The Scottish Parliament
Pàrlamaid na h-Alba

ECONOMY, ENERGY AND TOURISM COMMITTEE

AGENDA

27th Meeting, 2012 (Session 4)

Wednesday 24 October 2012

The Committee will meet at 8.00 am in Committee Room 4.

1. **Inquiry into the Scottish Government's renewable energy targets (in private):** The Committee will consider a draft report.

2. **Decision on taking business in private:** The Committee will decide whether to take item 6 in private.

3. **Draft Budget Scrutiny 2013-14:** The Committee will take evidence from—

   Stephen Boyd, Assistant Secretary, STUC;

   David Lonsdale, Assistant Director, CBI Scotland;

   Colin Borland, Head of External Affairs, Federation of Small Businesses;

   John Downie, Director of Public Affairs, SCVO;

   and then from—

   Norman Kerr, Director, Energy Action Scotland;

   Dr Dan Barlow, Head of Policy, WWF Scotland.

4. **Appointment of EU reporter:** The Committee will appoint an EU reporter.

5. **EU engagement 2011-2012:** The Committee will consider a draft report.

6. **Work programme:** The Committee will consider its future work programme.

EET/S4/12/27/A

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The papers for this meeting are as follows—

Agenda Item 3

Note by the Clerk	EET/S4/12/27/1
Note by the Clerk	EET/S4/12/27/2
Submissions pack	EET/S4/12/27/3
Private Paper (To Follow)	EET/S4/12/27/4 (P)

Agenda Item 4

Note by the Clerk	EET/S4/12/27/5

Agenda Item 5

EU activity report	EET/S4/12/27/6

Agenda Item 6

PRIVATE PAPER	EET/S4/12/27/7 (P)

Economy, Energy and Tourism Committee

Key Themes arising from the evidence session on the Draft Budget 2013-14 on Wednesday 3 October 2012

Budget priorities

With a tight budget settlement that is in effect fixed, improving and increasing supply side measures was viewed as being critical to support jobs and increase growth. Such measures could target:

Skills development, which would:

- increase equity by raising those out of low-paid jobs into more sustainable employment and,
- increase the skills base of the Scottish economy, a prerequisite to boosting Scotland's longer-terms growth prospects.

Social / affordable housing, which would:

- add to the housing stock which is needed to support flexible labour markets and meet as yet un-met demand
- help the Scottish construction sector and so increase jobs in the short-term.

Resources to fund such measures

Resources to fund these additional measures could be found from more effective targeting of the current skills funding (using the evidence available on what works and what is less effective), from increased efficiency savings across the public sector.

Ending the council tax freeze or looking again at the need for universal benefits may offer alternative funding options. However, fiscal retrenchment was viewed as inevitable so significant additional new funding may be limited.

Using the Third sector as an alternative delivery option may offer VFM but it was not clear the extent to which this may be at the expense of a further reduction in the terms and conditions of such staff.

Impact of pay policy

Pay restraint was viewed as inevitable given the tight budget settlement. However, the cap may be at too high a level and more flexibility around lowering the cap (below £80k) may allow those at the lower end to be given a higher award.

Pay increments may mean the 1% cap will not be fully effective. Also, the gap between public and private sector pay may widen as many in the private sector, in particular the tourism and retail sectors, have lower incomes and will not be affected by this wages policy.

These latter sectors are characterised as being of low skill, low pay. Raising the skills level was viewed as essential to raising pay levels within them (examples from Denmark, Holland and Canada may offer insights). The Small Business Investment Company (SBIC) program activity with regional Hubs assisting SMEs in skills development in tourism may also merit further assessment for cost effective solutions to assisting this low skill sector.

The tourism sector is also an important export generator and so may merit more support as a boost to longer-term growth.

Skills development

It was agreed that skills development in the energy sector was needed and, in particular, breaking down barriers to female participation was thought essential. Looking at how apprenticeships are targeted may merit review to ensure they are not inadvertently skewed in favour of males.

Much was said around the skills development in the care sector. This could ensure more care will be delivered even with falling care budgets. In the main this would be through assistive technology and productivity improvements allowing people to stay in their own homes for longer.

On the job training in very small SMEs is less affordable. Should this be market failure, it needs to be addressed by public sector with appropriately targeted incentives, e.g., through revamped Individual Learning Accounts (ILAs) or personal budgets for securing appropriately accredited skills development.

Fuel poverty measures

Short-term it was essential all efforts were being made to ensure those in need got access to all benefits to which they are entitled. This should include advice, advocacy and representation supports.

The major energy providers should also be encouraged to ensure all customers on the expensive tariff arrangements are automatically switched to the cheapest available.

Evidence on fuel poverty in South Ayrshire suggest simple correlations between household type and fuel poverty may not be correct.

The development of electricity from renewables may require a more strategic assessment of how this can or should be more widely used for domestic heating across Scotland when natural gas has become the key fuel source.

Sustainable growth

Growth could be supported by effective development of supply side measures such as effective land and asset planning and skills development. With limited public sector budgets, the private sector needs to be encouraged and incentivised to operate where Government cannot.

Unconstrained GDP growth is not the only target for growth. Now may be the time for clarity on the chosen pathway to delivering sustainable growth for Scotland.

Need to consider how to help slow growing businesses by improving productivity not just growth businesses as the former employ more than the latter.

Jo Armstrong
Budget Adviser

Scottish Keyfacts
August 2012

EET/S4/12/27/2

SCOTLAND – THE BASICS

Population	5,254,800	(2011 est)
Area	78,807	km^2
GVA	£105,590m	(2010 est)
Total GVA growth on year	2.9%	(2010 est)
GVA per head	£20,220	(2010 est)
Labour force	2,708,000	Mar-May
Employment	2,493,000	Mar-May
Employment rate	58.2 %	Mar-May
Unemployment rate	8.0%	Mar-May
Av. Gross weekly wage (f/t)	£486.90	(2011)

Sources: latest data from General Register Office for Scotland & Office for National Statistics. GVA is sourced from ONS Statistical Bulletin: Regional, sub-regional and local gross value added 2010 (Dec 2011)

SCOTLAND'S CITIES - POPULATION

Glasgow	598,830
Edinburgh	495,360
Highland*	222,370
Aberdeen	220,420
Dundee	145,570
Stirling	90,770
Perth & Kinross**	149,520

**Inverness population estimates not available due to The Highland Council covering this area*
*** Perth & Kinross council area*

Source: "Table 9 - Land area and population density by administrative area Mid 2011 Population Estimates – by Administrative Area (May 2012), General Register Office for Scotland. Please note that Land Areas were derived from digital boundaries used for the 2011 Census. Figures may not add exactly because of rounding.

EMPLOYEE JOBS BY INDUSTRY

Agriculture, Forestry & Fishing	47,000
Mining/Quarrying Industries	32,000
Manufacturing	190,000
Electricity, Gas, Steam & Air con.	19,000
Water supply/sewerage/waste	17,000
Construction	169,000
Retail & Wholesale	381,000
Transport & Storage	129,000
Accommodation & Food Service	199,000
Information & Comms.	81,000
Financial & Insurance activities*	91,000
Real Estate	28,000
Prof. scientific & technical activities	187,000
Admin & support services	184,000
Public admin & defence	155,000
Education	200,000
Human health & social activities	372,000
Arts, entertainment & recreation	91,000
Other Services	67,000
Services	2,165
Total Employee Jobs	2,638,000

Source: ONS, workforce jobs by region and industry (June 2012). SIC code 2007
**includes nationalised banks*

SECTOR PROFILES

GDP at basic prices (GVA) £m	**2008**	**2009**
Aerospace	366.1	451.8
Chemicals & Pharma.	1530.4	1526
Construction	7909	5824.5
Retail	6165.9	6425.7
Shipbuilding	201.8	375.7
Spirits (inc whisky)	1850.8	2145.1

Please note that Key sector data will **not** be produced on a SIC 2007 code basis from SABS until agreement has been reached regarding which codes should be included under each heading.
*Source: Scottish Annual Business Statistics 2009, Scottish Government, this survey does not cover certain sectors, in particular financial services, which is worth an estimated £7bn. **The sectors here are defined as per Scottish Government sector definitions, which may differ from Scottish Enterprise Industry definitions**)*

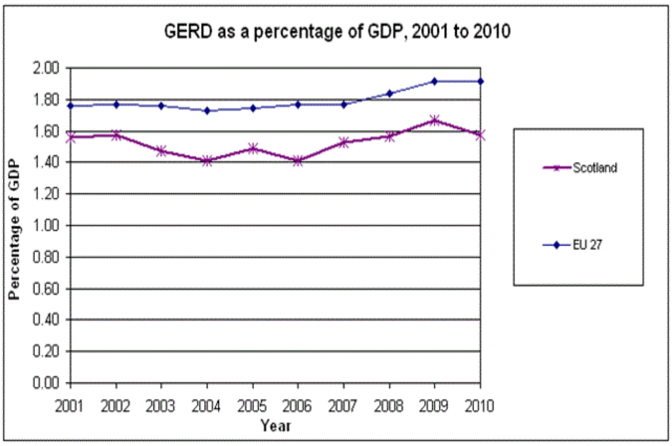
BUSINESSES IN SCOTLAND

The total number of private sector enterprises in Scotland was 307,770 at March 2011, an increase of 3.3%. Large enterprises (250+ employees) accounted for 46.4% of employment and 63.5% of turnover. SMEs increased by 3.3% to 305,540 in March 2011, accounting for 99.3% of enterprises and 53.6% of employment. Registered enterprises with ultimate ownership outside Scotland accounted for 3.1% of firms and 35.5% of employment. The sectors which experienced the largest relative increases in the number of enterprises were;

Education (+ 43.5%); Arts, Entertainment and Recreation (+ 11.4%); Other Service Activities (+ 7.4%) and Information and Communication (+ 9.3%). The sectors which experienced the largest relative decreases were; Transportation (-4.3%) and Retail trade (- 2.7%). *Source: Scottish Corporate sector statistics 2011 (Oct 2011)*

INNOVATION

In 2010, GERD as a percentage of GDP was 1.58% for Scotland and 1.91% for the EU; a gap of 0.34 percentage points. The gap between Scotland and the EU increased by 0.09 percentage points between 2009 and 2010. Average GERD spend per head of population was £362 in Scotland compared to £423 per head of population in the UK. GERD expenditure fell by £76m to £1,890m, a decrease in real terms of 3.9%. The fall in expenditure was across all 3 sectors (BERD, HERD & GoveRD). In terms of BERD, expenditure fell by 3.9% (£25m) to £622m. Compared to other UK regions in 2010, Scotland ranked 9th place out of 12 regions for BERD.



Source: Scottish Government, "Gross Expenditure on Research and Development Scotland 2010" (published 28 March 2012)

NEW REPORT- "Evaluation of the Wellness and Health Innovation Project" Key findings included the project exceeding each of its targeted gross output measures and by project-end is expected to have supported 240 enterprises and 32 research networks and collaborations, engaged 35 partners and undertaken 42 events.

EXPORTS

The value of Scotland's international exports (excluding oil and gas) stood at an estimated £22.0 billion, in 2010. This represents an increase of £355 million since 2009.

Scottish Export Performance 2010	*£m*
Production/construction	14,670
(of which Manufacturing	*13,680)*
Services	7,065
Agriculture/Forestry/Fishing	240

Top 5 Export Industries	*£m*
Food & Beverages	3,980
(of which Distilled Potable Beverages	*3,330)*
Chemicals (incl. Petroleum Products)	3,010
Business Services	2,500
Electrical & Instrument Engineering	1,905
Mechanical Engineering	1,645

Top 5 Export Destinations	*£m*
USA	3,530
Netherlands	2,365
France	1,530
Germany	1,265
Belgium	985

Total Exports by Destination Region	*£m*
EU27	9,795
North America	3,785
Asia	1,935
Rest of Europe	1,940
Middle East	1,055
Africa	1,100
Central & South America	825
Australasia	390
Other (unallocable)	1,155

Source: Global Connections Survey 2010 Scottish Government, Jan 2012 (this is the only export survey covering all sectors of the Scottish economy)

ACADEMIC ACHIEVEMENT

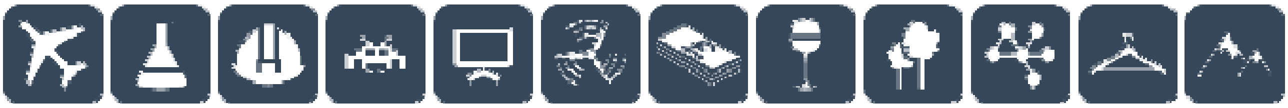
Scotland has a tradition of excellence in education. It has 14 universities (plus the Open University), 5 specialist higher education institutions (HEIs) and 41 further education colleges.* In 2009-10, there were 287,565 students in higher education (HE) in Scotland. This represents an increase of 7,950 students (or 2.8 percent) since 2008-09. In 2009-10, there were 42,140 overseas students enrolled in HE courses at Scottish HEIs and Colleges. The number of Higher Education (HE) qualifiers from Scottish institutions has continued to rise, in the most recent year by 0.8 percent (695 qualifiers), to a record high of 84,030 in 2008-09. In 2009-10 there were 347,336 students undertaking courses in the 41 SFC-funded colleges in Scotland; SFC distributes more than £1.7billion to Scotland's colleges and universities for teaching and learning, research and other activities. SFC's total funding for colleges in academic year 2010/11 will be £581 million. This is an increase of £9.8 million from 2009/10. Universities in Scotland have excelled in the latest Research Assessment Exercise, with every institution classed as undertaking world-leading research. The Scottish Government no longer produces a Scottish Summary of the Higher Education - Business and Community Interaction survey. The UK report for the 2008-09 survey can be found on the Higher Education Funding Council for England's website.

**Please note that there are 41 colleges funded by SFC. In addition, there are 2 colleges (Argyll College and West Highland College) funded through North Highland. The number of colleges is likely to change considerably over the next few years as several colleges are currently in merger talks.*

Sources: Students in Higher Education = [Scottish Government](), Higher Education Qualifiers = Government; College students =[Scottish Funding Council – February 2011 Baseline Report](), RAE, Higher Education Statistics Agency, HEFCE, Annual Population Survey, HEBCI Survey

The [Complete University Guide]() may also be of interest.

SCOTLAND’S INDUSTRIES



AEROSPACE, DEFENCE AND MARINE (AD&M) Scotland is home to over 800 companies with involvement in AD&M, employing nearly 40,000 staff. Scotland has a strong background in advanced engineering, including R&D, design and manufacturing. AD&M is a key high technology sector, with an experienced skills base. AD&M sales in 2009 were over £5 billion. The industry creates GVA to the Scottish economy of around £2 billion. The Scottish AD&M sector includes a number of global industry companies, including defence companies such as SELEX Galileo, Thales, Raytheon and BAE Systems and aerospace manufacturing and MRO (maintenance, repair and overhaul) companies such as Rolls-Royce, GE Aviation, Spirit AeroSystems, Goodrich, Woodward, Teledyne and Vector Aerospace. In addition there is a growing range of Scottish-owned companies in the aerospace and defence sectors. Scotland’s Shipbuilding and Ship repair sector grew by 144% between 2001-2007 (compared to UK growth of only 69%). With a focus primarily on the manufacture and support of naval ships and specialist, more complex vessels for niche markets, Scotland's shipbuilding sector is now 33% of the UK industry. The main companies are BAE Systems Maritime - Naval and Babcock Marine, together employing around 7000 staff in Scotland. There is a wide range of marine supply chain companies including Rolls-Royce Marine, Converteam and MacTaggart Scott. The Glasgow area also remains also a leading world centre for commercial ship management, a strong legacy from Scotland's sea-faring tradition

CHEMICAL SCIENCES As one of Scotland's top exporters the Scottish chemical sciences sector makes a valuable contribution to Scotland’s economy with exports of £3bn and turnover of almost £9.3bn. Over 14,000 people are employed directly in the industry base supported by a steady flow of scientific and technical employees from Scotland’s universities, higher education institutions and further education colleges. It is estimated that a total of 70,000 jobs in Scotland are dependant on it. World-scale companies such as INEOS, MacFarlan Smith, DOW, FUJIFilm, CalaChem, BASF, GlaxoSmithKline, Exxon and Syngenta have Scottish operations. Chemical research and development, focused on the development of new products and processes, accounts for 40 per cent of Scottish business R&D. This is supported by Scotland’s world class academic base and in particular ScotCHEM, the collaborative venture for the pooling and enhancement of resources for chemistry research in Scotland, bringing together the major players in research in chemical sciences. The nationwide Research Assessment Exercise (RAE) recognised that four of the UK’s top 10 research departments are in Scotland, including WestCHEM and EastCHEM collaborations with EastCHEM research collaboration between the universities of Edinburgh and St Andrews, the best power rating of any chemistry unit in Britain.

CONSTRUCTION touches every part of Scotland's economy, communities and society. As one of the countries largest sectors, it is of major economic importance, is an enabler and engine of growth across the economy and key sectors. It's breadth encompasses professions such as architecture, civil engineering, housing, an extensive supply chain of subcontractors, construction products and raw materials. Employing around 170,000 (10% of Scottish jobs), with 31,000 businesses and contributing £8.7bn in GVA (10% of total GVA) to the Scottish economy, the sector is particularly significant in Glasgow, Aberdeen City & Shire, Edinburgh and Lanarkshire. Recent official figures reveal that whilst new build industrial, private and public activity continues to be depressed, repair and maintenance and infrastructure activity continues to grow.

CREATIVE INDUSTRIES This sector makes an important contribution to the Scottish economy employing 63,400 people across more than 9,000 businesses, and contributing £3.09B GVA with a turnover of £5.69B. Scotland has world class companies in all areas of the creative industries; from international leaders in games development and interactive platforms to national broadcasters and successful production companies. Scotland has global centres of research excellence which develop next generation technologies to support ongoing growth in the digital media environment including a well developed infrastructure to support company growth and enable the production and distribution of digital media content and services. SE’s key focus is on the high growth Digital Media sector within the industry. SE works in partnership with key partners and stakeholders from industry, government and the wider public sector including the Digital Media Industry Leadership Group (formerly known as Advisory Group), to realise the ambitions within the industry strategy "Digital Inspiration". SE has also worked with broadcasters, productions companies and Creative Scotland to identify key opportunities in television, and has published "Growing the Television Broadcast & Production Sector in Scotland". Other bodies which SE maintains close relationships with are the Technology Strategy Board and the Creative Industries Knowledge Transfer Network. SE also works with NESTA which has a broad innovation agenda with has a particular strength in games. Major projects include the ambitious Creative Clyde project which presents a unique opportunity to build on the achievements of the Pacific Quay, Clyde Waterfront and Digital Media Quarter projects to create a significant location, destination and hub for one of the fastest growing sectors in the economy. Interactive Scotland has been developed by Scottish Enterprise to drive growth in the sector and support the industry strategy. Creative Edge is a partnership between broadcaster Channel 4, Creative Scotland, Scottish Enterprise and TRC media, which will deliver a package of support worth more than £1.4 million over three years to Scottish talent and creative businesses.

TECHNOLOGY & ENGINEERING including electronics, sensors and photonics, advanced engineering, ICT, materials and bioscience underpin the growth and development of all Scotland's sectors. There are over 900 core enabling technology companies in Scotland employing 60,000 people; with the wider sector accounting for 16,000 companies and 196,000 employees. Leading technology companies contribute significantly to the performance of the Scottish economy, on average £86,000 GVA per employee. Annually the sector generates turnover of £26bn and GVA of £11.3bn. SE investments in world class research and development include support for knowledge transfer in information science and supercomputing, at the Uni. of Edinburgh and industrial forging and forming at the Uni. of Strathclyde as part of the High Value Manufacturing Technology and Innovation Centre. There is a strong focus on where Scotland's competitive technology strength lies – Sensors, Modelling and Simulation and Informatics, as well the growing strengths in materials – and global opportunities for these capabilities are highlighted through the work of Scotland's Technology Advisory Group. A new Scottish Sensor Systems Centre (S3C) is working to realise opportunities that world class research brings to industrial needs, & further initiatives are in development

ENERGY & LOW CARBON TECHNOLOGIES incorporates oil and gas, thermal generation, renewables, environmental activity and the emerging low carbon industries. Encompassing over 2,000 businesses ranging from multinationals, large Scottish global companies and a highly regarded SME base, the sector remains a vital contributor to the Scottish economy. 2007 estimates for Energy in Scotland put the GVA for total Energy at £18bn - 18% of Scottish GVA - of which £15.3bn is attributed to oil and gas (including UKCS), and renewable energy estimated at £84m. The 2008 UK oil and gas industry GVA (not including supply chain) was £37bn or 21% of the economy. Currently, oil and gas provide 73% of the UK's total primary energy, while production from the UKCS satisfies 49% (68% of oil demand and 58% of gas demand). Scottish oil and gas supply chain sales in 2010 were valued at £16.3bn, of which 46.4% were attributed to international activity. Scottish employment figures for each sub-sector are based on conservative estimates of 198,000 for oil and gas; 10,000 in thermal generation; 6,000 for renewables and 34,000 for environmental and low carbon activity. The number of companies active in each sub-sector is estimated at 1,000 in oil and gas; over 200 in thermal generation, over 400 in renewables, and 600 in environmental and low carbon activity. The Climate Change (Scotland) Act 2009 sets a target of an 80% reduction in greenhouse gas emissions by 2050. The Scottish Governments' Renewables Action Plan sets an ambitious goal to provide 100% of Scottish electricity consumption from renewables by 2020. In 2011 35% of Scotland's electricity needs came from renewables, breaking the Scottish Governments 31% target for 2011. The 2010 breakdown of electricity produced was attributed to 30% coal, 30% nuclear, 19% renewables, 19% oil and gas, and 1% other. In 2010, Scotland exported 21% of its electricity production. At the end of 2011 there was 4.8GW of renewables capacity installed in Scotland, with over 5.5GW more capacity planned and consented. Overall there is currently 17.7GW of renewable heat and electricity capacity in planning in Scotland. In terms of offshore wind, agreements for lease have been awarded for five offshore renewable energy sites in Scottish territorial waters (STW). Together with Scottish Round 3 zones the total awarded capacity in STW is now nearly 10GW, in line with the Scottish Government's targets. Marine Scotland has also identified 15 areas for further exploration for offshore wind beyond 2020, which could amount to a further 10GW of capacity. The Skills Investment Plan for Energy indicates there is likely to be a demand of up to c.40,000 jobs for renewable heat and electricity generation by 2020. Therefore, maintaining Scotland's oil and gas industry, boosting renewable energy and the application of low carbon technologies will make a significant and important contribution to a sustainable economy.

FINANCIAL & BUSINESS SERVICES The sector makes a total contribution of £17bn GVA to Scotland's economy, with financial services contributing £7bn and Business Services £10bn. The sector is also a significant source of employment with a total of 360,000 people employed across the sectors. The FS sector employs 96,000 of this total directly and it is estimated that it supports a further 70,000 jobs. Despite the recent global financial crisis it is estimated that the sector in Scotland will grow. By 2020 the share of employment is expected to grow to 20.3% from it's current 18.6% and GVA is forecast to reach 25.5% from 22.9%. It is also anticipated that productivity in the sector will be 25% higher than the Scottish average. At 40% of employees, Scotland's Financial Services industry continues to employ a greater proportion of people holding a higher education qualification than across industry in Scotland as a whole (32%) and across industry in the UK as a whole (29%). The average salary across Financial Services also tends to be above that of the nation as a whole, with the mean gross annual salary in insurance being £41,800.

FOOD & DRINK Taking the whole supply chain into account, from agriculture, fishing, aquaculture through to the manufacturing base, Scotland's food and drink sector makes a significant contribution to the economy in terms of employment (113,000 jobs), turnover (£11.9bn) and GVA (£4.8bn). Scotland's food and drink manufacturing sector alone has annual sales of £9bn and around 44,000 direct jobs - over 20% of Scotland's manufacturing employees. GVA from the food and drink manufacturing sector is £4bn (2009) which makes it the largest contributor to manufacturing GVA in Scotland. Exports totalled £5.4bn in 2011. The Scottish spirits sector accounts for 80% of UK spirits turnover and 90% of UK spirits GVA. Top Scottish companies include AG Barr, First Milk and Walkers shortbread. The industry is also linked to Scotland's growing tourism sector.

FOREST & TIMBER TECHNOLOGIES This carbon-positive sector incorporates the growing of tree seedlings within nurseries to the planting, managing and harvesting of forests plus value-added downstream activities such as sawmilling, pulp and paper production, and panel and board manufacturing. It also includes the development and production of higher value goods such as engineered sustainable construction products and businesses that serve the Energy and Tourism markets. Half of the UK's forests are in Scotland, covering 17% of Scotland's land area (target: 25% by 2050) and as a result, the sector supports many rural communities. The sector consists of 1,700 businesses contributing £1bn in GVA to the Scottish economy. Estimated direct employment is around 40,000.

LIFE SCIENCES Scotland is home to the second largest life science cluster in the UK and one of the most sizable clusters in Europe, with a significant international presence including Charles River Laboratories, Life Technologies, GSK, Johnson & Johnson, Millipore, and ClinTec. There are over 630 organisations in Scotland employing over 32,000 people. Scotland's main focus is on human healthcare with over 70% of the core life science organisations involved in this area. Scotland also has an established network of over 50 pharmaceutical clinical trials support and contract research organisations. Edinburgh BioQuarter is a keystone investment at the heart of Scotland's national life science strategy, bringing together public healthcare, academic research and extensive commercial laboratory space in one location to accelerate translational medicine and facilitate large scale life science collaborations.

TEXTILES The Scottish textile industry today is flexible, innovative and market driven - producing for fashion, interior and performance markets in over 150 countries. Some of the world leaders in luxury and performance textiles are based in Scotland - taking advantage of niche and premium markets where Scottish product is considered to offer higher levels of both quality and authenticity. Companies such as W.L. Gore & Associates (UK) Limited (manufacturer of the world famous GORE-TEX® fabric), Bute Fabrics (interior fabric manufacturers for airports all over the world) and Mackintosh (manufacturers of world-renowned contemporary, rainwear) all choose Scotland. There are over 630 textile companies in Scotland, employing over 11,000 people and textile export values remains high, bringing £300m into the Scottish economy.

TOURISM The Scottish tourism sector accounts for 11% of total service sector GVA (for the UK as a whole, tourism accounts for 9% of service sector GVA). In 2011, there were 15.7 million overnight tourism trips taken in Scotland, for which visitor expenditure totaled over £4.5 billion, supporting over 200,000 jobs. People from within the UK account for the majority of tourism volume and value in Scotland. However, whilst overseas residents account for only around 16% of the total number of tourism trips taken in Scotland, they account for 32% of total visitor spend, underlining the value of attracting these visitors. USA, Germany, France and Ireland are long-time major markets for Scotland while good growth has been seen in recent years from markets such as Spain and Italy. The months of July to September are the most popular for holidays in Scotland amongst both UK and overseas visitors. However, business tourism is also a significant component of the Scottish tourism market account for around 20% of the total visitor spend.

RESEARCH

Evaluations Online is a publicly accessible collection of evaluation and research reports from Scottish Enterprise (SE). The reports cover all aspects of SE's economic development activities and are available for download at no cost. New reports include:- Appraising the economic benefits of new air routes: technical report and High growth and high technology firms in Scotland

Draft Budget Scrutiny 2013-14

The following submissions have been received:-

- CBI Scotland
- STUC
- Federation of Small Businesses (FSB)
- Stop Climate Chaos Scotland
- WWF Scotland
- Scottish Council for Voluntary Organisations (SCVO)

SUBMISSION FROM CBI SCOTLAND

INTRODUCTION

1. CBI Scotland is an independent not-for-profit organisation funded by its members in industry and commerce and representing firms of all sizes and from all industrial and commercial sectors.

2. CBI Scotland welcomes the opportunity to contribute to the Economy, Energy & Tourism Committee's scrutiny of the Scottish Government's spending and taxation plans for 2013/14. Our members believe the public and private sectors should work in partnership to grow and rebalance the economy, and recognize too the contribution that public sector decisions, spending and procurement can and does make to the economy. Businesses themselves contribute to the funding of the devolved government and public authorities through a range of taxes and charges, and their success or otherwise can be affected by the spending and taxation decisions taken. Businesses are also suppliers to the public sector, and timely budgeting provides welcome clarity which allows firms to plan ahead accordingly.

3. CBI Scotland published its detailed manifesto[1] in June 2010 setting out our members' recommendations and aspirations for how the present devolved government should prioritise its spending, reform the way it delivers public services and become a more effective catalyst for economic growth.

KEY POINTS

4. The Scottish Government's Budget for 2013-14 comes at a time when the fiscal backdrop is decidedly challenging and is likely to remain so for the foreseeable future. The CBI's most recent economic forecast[2] expects public sector net borrowing to be £137.2 billion in the current year (8.8 per cent of GDP). The Office of Budget Responsibility expects a further £250 billion[3] to be

[1] *"Energising the Scottish Economy: a business agenda for reform and recovery",* CBI Scotland's 2010 manifesto
[2] CBI economic forecast, August 2012
[3] From the Office of Budget Responsibility data

added to the UK Government's national debt over the next 4 years, and the annual cost of servicing this debt is expected to swell from £44.8 billion this year to £64 billion by 2016/17[4]. This is money each and every year that could otherwise be used to make investments to boost competitiveness and further invest in the long terms prospects of the economy, which is why a concerted effort to eliminate the UK's public spending deficit and then start reducing the ballooning national debt must remain a priority.

5. Our members remain convinced that this period of austerity, coupled with the unique situation of a single party majority Administration at Holyrood, should be viewed as a significant and positive opportunity to do things differently, challenge sacred cows and ingrained habits, rethink how and when money is spent, and to make every taxpayers' pound work harder than before. Ministers should concentrate Budgets on the substantive items that will improve the economic and business environment, now that they are able to avoid the often ad hoc and last minute footling additions to Budget Bills which have at times been required in the past in order to secure parliamentary support.

6. CBI Scotland fully endorses the Scottish Government's stated purpose of using its £30 billion annual spend to improve sustainable economic growth, and there were a number of welcome announcements in the Budget, not least on infrastructure, affordable housing, renewables, tourism, and skills. However the Budget was a missed opportunity to signal a fresh direction on public service reform, through contracting-out the delivery of a far wider range of public services to the private and third sectors, and to establish more direct links with key overseas business destinations by introducing an air route development fund. The lack of a moratorium on any new or additional taxes during the remainder of this Spending Review period was disappointing, not least as Scottish Ministers are introducing £131 million of extra taxes on business with their rates levies on larger retailers and firms with empty properties.

7. In line with our August 2012 submission[5] to the Scottish Government and the Parliament's Finance Committee in advance of the unveiling of the spending plans, CBI Scotland believes Ministers ought to have pursued a bolder approach in this Budget to making savings and promoting competition in the delivery of public services. Freeing up monies in this way would have allowed Ministers to go further and faster in investing in GDP-enhancing measures, help avoid the new tax on firms with empty premises, and stimulate innovation.

COMMENTARY ON ASPECTS OF THE DRAFT BUDGET FOR 2013-14

Reducing the cost of government

8. In our submission to the Finance Secretary last year ahead of his 2011 Spending Review, CBI Scotland set out a number of areas where we thought Scottish Ministers could make further savings – e.g. making Scottish Water less reliant on the public purse in order to free up additional money for

[4] OBR economic and fiscal outlook, March 2012, table 4.17

[5] Response to the Scottish Parliament Finance Committee's call for evidence on the Scottish Government's Draft Budget for 2013-14, CBI Scotland, August 2012

infrastructure, reducing costs through greater levels of outsourcing[6] and shared services, introducing a graduate contribution, reducing the number of local authorities towards a model based on larger authorities including metropolitan areas covering the principal cities, disposing of unneeded assets, and keeping a firm grip on the overall wage bill and curbing recruitment. We welcome a number of the measures in this Budget, including: the savings identified by the Scottish Futures Trust which means more can be spent on other GDP-enhancing investments; and the proposal to continue to keep a tight rein on the pay bill, just as the private sector has had to do over recent years.

Infrastructure

9. It is encouraging that the Budget aims to "boost public sector capital investment", particularly as CBI Scotland called for this in our submission before the Budget, but also because this remains a good time to get value from the purchasing of construction services[7]. Government should build on this aim by setting out a clear and explicit target to spend a greater proportion of its expenditure on investments that support wealth creation (e.g. infrastructure, skills development, exports assistance), and set out a timetable for achieving this. The Economy Committee could usefully question Ministers on this, to better understand what scope there is for a shift in the proportion of expenditure that goes on investment, as argued for in the Committee's own 2006 report on 'Business Growth – the next 10 years'.

10. The capital projects identified in the Budget and in last year's Infrastructure Investment Plan will provide much-needed employment in the short term and help to build Scotland's economic capacity in the longer term, as well as minimising future maintenance bills and congestion. CBI research[8] has also shown that high quality infrastructure is a key determinant when firms are considering where to invest. The Scottish Government's decision to supplement its traditional capital expenditure by leveraging in additional privately funded sources of capital through its NPD/PFI programme, and to fund this using revenue expenditure, is the right course to pursue. This represents investment that would otherwise not happen or not happen for a considerable period. We welcome the continued role envisaged for the Scottish Futures Trust, the proposed extension of the use of Tax Increment Financing, the National Housing Trust (NHT) model for affordable housing, as well as the acceleration of spend on school buildings into the 2014-15 financial year (albeit we await details of the implications if any this may have for the split between capital and revenue financing of the Schools for the Future programme).

11. We welcome the electrification of the Glasgow Queen Street to Edinburgh Waverley train route. However the absence of a commitment to complete it by 2016 as originally planned is frustrating, and we regret that electrification to Dunblane and Alloa and the infrastructure improvements at Dalmeny to

[6] CBI's 'Open Services' report identified how £22.6 billion could be saved by the public purse from opening up public services in the UK to competition, 20 September 2012
[7] Report to the Parliament's finance committee on the 2013-14 Budget by Professor David Bell, Sep 2012, p12
[8] 'Better connected, better business', CBI/KPMG infrastructure survey 2012

provide for a closer link to Edinburgh airport will not now be included, despite the fact that some existing infrastructure has already been altered to accommodate this.

Scottish Variable Rate

12. We applaud the decision in the Budget to rule out the use of the Scottish Variable Rate, which the Christie Commission said could potentially generate £1.2bn in new tax revenues. We would be concerned about any move that might send out a worrying signal that Scotland is a higher tax country than the rest of the UK.

Business rates

13. CBI Scotland welcomes the Budget pledge to maintain poundage rate parity with England, and the continued relief on offer to small firms (which is part funded by a supplementary levy applying to all larger firms with a rateable value in excess of £35,000). Keeping taxes down and predictable helps firms fund their investment plans, crucial in an era when retained profits have become ever more important in financing future investment intentions. The new time-limited 'Fresh Start' rates concession[9] is welcome recognition of this, and the decision to allow businesses to defer a portion of the inflationary uplift in their bills this year is positive and provides relief for firms' cash flow at this challenging time.

14. However we remain disappointed at the decision to put the principle of poundage rate parity to one side through the introduction earlier this year of the £95 million rates levy on larger retailers. This surcharge makes it more expensive for retailers to operate in Scotland and who are often having to compete with other parts of the UK or overseas for increasingly mobile capital. Also, the decision to increase the tax paid by firms with empty commercial premises to the tune of £36 million over the next two years (commencing in 2013-14) is similarly unwelcome, and sits ill at ease with the Budget's wish to "encourage private sector investment"[10]. Furthermore, it was disappointing that the Scottish Government did not use the opportunity afforded by this Budget to rule out the introduction of any further new or additional business rate levies during the remainder of the current Spending Review period.

15. CBI Scotland has previously supported the principle behind the recently introduced Business Rates Incentivisation Scheme – which allows councils to retain a proportion of any growth in non-domestic rates revenue from their area - as a means of encouraging a more business friendly approach from local authorities towards business growth and commercial development. However we would have liked to have seen in the Budget confirmation that the new revenues resulting from this scheme will be transparently re-invested into promoting economic growth, e.g. by spending it on roads or other local infrastructure, more effective resourcing of local planning authorities, local economic development etc.

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[9] 'Fresh start for Scotland's high streets', Scottish Government press release, 25 September 2012
[10] Scottish Draft Budget 2013-14, page vii

Charges and levies

16. The Scottish Government and its agencies have responsibility for levying or setting the level of a range of charges which apply to businesses including fees, licenses and permits, e.g. for regulatory services. The Scottish Government is currently considering proposals to increase planning application fees. It is also examining proposals to introduce a carrier bags levy, which could potentially mean additional administrative costs for retailers. The devolved administration has also announced plans to allow Scottish Water to start levying water and sewerage charges on empty commercial and industrial properties, however no information has been forthcoming so far over the level of charging that is being envisioned let alone the amount of money that Ministers hope will be raised. Government can assist the economic recovery by keeping a firm lid on those costs and charges under its control which apply to businesses

Council Tax

17. CBI Scotland supports the Scottish Government's continuing ambition to freeze Council Tax, which increased greatly during the decade before it was frozen. A continued freeze will see public anxiety over the level of the tax continue to lessen, and subsequently diminish any demands for wholesale changes which might place the administrative burden for calculating and collecting any replacement tax onto employers.

Skills

18. Ensuring Scotland's workforce has the skills necessary to support the move to a low carbon economy will be crucial if we are to capitalise on the potential that the green economy has to offer, and the announcement of funding for an energy skills academy is therefore welcome. In our CBI skills survey, over half of firms said incentive payments would encourage employer involvement in skills and apprenticeship schemes and help deal with rising youth unemployment. The Employer Recruitment Initiative is therefore a positive response, though we note that its value for small firms appears to have reduced to £1,500 from up to £2,000 previously. Given the Scottish Government's refusal to countenance a graduate contribution, the protection of funding for higher education must continue particularly at a time when the devolved administration's own research[11] shows Scotland is already behind its competitors in terms of university funding as a percentage of GDP. The success of Scottish business is greatly dependent on the research, innovation and graduate talent that is produced by our universities. It is essential the government continues the trend towards supporting only research of true international excellence; and that the link between this research and industry is supported by welcome initiatives such as the Interface service and the innovation voucher scheme. We continue to believe however that a mixture of funding from the public sector and individual graduates should be forthcoming for our universities.

[11] 'Building a smarter future: towards a sustainable Scottish solution for the future of HE', Dec 2010, p34

Exports

19. We called previously[12] for a more stretching Scottish target for exports in order to reflect the opportunities provided by the growth in world trade, and were encouraged at the subsequent ambition to grow exports by 50% by 2017. Scottish Development International is doing good work, and we support the Scottish Government's attempts to encourage exports to and inward investment from specific high growth economies including China, India, and Pakistan with their series of dedicated 'plans'. The lack of any re-introduction in the Budget of an Air Route Development Fund (ARDF), is however disappointing. An EU-compliant ARDF would help establish new international flight connections from Scotland to overseas business destinations and hubs, make it easier for firms to access markets and customers abroad, and help deliver the step change in Scotland's export performance that will aid the rebalancing of our economy. This is all the more so given the UK Government's short-sighted decision to restrict the ability of London's key interlining airports to expand.

Tourism and business support

20. We welcome the extra £1.5m in this current financial year to support tourism marketing, plus the continued VisitScotland Bid Fund which is seen as a vote of confidence in efforts to attract major business tourism conferences to Scotland. We continue to support the Scottish Government's focus on supporting priority sectors - through Scottish Enterprise and Highlands & Islands Enterprise - which are deemed crucial to long-term economic performance and firms with high growth potential. Grant and funding schemes like SMART, RSA, and KTPs are viewed positively by our members as a valuable means of encouraging industry to invest, expand and locate in Scotland, even more so at a time of rising external finance premiums.

Prompt payment of invoices

21. CBI Scotland supports the Scottish Government's efforts to ensure it and its agencies settle supplier invoices within 10 days, aiding the cash flow of its suppliers, and significant progress has been made. The CBI supports the prompt payment code[13] and looks forward to contributing to the Scottish Government's consultation on this as part of its proposed Better Regulation Bill.

CBI Scotland
12 October 2012

[12] CBI Scotland's submission to the Economy Committee in response to its inquiry into internationalisation, February 2010
[13] www.promptpaymentcode.org.uk

SUBMISSION FROM THE STUC

1 Introduction

1.1 It is highly unlikely that the economy will recover to any significant extent during Budget year 2013-2014. Most forecasts predict that growth will return in 2013 but not at a rate consistent with a substantial fall in unemployment. A range of domestic (fiscal consolidation, growing economic insecurity, falling real wages and household income, weak business and consumer confidence etc) and international factors (on-going problems in Eurozone, weakness in developing nations, potential for recession in US etc) will continue to combine to ensure that GDP and employment growth remain very weak. It is sobering to reflect that over four years since the start of the recession total output remains well below its pre-recession peak; manufacturing, construction and exports are not even close to achieving pre-recession levels.

1.2 The latest labour market and GDP statistics provide little cause for optimism:

- The Scottish economy contracted by 0.4% in the 2nd quarter of 2012 thereby extending the recession into its third quarter. The Scottish economy has contracted in 9 out of the last 16 quarters;

- The latest contraction was partially attributable to a decline of 2.2% in manufacturing. With growth of 1.9% in business and financial services there is little sign of the much vaunted 'rebalancing';

- Scottish unemployment rose by 7,000 to 222,000 in the three months to August 2012. Whilst clearly rising unemployment is worrying in and of itself, the STUC has consistently stressed throughout the course of the current slump that the headline unemployment statistics do not begin to tell the full story of what is happening in the labour market: full-time jobs have fallen by 100,000 and many of those that have been replaced at all, are now part-time and/or temporary insecure jobs. The Scottish Government estimates that over 240,000 people are 'underemployed' i.e. unable to work the hours they need in part-time or full-time jobs;

- Although the latest statistics show a welcome fall in the claimant count, youth unemployment remains much too high and, most worryingly, very long-term youth unemployment (18-24 year olds claiming JSA for over a year) continues to rise at a considerable pace – over 5% in the year to August 2012.

2 Scottish Budget

2.1 With the economy and labour market so fragile, it is important to be realistic about the potential of the Scottish Budget to boost growth *in the short-term*. The STUC believes that both the Scottish Government and its political opponents have been guilty of exaggerating the possibilities in this regard. Yes, it is important that measures are implemented that keep people in jobs and lead to new jobs being created but with monetary policy at the limits of its effectiveness, rapid fiscal consolidation and firms on investment strike, Scottish Government measures are unlikely to be hugely effective.

3 Areas of interest to the Committee

Whether the 2013-14 budget and the 3 year spending review contributes to sustainable economic growth within the next year and supports structural change in the long term?

3.1 It is not clear what is meant by 'structural change' in this context. Structural change could refer to many things: privatisation, deregulation, sectoral shifts (i.e. the 'rebalancing' from finance to manufacturing referred to above or the deliberate running down of polluting sectors for environmental reasons) leading to skills obsolescence/new skill demands, long-term spending reductions, growing the private sector as a proportion of all economic activity, growing the proportion of economic activity accounted for by SMEs etc.

3.2 Leaving aside the necessity for, or desirability of, structural change in the Scottish economy, it is not immediately clear that the Scottish Budget has a significant role to play in facilitating or supporting such change. Some structural change will inevitably result from global economic pressures and it may be that the Scottish Government's main role is to plan for and react to this change (whilst hopefully trying to influence some of the less benign consequences of the global economy) rather than 'supporting' it.

3.3 In terms of the sectoral composition of the Scottish economy, significant reductions in DEL's suggest a diminishing share of economic activity accounted for by the devolved state. However, the scale of the impact on total public spending to GDP ratio is uncertain: private sector activity is very weak and could remain so for some time and the share of reserved public spending will continue to be inflated by debt interest payments and the costs of paying for high unemployment.

3.4 We return below to whether the Budget is consistent with the Scottish Government's Economic Strategy which at least in part promotes growth in sectors where Scotland is adjudged to have comparative advantage.

Whether and how the resources allocated in the Economy, Energy and Tourism Budget line will be applied effectively to assist economic recovery and long-term growth?

3.5 The STUC does not believe that the resources allocated in the EET Budget line can credibly be regarded as tools to boost economic recovery at this time. Indeed, it is probably damaging to conceive of them in this way. Yes, effective organisations such as Scottish Enterprise and HIE will always have an important role to play in supporting growing businesses but it is important that crucial longer-term investments are not threatened by switching resources to short-term measures of dubious value.

3.6 The STUC is convinced that the UK Coalition Government's decision to scrap England's Regional Development Agencies has benefitted Scotland significantly. Our discussions with colleagues in Scottish Government and its agencies and perhaps more importantly with our colleagues in the TUC's regional offices lead us to conclude that inward investment in England has suffered greatly and that Scotland has been handed a discernible competitive advantage. The latest inward investment statistics seem to prove the point.

3.7 Therefore, at a time when the benefits of a properly resourced, effective enterprise network should be apparent to all, the STUC is concerned by the potential impact of:

- Real terms budget cuts for the enterprise bodies between now and 2014-15;

- Significant real terms budget cuts in the innovation and industries budget – cuts that will be implemented as research increasingly emphasises the crucial role of public support for innovation;

- The very significant efficiency savings being demanded of the Strategic Forum partners. The STUC 's main concern here is that the type of efficiency savings proposed in the Budget (greater collaboration and alignment, integrating and streamlining back-office and corporate services) will simply not be achievable. Pressure may therefore build to cut crucial employment enhancing investments.

3.8 As discussed with the Committee last year, the STUC believes the substantial spend currently allocated to the Small Business Bonus scheme would be much more effectively spent on effective business support for growing firms or innovation support mechanisms. Reallocating this spend to help address Scotland's most enduring structural failure – the failure of the financial sector to support growing, innovative businesses with patient, committed capital – would provide the greatest long term benefit.

Whether spending decisions within the economy, energy and tourism portfolio aligns with the Scottish Government's overarching purpose of increasing sustainable economic growth?

3.9 It is reasonable that the energy, as a key area of potential employment growth, should receive additional resources. However, again, it is worrying that wider business support activities – innovation and provision of patient capital – may well suffer as a result.

Consider what progress the Scottish Government is making in delivering its overarching purpose through its spending decisions with reference to the National Performance Framework (NPF) with specific regard to the economic growth, productivity, solidarity and sustainability purpose targets?

3.10 It is important to acknowledge the limits of the Scottish Government's ability to affect the targets below (which raises some questions about the wisdom of setting some of these targets in the first place). In an economy suffering a crisis of aggregate demand, a government that does not control macroeconomic policy or have the ability to deficit spend will only be able to affect the level of economic activity and employment at the margins.

To take the targets in turn:

- ***Sustainable Economic Growth*** *- To match the growth rate of the small independent EU countries by 2017*

The STUC was never convinced that this target was appropriate or based on a sound appraisal of economic potential in Scotland and other nations. It is entirely possible that this target will be achieved through growth collapsing in some of these other nations rather than a sustainable and substantial improvement in Scotland's long-term growth rate.

- ***Productivity*** *- To rank in the top quartile for productivity amongst our key trading partners in the OECD by 2017*

While raising the rate of productivity is a very legitimate aspiration, the timescale is very challenging given the long-term nature of many of the investments required to make a difference. The STUC is also continually exasperated by the narrow nature of the debate around productivity which eschews any consideration of how people are managed in the workplace.

Productivity has collapsed across the UK during the current slump; a consequence of the scale of the fall in output not being matched by a rise in unemployment. The positive view is that by keeping people in jobs current and future costs will be reduced. A more negative view is that many insecure jobs in low wage, low productivity sectors are being created with related consequences for the Scottish Government's target (as well as potentially profound impacts on individuals, families and communities).

- ***Solidarity*** *- To increase overall income and the proportion of income earned by the three lowest income deciles as a group by 2017*

Given the importance of benefits and tax credits to the three lowest income deciles the prospects for achieving this target do not look encouraging. This is clearly not the fault of the Scottish Government and it is difficult to see how the Scottish Budget could make a tangible difference at time when Fraser of Allander estimate that £2bn will be stripped from the Scottish economy in benefit cuts alone by 2015.

- ***Cohesion*** *- To narrow the gap in participation between Scotland's best and worst performing regions by 2017*

The STUC has not managed to complete a proper analysis with reference to employment and ILO unemployment and inactivity rates. However, the claimant count, which is more accurate and up to date does suggest that the slump has only further embedded regional inequalities. A table showing the position at the start of the recession and again in August this year is attached at Annex A. It shows that the worst performing areas (highest claimant count) in 2008 remain the worst performing areas now although other areas have registered steeper increases in the claimant count.

- ***Sustainability*** *- To reduce Greenhouse Gas emissions by 80 per cent by 2050*

The STUC supports this important and stretching target and was therefore surprised to hear the Cabinet Secretary frame his Budget announcement as supporting the 'relentless pursuit of economic growth'. It is difficult to reconcile this target with such a narrow view of economic development. The STUC's scepticism is increased by the Scottish Government's proposal in the Better Regulation Bill to hand environmental (and other) regulators a statutory duty to 'promote economic growth' alongside their core function.

Clearly meeting this target demands significant structural change in the Scottish economy. It is not clear how this Budget or spending review or indeed the policy framework supports such a shift.

Planned expenditure on renewable energy and fuel poverty and the impact of this expenditure on meeting the Climate Change (Scotland) Act 2009 targets

3.11 As mentioned above it is appropriate that energy receives additional resources for both economic development and environmental reasons. Realising Scotland's potential in renewables will create quality jobs – hopefully a significant number will be in fragile peripheral economies in Western isles, Caithness etc – provide export opportunities and contribute to emissions reduction. However, much more is required to address fuel poverty and meet the Climate Change targets; major modal shift in transport is but one factor.

The impact of the 2013-14 budget and the 3 year spending review allocations within the economy, energy and tourism portfolio on tackling poverty.

3.12 The links between this spend and tackling poverty are not exactly made obvious in the Budget; indeed, there is still some distance to travel if the Scottish Government's economic growth and poverty strategies are to be properly aligned. One example, is the claim made in the 'Supporting Recovery and Delivering Sustainable Growth' paper published in September 2012 which states:

> *"the Procurement Reform Bill…will ensure that community benefit clauses are included in all new major public sector contracts and that public contracts do more to boost jobs and the Scottish economy*".

3.13 Unfortunately, the consultation on the Bill, which closes in November, proposes nothing of the kind. Instead, on community benefit clauses, it offers only the very weak proposal,

> *"To ensure that public procurement spending supports the creation of new training and employment opportunities, we propose to make it a requirement that those awarding major contracts must consider including community benefits clauses and publish, with the contract notice, a statement of their approach to delivering these benefits through the contract or the reason why the contract is not considered suitable for inclusion of community benefit clauses".*

3.14 The STUC has argued for some time that there is a fundamental disconnect within an economic strategy that aims to reconcile what is euphemistically called a 'supportive business environment' with laudable social objectives. Unfortunately, this draft Budget is not the first document to sidestep the difficult decisions and trade-offs (between business and collective prosperity, between growth and sustainability, between profit and wages etc) inherent in such a strategy.

STUC
October 2011

Annex A

The figures below are a breakdown of Local Authority of those claiming benefits in March 2008 compared to those claiming in August 2012

local authority	March 2008		August 2012		
	number	rate	number	rate	% increase 08-12
Aberdeen City	1,680	1.2	3,381	2.2	101.3
Aberdeenshire	1,143	0.7	2,142	1.3	87.4
Angus	1,234	1.8	2,413	3.5	95.5
Argyll and Bute	1,202	2.1	1,740	3.1	44.8
Clackmannanshire	822	2.5	1,812	5.5	120.4
Dumfries & Galloway	2,038	2.2	3,454	3.8	69.5
Dundee City	3,298	3.5	6,140	6.5	86.2
East Ayrshire	2,523	3.2	5,007	6.4	98.5
East Dunbartonshire	881	1.3	1,811	2.7	105.6
East Lothian	702	1.2	1,963	3.2	179.6
East Renfrewshire	609	1.1	1,402	2.5	130.2
Edinburgh, City of	5,544	1.7	11,383	3.3	105.3
Eilean Siar	385	2.4	525	3.3	36.4
Falkirk	2,088	2.1	4,570	4.6	118.9
Fife	6,246	2.7	11,149	4.7	78.5
Glasgow City	14,290	3.5	25,261	6.1	76.8
Highland	2,419	1.7	3,788	2.7	56.6
Inverclyde	1,891	3.6	3,021	5.9	59.8
Midlothian	851	1.6	2,174	4.2	155.5
Moray	1,040	1.9	1,398	2.5	34.4
North Ayrshire	3,305	3.8	6,031	7.0	82.5
North Lanarkshire	5,292	2.5	12,491	5.8	136.0
Orkney Islands	115	0.9	183	1.4	59.1
Perth and Kinross	1,008	1.1	2,214	2.4	119.6
Renfrewshire	2,653	2.4	5,585	5.0	110.5
Scottish Borders	954	1.4	2,099	3.0	120.0
Shetland Islands	128	0.9	215	1.5	68.0
South Ayrshire	1,697	2.4	3,169	6	86.7
South Lanarkshire	3,970	2.0	9,513	4.7	139.6
Stirling	882	1.5	1,968	3.4	123.1
West Dunbartonshire	2,025	3.4	3,855	6.5	90.4
West Lothian	2,334	2.1	4,385	3.9	87.9
Scotland	75,249	2.2	146,242	4.3	94.3

SUBMISSION FROM FEDERATION OF SMALL BUSINESSES

Introduction

The FSB is Scotland's largest direct-member business organisation, representing over 20,000 members. The FSB campaigns for an economic and social environment which allows small businesses to grow and prosper.

We welcome the opportunity to submit comments to the Committee on the Scottish Government's Draft Budget.

Context

Over the last two years we have responded to the Scottish Government's spending plans by highlighting the need for economic stimulus, to ensure Scotland remained competitive and returned to growth. We focused on the importance of having a broad base of businesses to sustain and create jobs across the country.

Recent statistics suggest that the economic outlook is still uncertain. The Scottish unemployment rate is 8.2% while the rate for youth unemployment 23.7% , business confidence is lukewarm at best. We therefore maintain that economic recovery must be the priority for the Scottish Government's budget.

Comments

In the Cabinet Secretary's statement to Parliament last month, there were a number of positives for small businesses, particularly the retention of the crucial Small Business Bonus Scheme and the introduction of a new initiative to support small businesses to recruit. However, we pointed out that:

"The headline amount of spending in a particular department is often of less importance than how effectively that money is spent – and so it is with much of today's announcement."

We welcome budget proposals aimed at helping businesses grow, whether through infrastructure investment or recruiting more staff. But the extent to which these measures will work effectively for Scotland's small businesses will depend on how the spending is delivered. This is outlined in more detail below.

Employment

A recent report highlighted that 9 out of every 10 unemployed people who find work in the private sector do so either by becoming self-employed or being recruited by an SME. To maximise this potential, we need to ensure that the right support is there for small businesses looking to recruit. This may mean approaching employment schemes differently than has been done previously e.g. where the focus has arguably been on large employers and the public sector. The FSB recently commissioned a report to explore various aspects of small business recruitment such as how, when and why they choose to expand to better understand how public sector support can be more effectively deployed.

Job creation incentives and youth employment strategies generally focus on providing training places for individuals and finding employers to pick up those places. However, the experience of many small businesses suggests that this approach is unsuitable. Consequently, we are not capitalising on those businesses' potential to expand.

We believe that, in addition to this traditional approach, we need greater emphasis on employment measures as part of a business growth approach. Specifically, we think more flexible funding solutions will help support jobs growth in small businesses. Our initial evidence suggests that locally-developed solutions, which take account of business priorities/labour demands and direct engagement with local businesses, may be more successful at creating sustainable employment in local small businesses than national schemes. This approach may be more resource-intensive in the short term but aligns well with preventative spending principles.

The Scottish Government's budget proposes to invest in a new scheme specifically aimed at SMEs. We welcome the recognition that smaller firms require a different approach and are keen to ensure that delivery of the scheme addresses the points above and genuinely caters for the needs of small employers.

Colleges

Colleges have a key role to play in economic growth, not least in providing apprenticeships and training, but also in relation to business creation and entrepreneurship. We recognise the need for colleges to operate more efficiently and for greater collaboration. However, we are concerned about a decline in further education spending, despite additional allocations in the 2013-2014 budget.

In relation to a reduction in college places, at this stage we do not have sufficient detail to ascertain the extent to which this will affect businesses. Fewer part-time courses which are used by businesses training staff, or those seeking to re-train to re-enter the labour market, could be seen to have a negative impact on economic recovery. There may also be funding implications for institutions who rely on income generated from part-time courses.

Our response to the Scottish Government's consultation on reform of the post 16 training system sets out our priorities. In summary, we believe that colleges need to:

• Reach out more to local businesses in order to better understand first hand their employment and training needs (only 10% of our members have been contacted by a college in the last 12 months, with 43% finding this interaction useful) rather than relying on labour market information based on broad sectoral norms.

- Deliver more flexible provision, which includes:
- Offering courses relevant to local businesses in bite size modules;
- Organising vocational courses along the lines of working patterns of the target industry (e.g. shift work, weekend work, evening work) promoting good timekeeping, attendance and reliability in students and enabling learners to access further education in work; and

- Ensuring access in appropriate locations, making efficient use of local campuses and avoiding the need for small businesses to send their trainees hundreds of miles away to receive relevant training. (This phenomenon is driven by funding models – only certain centres are funded to deliver certain apprenticeship frameworks for example; and lack of responsiveness to local labour market demand)

- Continue to offer and promote enterprise and entrepreneurship training as a core part of their provision, notwithstanding the lack of dedicated funding to for this support in Scottish colleges.

We are aware of a number of instances of good practice across the country. However, we believe consideration should be given to how the funding model could incentivise more widespread adoption of good practice.

Procurement

The Scottish Government's £9bn annual spend on goods and services, which flows from the budget, could be used more effectively to support jobs and spending in local communities.

We welcome efforts to improve procurement and to open up more opportunities for small businesses. However, current figures suggest that only 7% of spend goes to micro businesses in Scotland (93% of all businesses). We believe that a better balance is required between cost savings through procurement and using spending as an economic recovery lever. With clear benefits from spending locally we want to see more public bodies using best practice, such as appropriately-sized contracts, with proportionate conditions, to get maximum economic growth potential from public spending. The forthcoming Procurement Reform Bill will be a step forward, but the difference will be made by change at the front line by those making spending decisions.

Non-domestic rates

Funding the Small Business Bonus Scheme (SBBS) is vital and we welcome the commitment of the Scottish Government to retain this small business rates relief package. The SBSS has helped to address the imbalance in the rates burden between small and large businesses, particularly in retail and when rises in other overheads such as utilities and fuel are increasing the pressure on our small retailers, any help in reducing running costs gives businesses essential breathing space. An estimated one in eight recipients of the scheme claim that it has contributed significantly to their continued viability during the economic downturn.

We welcome the latest proposal to incentivise the occupation of empty property following last year's announcement of changes to rates relief for vacant premises. We maintain that better modelling of the impact of these proposals, probably as part of the wider review of non-domestic rates, would have been a better way to make changes.

With questions now being asked about the next revaluation (which would take effect in 2015) we look forward to the forthcoming review. As outlined in our paper on the

2010 revaluation, we believe that various aspects of the revaluation process could be improved for small businesses.

Lastly, there is no doubt that the expected annual increase in the poundage rate (in line with inflation) will be a blow for those businesses currently paying business rates. The increase should not come as a surprise but clearly any rise in tax for businesses at a time when other costs are rising sharply will be difficult. Under these circumstances, we welcome the Scottish Government's ongoing commitment to maintain poundage rate parity with England.

Federation of Small Businesses
October 2014

SUBMISSION FROM STOP CLIMATE CHAOS SCOTLAND

"Only by promoting environmental sustainability, and delivering a significant reduction in our greenhouse gas emissions, will we be able to deliver growth and benefits for all over the long-term."

Scottish Government's Economic Strategy[14]

Introduction

Stop Climate Chaos Scotland (SCCS) welcomes the opportunity to respond to the Committee's call for evidence on the draft Budget for 2013-14.

SCCS is a diverse coalition of 60 organisations campaigning together on climate change, including international development, faith and environment organisations, trade and student unions and community groups. We worked together to inform the debate around the Scottish Climate Change Act when it went through Parliament in early 2009. Since then we have continued our engagement with Parliament to ensure that Scotland meets the ambitious targets set in the Act.

In July 2012, the latest greenhouse gas emissions for Scotland were published, showing an increase of nearly 2% in 2010 compared to the previous year. This meant that the 2010 annual target, as set in the Scottish Climate Change Act, to reduce emissions by just 0.07%, was missed.

The Budget now presents a key opportunity to get the Act back on track and ensure Scotland never misses a legally-binding climate target again. This is important not only to provide the benefits and opportunities within Scotland of moving to a low carbon economy but also to retain our international reputation on climate change and ensure we play our part in delivering climate justice, particularly for the world's poorest communities who are already affected by its impacts.

In line with the Committee's focus in its Budget scrutiny this year to consider "whether the 2013-14 budget and the 3 year spending review contributes to sustainable economic growth within the next year and supports structural change in the long term" and "whether the budget matches the plans within the Government Economic Strategy" (one of the six priorities of that strategy being the transition to a low carbon economy), we have focused our evidence on the need to invest in a low carbon economy to meet our climate targets and secure multiple benefits for Scotland.

Summary

- In terms of "how well environmental priorities sit alongside an overall priority of sustainable economic growth", the current budget fails to give sufficient priority to the environmental imperative of delivering the Scottish Climate Change Act and falls short of realising the economic opportunities presented by the transition to a low carbon economy.

[14] http://www.scotland.gov.uk/Resource/Doc/357756/0120893.pdf

- SCCS welcomes the Green Investment Package announced in the 2013-14 draft Budget, but does not believe that this funding is at a sufficient level to meet climate change targets, as set in the Climate Change (Scotland) Act 2009.

- SCCS recommends that this Budget provides at least £100m in public funding for National Retrofit Programme and moves towards 10% of the transport budget being allocated to active travel, alongside a decisive shift away from spending on large road-building programmes which will increase emissions.

- Moving towards a low carbon economy and funding measures to cut emissions will also bring multiple benefits right across the Scottish economy, including thousands of jobs and improved health.

- Stop Climate Chaos Scotland supports the work being done by Oxfam, WWF and others on alternative measures of prosperity and welcomes the Committee's inquiry in this area.

Opportunities and benefits of low carbon investment

The Scottish Government has stated that there are "significant opportunities associated with the transition to a low carbon economy" including the potential for low carbon activity to grow to 10% of the Scottish economy by 2015 and provide 130,000 low carbon sector jobs by 2020[15].

The CBI also recently confirmed that "Green or growth' is a false choice, highlighting that 'a third of the UK's economic growth in 2011-12 came from green business"[16]. While excellent progress has been made in Scotland to realise the potential of the renewable industry to reduce emissions and create green jobs, there is still much more that will need to be done in the home energy and transport sectors to ensure maximum impact of these opportunities can be reaped in Scotland.

Homes and transport: key sectors to reduce emissions

The 2010 emissions data published earlier this year showed that emissions from the housing and transport sectors are higher now than in 1990[17]. Transport and home energy efficiency programmes are two of the key areas where significantly more effort is required to meet our climate change targets. **SCCS recommends that the Budget provides at least £100m in public funding for home energy efficiency programmes and moves towards 10% of the transport budget being allocated to active travel.** At the same time, there needs to be a move away from spending vast amounts of public funds on carbon-intensive activities.

There is evidence[18] that investing in low carbon transport and energy efficiency/fuel poverty projects can bring benefits to small to medium businesses across Scotland. Because this work will be required across the country, it is much more accessible to smaller, local businesses than large road-building projects in particular locations

[15] Scottish Government, Low Carbon Scotland: Meeting the emissions reduction targets 2010-2022, The Report on Proposals and Policies, http://www.scotland.gov.uk/Resource/Doc/346760/0115345.pdf
[16] http://www.cbi.org.uk/infographics/how-the-uk-can-make-the-most-of-green-growth
[17] http://www.scotland.gov.uk/Resource/0039/00397478.pdf
[18] Sustrans evidence on Budget 2012-13 to ICI Committee: http://bit.ly/ub09Qr

would be. For example, the development of National Cycle Network route 78 (Oban-Ballachulish) was delivered by local firms. Small projects like these keep money in the local economy and ensure that capital investment and the resulting job creation is spread cross Scotland.

In addition, investing in low carbon activities can improve the health and well-being of the Scottish population, reducing costs in public health care and contributing to the economy. Increasing cycling rates by improving facilities has a positive effect on health and would translate into an annual economic value of up to £2.03 billion[19]. In another example, air pollution from transport and power stations results in an average reduction in lifespans of around 8 months. In Scotland, that equates to 5,000 deaths and up to £2 billion in health costs annually[20]. The most recent report on air pollution shows that Glasgow is failing to meet European standards for air quality[21].

In the Committee's Budget report last year, it was noted that: "The Cabinet Secretary for Infrastructure and Capital Investment...said— "we absolutely accept that investment in fuel poverty measures of the kind that we are taking is essential if we are to improve the nation's health, employment levels, environment and educational attainment". This has yet to be translated into sufficient funding for energy efficiency and fuel poverty programmes in the draft Budget for 2013-14, which provides £65m for energy efficiency and fuel poverty, less than the funding available in the current year and £5m less than in 2010-11.

Increased costs of not tackling Scotland's emissions

Delaying action to tackle climate change will mean Scotland will not maximise the opportunities presented by developing Scottish expertise and industry around the low carbon economy, meaning we become increasingly reliant on importing green technology and expertise in future. Scotland's Climate Act provides clear, long-term policy direction that makes Scotland an attractive place for investment in low carbon industries. In order to fulfil this significant potential, the framework of the Act must be complemented by the necessary level of public sector funding to stimulate private investment.

Ensuring transparency and facilitating Parliamentary scrutiny

SCCS notes the letter from the Committee to the Scottish Government[22], requesting that the revised *Low Carbon Scotland, Report on Proposals and Policies* (RPP2) be published in time for this round of Budget scrutiny. The draft Budget does not fund the proposals and policies (for relevant years) required in the existing RPP, which

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[19] Transform Scotland Trust, Towards a Healthier Economy, http://www.transformscotland.org.uk/GetFile.aspx?ItemId=108

[20] Friends of the Earth Scotland, 42% Better, http://foe-scotland.org.uk/sites/files/42PercentBetter_0.pdf

[21] http://uk-air.defra.gov.uk/library/annualreport/air_pollution_uk_2011.pdf

[22] http://bit.ly/QvV0hm

therefore does not address the concerns the Committee's raised last year on this subject[23].

It is important that, having missed the first climate target and greater policy effort therefore being required to get us back on track, the Committee seeks clarification from Ministers as to how the draft Budget will ensure future climate targets will be met. As a minimum, RPP2 must accurately describe the funding commitment of the final budget and the actual resulting emissions savings so it is possible to see where additional reductions have been made.

Conclusion

Scotland has committed to the most progressive climate change legislation anywhere in the world. Given that the first emissions reduction target under the Scottish Climate Change Act has been missed, there must be considerably increased action to ensure that future targets can be met. This Budget provides a key opportunity to get us back on track.

However, the Budget as drafted does not allocate sufficient funding to low carbon transport, nor to home energy efficiency and fuel poverty programmes. SCCS calls for increased funding levels for these areas, while at the same time, reducing the huge levels of public funds which are allocated to road-building programmes and which will increase Scotland's emissions.

There are multiple benefits presented by shifting away from high carbon activities to a low carbon economy, such as improved health and well-being and substantial job opportunities. SCCS encourages the Committee to urge Government to urgently use these opportunities to reduce emissions and create positive benefits for people across Scotland, while meeting the emissions reduction targets set in the Scottish Climate Change Act.

Stop Climate Chaos Scotland
October 2012

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10 The EET Committee Report on Budget 2012-13 noted that: "WWF and Stop Climate Chaos Scotland both called for a budget amendment in order to meet the Scottish Government's legally binding climate change targets." http://bit.ly/RGMn2L

SUBMISSION FROM WWF SCOTLAND

WWF Scotland welcomes the opportunity to submit evidence to the Economy, Energy and Tourism Committee on the Draft 2013/14 Scottish Budget. All economies rely on the resources the natural environment provides, and we believe budgetary decisions should take into account the reality of the environmental limits of our one planet. The Scottish Budget is an important lever in securing a future where we live within environmental limits – a 'One Planet' economy. With the right framework and approach, Scotland can establish an economy that focuses on ensuring a good quality of life, wellbeing and healthy environment for all.

Summary

- The National Performance Framework provides a good basis to help integrate spending decisions to deliver a flourishing sustainable Scotland. Focusing on sustainable economic growth alone risks undermining this potential to deliver on these broader outcomes.

- Last year three committees (EET, RACCE & ICI) echoed our concerns that Government spending plans were mis-aligned with their climate change commitments. We do not believe that the 2013-2014 budget addresses this and in the context of the Government missing the first emission reduction target set out in the Climate Change (Scotland) Act are particularly concerned about this.

- In order to prevent further climate targets being missed, the draft budget should be strengthened to get Scotland back on track to deliver on our low carbon future. The Green Investment Package is welcome but falls short of anything like the step change in investment required to make our homes and transport system low carbon.

- On homes, the Draft Budget for 2013-14 proposes £65m for energy efficiency and fuel poverty, less than the spend this year and £5m less than 2010/2011. Our analysis reveals that a significant shortfall exists in the level of spending necessary to meet our Climate emissions and fuel poverty targets and we urge Government to at least double investment in this area.

- On transport, the Draft Budget remains at odds with the need to cut emissions from this sector. While the proposals include welcome commitments on public transport and a modest boost to the cycling budget of £6m over two years, spending on active travel remains at under 2% of the budget rather than the 10% we believe is necessary.

Spending Decisions and the National Performance Framework

The Government's Economic Strategy stated that 'only by promoting environmental sustainability, and delivering a significant reduction in our greenhouse gas emissions, will we be able to deliver growth and benefits for all over the long-term.'[24] WWF believes the purpose of our economic framework, therefore, should be to

[24] http://www.scotland.gov.uk/Publications/2011/09/13091128/3

support the delivery of sustainable development – reducing our impact, tackling inequalities and improving wellbeing. In this context we welcome the Committee interest in exploring whether GDP should be supplemented with more representative measures of wellbeing and success.

The National Performance Framework (NPF) sets out a broad range of outcomes for economic, social and environmental progress and we welcome the Committee commitment to consider the progress Government is making in delivering these broader range of purpose targets in the context of the Budget. In theory, the NPF provides a very useful basis to inform, assess and scrutinise spending decisions in a coherent manner. However, to date, we have seen little evidence that the Government have used this broader set of outcomes to inform spending decisions.

Too often, spending decisions have been made to support economic growth, and not necessarily the other aspects that we would consider key to a 'flourishing Scotland'.

There is considerable scope to ensure spending decisions support long-term solutions that deliver multiple economic, social and environmental benefits in an integrated manner and the framework provided by the NPF could be used to better facilitate this.

Preventative spending within the EET portfolio

WWF Scotland supports the Government commitment to pursuing a preventative spend approach and notes that the 2012-13 Spending Review identified tackling climate change as an important aspect of such an approach. The Stern Review concluded that the benefits of strong, early action on climate change outweigh the costs and there are many examples where investing money now could not only help us cut emissions but also deliver multiple benefits and associated cost savings over the longer term. The Government has yet to realise many of these opportunities and we recommend that greater support for a programme of work on low carbon homes and low carbon transport would deliver many preventative spend opportunities, not least in the health benefits associated with active travel and warm homes (more details below).

The Future Transport and Warm Homes Funds offer considerable potential to boost investment in these areas although we note that to date the Future Transport fund has allocated less than £3m specifically to support walking and cycling.

The Budget and the Climate Change (Scotland) Act and fuel poverty targets

WWF Scotland welcomes the inclusion of the 'Transition to a Low Carbon Economy' as a Strategic Priority in the Government's Economic Strategy and that securing opportunities from a low carbon economy has been identified as one of the priorities for the budget. However we are concerned that tackling climate to be adequately embedded into Government spending decisions.

Last year, the EET, RACCE and ICI committees echoed our concerns that the Government's spending plans were mis-aligned with their climate change ambitions, with the RACCE committee 'urging' the Scottish Government to 'ensure all proposals and policies in the RPP, and any future revisions of the RPP, are fully funded, in order to meet the targets set out in the Climate Change (Scotland) Act.'2 Earlier this year the Scottish Government missed its first annual emissions reduction target for 2010 under the Climate Change Act, with emissions from the housing and transport sectors on the rise. We have serious concerns that despite this call, the 2013-14 budget does not fully fund the RPP.

Emissions from the housing and transport sectors, which are responsible for over 40% of Scotland's emissions are higher now than in 1990.[25] It is therefore imperative for the budget to prioritise spending in measures to cut emissions and ensure Scotland is back on track to deliver our climate emission targets.

While the Green Investment Package, announced as part of the Draft 2013/14 Budget, is welcome the level and nature of funding provided falls far short of supporting any transformational shift towards a low carbon economy.

Spending priorities:

Homes: Spending on home energy efficiency falls far short of the level required to ensure that Scotland's homes deliver emission reductions in line with the Climate Scotland Act targets and deliver on the Government target to eradicate fuel poverty by 2016.

Recent analysis for WWF Scotland[26] reveals the scale of the gap between the total investment required to meet a 42% reduction in emissions from housing (£7.7 bn) compared with the current and projected rate of investment by government and the Energy Company Obligation (£1.5bn). Even to reach the government's target for emissions reductions from housing as set out in the Report on Proposals and Policies of 36% would require a total investment of £4.6bn, three times planned expenditure. The report reveals that in order to meet the fuel poverty target £6.3 bn is required, compared with an estimated investment of £0.54bn by 2016/17.

The Draft Budget for 2013-14 proposes £65m for energy efficiency and fuel poverty, less than the spend this year and nearly £6m less than that in 2010/2011. Alongside this the Government have announced £20m drawn down from the UK Government to support the Green Deal over the next two years. We recognise that government cannot be expected to plug all of this funding gap, however for the National Retrofit Programme to be effective and lever in the necessary private investment, we believe it must be funded to the tune of at least double the current spend to deliver our climate and fuel poverty commitments. This funding needs to be complemented by the introduction minimum standards of energy performance for all housing to drive demand.

Transport: The modest boost in funding for cycling is welcome but the transport budget remains heavily dominated by spending on motorways and trunk roads with less than 2% of the total budget allocated to walking and cycling. Edinburgh council

[25] http://www.scotland.gov.uk/Resource/0039/00397478.pdf
[26] *Mind the Gap: Funding Home Energy Efficiency to deliver Scotland's Climate Change and Fuel Poverty Targets – an analysis of the investment challenge*, (October 2012), a report to WWF Scotland by Verco.

is showing leadership in supporting active travel spend by committing to spending 5% of its transport budget on walking and cycling and urge the Government to follow this example and work towards spending 10% of the transport budget on boosting walking and cycling.

Low Carbon Economy – an opportunity

The 'green economy' is now a major factor in delivering jobs and investment into Scotland and will be key to building a thriving and resilient economy. A recent report by environmental think tank Green Alliance, shows that the UK's green economy has shown true recession resilience, growing healthily since the banking crisis. It highlights that the economy is set to return to 2007 levels by 2014 at the earliest, but the green economy is forecast to grow by 40% in that same period. In Scotland, the report highlights the astonishing success of the green sector in delivering jobs and investment. Low carbon and environmental jobs (77,700) now outnumber those in motor trades (46,000) and telecommunications (18,700) combined and are almost on a par with those in finance sector (86,800). Scottish Enterprise estimate that jobs in Scotland's low carbon sector could grow by 4% per year to 2020, rising to 130,000.

Spending on energy efficiency, active travel and peatland restoration all offer significant opportunities to boost the economy and the nature of these programmes means that rural parts of Scotland are well placed to benefit with SMEs able to access and deliver such programmes, supporting jobs and economic activity in the local economy.

PRIORITY 1:

A national retrofit programme to improve the energy efficiency of Scotland's homes

The benefits:

- **Climate emissions**: 42% reduction in residential emissions on 1990 levels (saving 2.1MtCO_2).

- **Jobs**: 10,000 direct jobs per year (full time equivalent).

- **Economy**: Add £400m GVA each year to Scotland's economy.

- **Fuel bills**: A £4.4bn reduction in total fuel bills over the period to 2020.

- **Health**: According to the Fuel Poverty Advisory Group for England, for every £1 spent on fuel poverty, 42p is saved by the NHS. Cutting the incidence of asthma and respiratory problems could reduce the number of children and working adults taking time off for illness by 15 and 25% respectively.

- **Additional benefits**: Expenditure on improving the energy efficiency of our existing housing is spread across the country, helping to ensure all communities benefit from the employment opportunities available. The Fuel Poverty Advisory group for England reported that tackling fuel poverty will improve local economic activity, particularly in deprived areas where money not spent on fuel bills will find its way into the local economy.

PRIORITY 2:

A national active travel programme to boost active travel to levels already found elsewhere in Europe.

The benefits:

- **Jobs/Economy**: On the basis of current returns doubling the National Cycle Network would see £12m investment a year to SMEs in the construction sector and an additional £100m a year in the leisure and tourism sectors. This programme would support delivery of the

- Government target for 10% of all journeys in Scotland to be taken by bike by 2020.Research published by the Transform Scotland Trust report that switching 20% of Scottish car commuting journeys to walking or cycling could result in economic savings of between £0.6bn and £2bn per year.

- **Health**: The value of the health benefits from the use of the National Cycle Network in Scotland is estimated at £49.2m for walking and £54.2m for cycling. At these rates doubling the National Cycle Network could see additional health benefits equivalent to over £100m a year in Scotland.

- Research published by the Transform Scotland Trust has estimated that if Scotland were to secure cycling levels similar to those in continental Europe the Scottish economy could save £1-2bn each year on health care costs. Sir Liam Donaldson, England's former Chief Medical Officer, has described physical activity as "one of the most undervalued interventions in public health."

- **Additional benefits**: Sustrans note that active travel schemes are often relatively small and support local companies. In evidence to the Infrastructure & Capital Investment Committee Professor Tom Rye noted that "smaller and more local projects in transport investment generate more jobs per pound spent. They also reduce leakage from the local economy" and that "if we are serious about the economy and delivering economic development benefits quickly through transport investment projects, such as they are, large projects appear to be the wrong priority focus."

WWF Scotland
October 2012

SUBMISSION FROM SCVO

Summary

- The Scottish Government economic strategy shouldn't focus on economic growth as the sole measure of progress but take a wider perspective encompassing a range of social, environmental and economic outcomes.
- We should take a more sophisticated approach to business support, rewarding activity that leads to positive social and environmental outcomes, both in Scotland and for poor communities abroad, rather than providing blanket one-size-fits-all support.
- Through the change funds and other Government support, the third sector is uniquely placed to deliver community-based preventative solutions.
- The UK Government's welfare reforms are likely to have a devastating impact on Scotland's most vulnerable communities and we need a coordinated response.

Our response

SCVO welcomes the opportunity to respond to this consultation and would like to contribute to the following key issues as identified by the Committee.

1. Whether spending decisions within the economy, energy and tourism portfolio aligns with the Scottish Government's overarching purpose of increasing sustainable economic growth.

We would make two points in response to this: one general about the need to move away from a focus on economic growth and the other specific about the way money is spent within the enterprise, energy and tourism portfolio.

a) Moving away from a focus on economic growth

In recent months SCVO has been facilitating discussions amongst third sector and civil society groups about how to reconfigure our economy. These groups, each working in different areas, share common goals and principles including: social justice, respect for environmental limits, a preference for community based approaches, and a belief that individual wellbeing is best measured not by narrow definitions of economic progress but a wider approach based on collective prosperity.

We were also one of a number of supporters of a Friends of the Earth Scotland, Oxfam and WWF briefing in 2011, which called for the National Performance Framework to be re-worked by replacing the sustainable economic growth focus with two new headline indicators of flourishing (encompassing subjective measures of wellbeing as well as wealth and income distribution), and environmental impact (encompassing a range of resource-use measures). We would also suggest that prevention is engrained as a goal in the NPF, measuring the extent to which public funds are being moved towards early interventions. A remodelled NPF could provide a basis for more integrated policy across various Government departments. However progress against the NPF needs to be more open and transparent, being regularly reported on and scrutinised, particularly in Parliament.[i]

Generally then, we would seek to align spending decisions with outcomes that deliver maximum social, environmental and economic benefit to people rather than with the purpose of achieving sustainable economic growth. Spending solely designed to increase economic growth can have seriously negative social, environmental and even long-term economic consequences and is a poor measure of progress when compared against measures such as Oxfam's Humankind index.[ii] [iii]

b) Spending within the Enterprise, Energy & Tourism portfolio

Specifically within the Enterprise, Energy and Tourism portfolio, the extra funding for renewable projects is likely to bring significant economic and environmental benefits (energy increases to £115.9 million in 2013/14 from 64.3 million in 2012/13). However, we do have concerns that this funding is not bringing the maximum social benefit. We believe more contingencies could be placed on investment in order to link the low carbon agenda with greater social benefits. This could be done in various ways. In parts of France there are stipulations/incentives for 'local content', where produce needs to be manufactured in the local area; while in Denmark there is a 'community right to buy' or a 'community stake', where local communities and not-for-profit organisations have the right to buy up to a certain percentage of private sector developments. These stipulations could be important as the vast bulk of projects in the pipeline are commercial projects. Having said this, we would also like to see increased support for community-owned energy schemes given the significant social and economic benefits these projects have over and above commercial projects.

We would note the large amounts of funding that goes towards Enterprise bodies (£228.2m in the draft budget) and would urge that social and environmental benefits are stipulated to ensure positive outcomes and a more quid-pro-quo relationship are attained. This is equally important for large Scottish multi-nationals operating abroad, such as major financial institutions and energy companies as it is for inward investment.

The third sector budget line remains static in cash terms (£24.5m). This is at the same time as our 'third sector statistics', published in September, makes clear voluntary organisations, particularly the smallest, are struggling financially and dipping into their reserves.[iv] While we all want the third sector to be more financially secure, we also have to realise that some activities won't ever yield a return.

2. What progress has been made by the Scottish Government on the preventative spending agenda within the economy, energy and tourism portfolio areas and, in particular, in the implementation of the change funds.

Because it is still early in the development of the reducing re-offending change fund, some of our analysis comes from our learning and interaction with other change funds. Although the change funds were, and are, a welcome contribution towards preventative spending, we would make two main points about how they could be improved:

a) Supporting community-based prevention

Our view is that the best examples of preventative spending are those that take a community based approach. There are numerous examples of these from the third sector – such as the Comas charity Serenity Café which links people recovering from drug dependency, allowing them to create their own recovery community. The third sector is naturally well-placed to deliver these approaches – working with service users and volunteers. Our experience of the change funds is that spending isn't being sufficiently directed to these community based solutions.

b) Embedding change

The change fund(s) was understood to be designed to stimulate a shift in the balance of spending and blaze a trail for institutional spending. While it is clear that many good projects and services have been funded via this mechanism it is very *un*clear whether this has prompted real change in the more general approach to planning, management focus, enabling systems and the level of public spending to embed a shift to prevention.

Recognition of the community solutions that the third sector can generate and its ability to drive change across spending must therefore be a priority when it comes to the change funds itself and wider institutional spending.

3. Consider what progress the Scottish Government is making in delivering its overarching purpose through its spending decisions with reference to the National Performance Framework (NPF) with specific regard to the economic growth, productivity, solidarity and sustainability purpose targets.

As previously outlined, we would prefer an overarching focus on a more sophisticated measure of progress than economic growth.

With regards to the solidarity targets, we would emphasise the potentially disastrous consequences of the UK Government's welfare reforms. As the Poverty Alliance and Child Poverty Action Group summarised in a recent briefing to MSPs in relation to the Scottish Welfare Reform Bill (now Act):

> "A combination of structural reforms to the social security system alongside unprecedented cuts to the level of financial support available is impacting on households both in and out of work. By 2014/15 a total of £20billion a year will have been cut from the value of, already inadequate, benefits and tax credits, an estimated £2billion a year in Scotland alone. The bulk of this financial loss has still to come."[v]

It is self-evident that the most vulnerable in our society will be hit by welfare cuts, yet it is unclear how the Draft Budget has anticipated this.

A preventative approach combined with investment in immediate support for some of our most vulnerable communities will be critical here. The third sector is already at the frontline for support and advice, and many organisations are highlighting the potential impact of the welfare reform agenda on families in Scotland. Increasingly, the Scottish Government must consider how it collectively prepares for and responds to the potential impact of current benefit policy. For example, Carers Scotland highlights that once the 20% cuts to disability benefits come through, there will be wider impact on some of the Government's economic outcomes, impact on health and other services and put greater pressure on social housing. The wider impact on working families of recent announcements relating to Universal Credit is likely to exacerbate inequalities and put further pressure on public services such as the NHS.

A cross portfolio review on the impact of welfare reforms and a review of budget commitments will be necessary. This review could also look at making connections across the change funds, conjoining early years/older people's change funds to develop community based approaches to family support and enabling older people to remain at home and be as independent as possible. It should also look at the possibility of funding a wide-ranging community programme, such as that which existed in the 1980s, supporting people to help others in their local community. Such an approach would benefit local economies and community capacity - keeping money in the local area, increasing individual's social skills and experience, and making linkages across a diverse range of ages and communities.

With regards to the sustainability targets we would note that the Government missed its first emissions target earlier this year and that more spending needs to be directed to areas like energy efficiency/fuel poverty and sustainable transport that bring multiple social/economic benefits as well as reduce emissions.

4. Planned expenditure on renewable energy and fuel poverty and the impact of this expenditure on meeting the Climate Change (Scotland) Act 2009 targets.

As previously mentioned the increased spending for renewable energy is likely to bring environmental benefits, although we believe Government could use its leverage to bring greater social benefits, supporting community renewables in particular.

The planned expenditure on a national retrofit programme is very welcome and, if properly funded, is perhaps the greatest possible action the Scottish Government can take to address fuel poverty and reduce emissions. This is particularly welcome at a time when fuel poverty is forecast to increase due to recent and planned price hikes from the big 6 energy companies as well as UK welfare reforms leading to lower incomes for the poorest.

5. The impact of the 2013-14 budget and the 3 year spending review allocations within the economy, energy and tourism portfolio on tackling poverty.

Within the enterprise, energy and tourism portfolio there seems to be relatively little focus on tackling poverty. We would urge all spend – whether it be funding for renewable energy or funding for enterprise bodies to be designed to address poverty.

Beyond this, and given the current state of the economy and the labour market, we need to look at the possibility of funding a wide-ranging community programme. This would be similar to that which existed in the 1980s, supporting people to help others in their local community.

Such a model could be based on the Community Jobs Scotland scheme which uses national co-ordination but local delivery. It creates a tailor-made experience that changes from Lerwick, to Wick, Aberdeen to Dundee, Stranraer to Berwick.

It would also build on the personalisation agenda, supported by the Scottish Government through the Self-Direct Support Bill, but extended to employability; a bespoke service across the country that could support individuals from all backgrounds back in to the labour market.

Conclusion

Stimulating economic growth for its own sake is a model that has failed, and we need to take a more sophisticated approach to the economy. This means reframing our economic strategy as well as taking a more nuanced approach to business support. With squeezed public budgets, we need to make sure our spending results in multiple wins, benefitting communities and the environment, as well as creating sustainable jobs.

We also need to recognise that the elephant in the room is welfare reform and its impact – already being felt now across the statutory and third sectors. This requires a fundamental re-think of existing spend and planning for additional demand, impact on health, local services, transport and other areas. A coordinated response would include considering a community programme to mitigate the impact and build community capacity.

About us

The Scottish Council for Voluntary Organisations (SCVO) is the national body representing the third sector. There are over 45,000 voluntary organisations in Scotland involving around 137,000 paid staff and approximately 1.2 million volunteers. The sector manages an income of £4.4 billion.

SCVO works in partnership with the third sector in Scotland to advance our shared values and interests. We have over 1300 members who range from individuals and grassroots groups, to Scotland-wide organisations and intermediary bodies.

As the only inclusive representative umbrella organisation for the sector SCVO:

- has the largest Scotland-wide membership from the sector – our 1300 members include charities, community groups, social enterprises and voluntary organisations of all shapes and sizes

- our governance and membership structures are democratic and accountable - with an elected board and policy committee from the sector, we are managed by the sector, for the sector

- brings together organisations and networks connecting across the whole of Scotland

SCVO works to support people to take voluntary action to help themselves and others, and to bring about social change. Our policy is determined by a policy committee elected by our members.[vi]

Further details about SCVO can be found at www.scvo.org.uk.

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[i] http://www.foe-scotland.org.uk/sites/files/NPF%20briefing%2009-11-11.pdf
[ii] See for example, Stiglitz 'The Price of Inequality' (2012) as well as Wilkinson and Pickett 'The Spirit Level' (2009)
[iii] http://policy-practice.oxfam.org.uk/our-work/poverty-in-the-uk/humankind-index
[iv] http://www.scvo.org.uk/wp-content/uploads/2012/09/SCVO-Scottish-Third-Sector-Statistics-2012.pdf
[v] Parliamentary Briefing from CPAG in Scotland and the Poverty Alliance – Stage 3 Debate Welfare Reform, (Further Provision) (Scotland) Bill (June 2012)

[vi] SCVO's Policy Committee has 24 members elected by SCVO's member organisations who then co-opt up to eight more members primarily to reflect fields of interest which are not otherwise represented. It also includes two ex officio members, the SCVO Convener and Vice Convener.

Appointment of EU Reporter

Background

The Scottish Parliament's EU Strategy

1. The EU Strategy and related annexes is available on the Parliament's website—

http://www.scottish.parliament.uk/s3/committees/europe/inquiries/euDirectives/documents/EUStrategy_Final.pdf

2. The EU Strategy outlines the enhanced role of subject committees in early engagement and in the scrutiny of emerging EU legislative proposals. Subject committees are responsible for appointing EU Reporters and for scrutinising EU proposals within their area.

The role of the EU Reporter

3. The role of the EU Reporter is to act as 'champion' for EU matters within the Committee. This will involve promoting the European dimension in the work of the Committee, taking the lead on EU early engagement and in developing relationships with the European Commission and European Parliament, leading the Committee's EU scrutiny work, promoting and speaking to European issues, highlighting the European dimension within policy debates and acting as a conduit between the Committee and the European and External Relations Committee of the Scottish Parliament.

For decision

4. The Committee is invited to select a Member to act as EU Reporter for the Committee.

Dougie Wands
Senior Assistant Clerk

EU Engagement 2011 – 2012

Purpose

1. To consider and agree a report to the European and External Relations Committee.

Background

2. At its meeting on 8 February 2012, the Committee considered the European Commission Work Programme and agreed its priorities for scrutiny of EU issues.

3. Under the terms of the Parliament's EU Strategy, subject committees are required to report on an annual basis their EU scrutiny activity to the European and External Relations Committee.

4. A draft report is attached.

For decision

5. The Committee is invited to agree the terms of its report to the European and External Relations Committee.

Dougie Wands

Senior Assistant Clerk

ECONOMY, ENERGY AND TOURISM COMMITTEE

EU ENGAGEMENT 2011 – 2012

EU reporter: Stuart McMillan MSP *(until 18 September 2012)*

Agreed committee priorities

- Communication on an Internal Energy Market (with particular emphasis on the development of a North Sea Grid)
- Communication on energy efficiency
- State aid as follows (Strategic Initiative in the field of substantive State aid rules; Review of the State aid rescue and restructuring guidelines; Review of the State aid de minimis; Review of the State aid research and development and innovation framework
- Financial Services

Committee actions

- Due to a lack of progress in relation to the Committee's agreed priorities, no specific action was taken by the Committee during the course of the year
- During its inquiry into the achievability of the Scottish Government's renewable energy targets, the Committee considered issues surrounding integration with the European energy market through interconnection. In particular, it scrutinised the actions of the UK and Scottish Governments regarding the issue of interconnection via the North Sea Countries Offshore Grid Initiative.

Other EU engagement

- None

Subsidiarity

- Number of proposals received: None

Number of issues referred to European & External Relations Committee

- None

Other comments
N/A