first two years the fund created and safeguarded over 230 jobs, opened up over 750 training places, and leveraged £34 million of additional investment in addition to the £43 million in JTF capital spent in those years. We continue to build on these successes as we deliver more funding to the region, and we expect the benefits of that funding to increase as more projects are completed.

This financial year, our £8.5 million funding round focused on projects that support jobs, skills, and economic opportunities. The four successful projects that we have funded have a focus on enabling offshore wind infrastructure and the wider supply chain, helping the region to capitalise on the pipeline of offshore wind projects coming forward.

This funding complements our wider support to the region, including our £125 million investment in the Aberdeen City Region Deal, £32.5 million investment to the Moray Growth Deal, up to £26.3 million through the Energy Transition Fund to the Aberdeen Energy Transition Zone and our support of the North East Investment Zone – which will unlock a funding package of up to £160 million from UK Government over ten years to invest in a range of interventions designed to attract investment, boost innovation and create jobs. We have also announced joint funding with the UK Government of up to £18 million over the next three years for the Oil and Gas Transition Training Fund, which helps offshore oil and gas workers to access the training they need for sustainable energy sector roles.

All future Scottish Government funding remains subject to the passing of the draft 2026-27 Scottish Budget Bill, Scottish Spending Review, and future annual Scottish Budgets.

11. **Finally, as already noted, the budget is one of the primary Scottish Government levers it can pull to deliver NSET, the ten-year economic strategy and bring about a step change in Scotland's economic performance. The Committee draws the Scottish Government's attention to the evidence it took in May from the IFS, the Resolution Foundation and the Productivity Institute. The Committee was told that NSET could be clearer on what was being prioritised, it could have a clearer regional focus and metrics were described as "disparate". Two omissions, within devolved competency, from NSET were noted; a focus on intermediate skills (specifically whether the acquisition of skills by those between high school and university levels was being addressed) and how the Scottish Government's tax policy supports NSET. The Scottish Government is asked to respond to these observations.**

In the 2025-26 Programme for Government the First Minister confirmed his commitment to introducing a new Scottish Government-led approach to national skills planning, and strengthen regional skills planning, to ensure that post school provision becomes more responsive to Scotland's strategic skills needs and priorities, including Growing the Economy and delivery of our Economic Strategy (NSET). The new skills planning approach will develop a better understanding of skills needs at national and regional levels, and how we can address them, particularly where solutions lie within the education and skills system. While government will lead this new national approach, we have been clear that we want to support and empower regions to deliver on their own economic and social ambitions, in line with national priorities.

The new Whole Family Support package announced in the budget will invest in establishing a Training Access Fund and provide Scotland's Colleges with additional resources to deliver new and expanded training support. This will help adult learners gain the training and qualifications for progressive employment opportunities, as well as access wraparound support.

The Tax Strategy, published alongside the 2025-26 Scottish Budget noted the importance of building a systems-wide approach to tax policy making and delivery in supporting economic growth. It set out a list of priorities and actions, whose effects would extend beyond this Parliamentary term.

These included:

- *A commitment not to introduce any new bands or increase the rates of Scottish income tax for the remainder of this Parliament.*
- *Activity to broaden our understanding on how the tax environment impacts on the competitiveness and attractiveness of Scotland's economy; and*
- *Exploration of the reforms needed to continue to deliver sustainable and growing tax revenues in the future.*

We will publish an update on progress against this Strategy in early 2026.

In this Budget, we have continued to deliver our commitment not to increase rates or introduce new bands on Scottish income tax while continuing to ensure that over half of Scottish taxpayers will pay less than they do in the rest of the UK.

We are also providing stability on LBTT by making no changes to existing rates and bands and maintaining consistency on Scottish Landfill Tax by continuing to match UK rates.

On Non-Domestic Rates, the Scottish Budget delivers a broadly revenue-neutral revaluation in real terms over the course of the revaluation cycle, and therefore decreases the Basic, Intermediate and Higher Property Rates in 2026-27 to reflect overall growth in rateable values at revaluation, whilst offering a generous relief package.

ADDITIONAL REQUESTS IN BODY OF LETTER

a. **In your response of December, you advised that an exercise was underway to understand the systems landscape in each organisation and the potential for moving towards more shared systems. During the recent evidence session with SE, the Committee asked again about shared services. SE mentioned existing information systems and a shared audit service, but the Committee was surprised that no further areas had been identified.**

As noted by the Committee, the enterprise agencies collaborate on a number of shared services. However, their collaboration extends well beyond this. The agencies frequently collaborate on the delivery of services and financial support. For example, Scottish Enterprise, HIE and SOSE are working with The Data Lab to deliver the national AI adoption programme for SMEs. SOSE and HIE are collaborating on a pilot scheme, funded by the Scottish Government, to support small producers across Scotland.

They are also all involved, through the Business Support Partnership, on four workstreams focused on: improving access and delivery of public sector business support, including through the use of technology such as AI to improve the customer experience; adoption of a Master Customer Record, to ensure that information held on businesses is available to service providers and informs decision making; identifying areas where delivery of support can be optimised and efficiencies made; and developing consistent measurement and reporting by partners.

b. Last year, you advised that the Scottish Government was developing a comprehensive programme to align economic development infrastructure and support mechanisms with best practices from leading European economies. The priorities identified for this work were the design of an efficient and streamlined model for business support, more focus on strategic priorities and measurable returns on investment, revenue-raising reform and structural reform to clarify the roles of different partners and ensure better co-ordination. The Committee is keen to understand the stage that programme is at now.

Business Support Reform has been underway since February 2025. Scottish Government is an active member of the Business Support Partnership (BSP) that leads this work and consists of senior representatives from Scotland's enterprise agencies, Visit Scotland, Creative Scotland, Skills Development Scotland, COSLA/Business Gateway, and Scottish Local Authorities' Economic Development (SLAED).

The BSP Board has prioritised action in two key areas:

1. *Improving access and delivery of public sector business support – this was progressed initially through Scottish Government's CivTech operation and users are now being recruited to a platform designed by BobbAI.*
2. *Development of a Master Customer Record to provide a single source of truth across partner agencies – a six-month beta test and exploratory use case for Clusters is underway, concluding March 2026.*

Work has also started on two additional priorities, with initial outputs expected in Q1 2026. These are: action to better understand the costs of services to help optimize delivery mechanisms, and establishing consistent measurement and reporting where this is appropriate across different delivery bodies.

c. The Committee recently held a scrutiny session with Consumer Scotland and was disappointed that the 2024-25 annual report had not yet been published. The Committee has requested further information from Consumer Scotland on its activities, performance and impact. The Committee is unclear about Consumer Scotland's focus, what its intended outcomes are and how these are being communicated.

The Scottish Government notes the reflections made by the Committee and is committed to supporting Consumer Scotland to deliver on the important issues that matter to consumers.

We understand that Consumer Scotland has since written to you with detailed information and provided you with their Annual Report. We would expect the Committee to receive the Annual Report in a timely manner next year recognising your important pre-Budget scrutiny role.

Consumer Scotland is a non-ministerial office (NMO) and is independent in the discharge of its statutory functions. However, the Scottish Government meets with Consumer Scotland on a regular basis at both official and ministerial level.

Both the Minister for Public Finance and officials have impressed on Consumer Scotland the importance of a focused and outcomes driven work programme as well as elevating its public presence to demonstrate the difference it is making to consumers in Scotland.

St Andrew's House, Regent Road, Edinburgh EH1 3DG
www.gov.scot