Dear Murdo,

DRAFT BUDGET 2015-16

Thank you for your letter of 3 June helpfully outlining the Committee's proposed approach to the scrutiny of the Scottish Government's 2015-16 Draft Budget.

I note that the Committee's focus will be on the NPF national indicator to increase exports and to take forward items highlighted within your 2014-15 budget report.

As requested I enclose, at Annex A, the Scottish Government's update on specific actions taken since the EET Committee's report on the budget.

I am happy to keep my diary clear on 5 November to allow me to provide oral evidence to the Committee. I would be grateful if you could advise my office when this date is confirmed.

JOHN SWINNEY

St Andrew's House, Regent Road, Edinburgh  EH1 3DG
www.scotland.gov.uk
Dear Minister

DRAFT BUDGET 2016-17

I am writing to inform you that the Scottish Government’s 2016-17 Draft Budget has been submitted to the Committee for consideration. The Committee is invited to provide its comments on the Draft Budget, which will be considered by the Cabinet Secretary for Finance and the Scottish Government.

The Scottish Government’s Draft Budget for 2016-17 sets out the Scottish Government’s spending plans for the coming year. It reflects the priorities of the Scottish Government and is an important part of the Scottish Parliament’s scrutiny process.

The Committee will consider the Draft Budget in detail and will provide its recommendations to the Scottish Government. I would be grateful if you could provide any comments on the Draft Budget that you believe would be relevant to the Committee’s deliberations.

Yours sincerely,

John Swinney

[Signature]
Specific indicators [paragraphs 25-29]

1. The Committee invites the Scottish Government to respond to comments on this particular indicator [increase the number of businesses] and either to demonstrate that the indicator is a meaningful measure of increased growth potential or consider introducing a more nuanced and detailed set of indicators of entrepreneurial growth. What recommendations has the Round Table sub group made and what actions has the SG taken as a result?

The Round Table subgroup is currently reviewing the coverage of the indicator set and investigating possible improvements. It is yet to make any recommendations.

Access to funding for small and medium sized businesses [paragraph 30-46]

2. The Committee invites the Scottish Government to detail what the budget in 2013-14 for the EDGE fund was and what the total number and value of grants given to date has been. What are the figures for 2014-15 and 2015-16?

The Scottish Government has committed a budget £3.05 million to deliver four rounds of the Scottish EDGE Fund during 2014-15 and 2015-16. This includes a commitment to the delivery of a Young EDGE category specifically for enterprises led by young people aged 18-30. The first round supported by this continued commitment made a further fifteen awards totalling £660,000, while the Young EDGE category made an initial ten awards totalling £75,000, on Monday 16 June 2014.

Inclusive of the preceding three rounds the Scottish EDGE Fund has made 69 awards totalling £2,556,287 and ten Young EDGE Awards totalling £75,000. On-going monitoring of Award recipients demonstrates to date; the creation of at least 120 sustainable jobs in growing ventures, increased turnovers of at least £5,000,000 and further private investment levered of at least £2,850,000.

3. The Committee also requests the Scottish Government provides an update on the outcomes of the RBS review and OFT study and to state what difference these will make to SMEs accessing funding. Please update the Committee on actions taken by the SG and what improvements these have brought.

It is still too early to comment on any difference in SMEs accessing funding from the impact of this work. The Scottish Government view in respect of the RBS review remains as set out in our response dated 6 May 2014 to the Committee's report on “SME Access to Finance and Alternative Financing Models” (EET/S4/14/R3) and published on the Committee's website[^1], i.e. “The recommendations of Sir Andrew Large's independent review should provide a positive platform for Royal Bank of Scotland (RBS) to be more transparent with customers, take a fresh look at lending

and, in doing so, help rebuild the reputation of the wider banking community. Understand that all recommendations are being implemented positively."

In addition, the Committee will be aware that review The Financial Conduct Authority (FCA) appointed Promontory Financial Group and Mazars to conduct an independent skilled persons report under section 166 of the Financial Services and Markets Act (FSMA) 2000 to examine RBS treatment of business customers in financial difficulty and consider allegations of poor practice set out in the report by Dr Lawrence Tomlinson and referenced in Sir Andrew Large's report. The FCA expects to publish the outcomes from the review in Q3 2014.


The Competition and Markets Authority (CMA) announced on 11 March 2014 [https://www.gov.uk/government/news/cma-announces-programme-of-work-on-banking](https://www.gov.uk/government/news/cma-announces-programme-of-work-on-banking) a short programme of work on banking, which will lead to a decision on whether or not to make a market investigation reference to be conducted by a CMA panel of independent members. The CMA will build on the Office of Fair Trading’s (OFT) work in the sector, by concluding the market study into banking for small and medium sized enterprises (SMEs). In taking forward both the market study and the update on personal current accounts, the CMA will be informed by continuing dialogue with the sector, with representatives of SMEs and consumers, and also by work currently undertaken by others, such as the UK Government’s Treasury Select Committee’s inquiry into SME lending. It will also consider any other studies or inquiries that add to the evidence base for its work. The CMA will publish the findings of its work on both personal current accounts and SME banking during Summer 2014, including its provisional decision on whether or not the statutory criteria for making a market investigation reference are met and, if they are met, whether it would be appropriate for it to exercise its discretion to make a market investigation reference. It will then consult on that provisional decision. Following that consultation, the CMA will then make a final decision on those issues during Autumn 2014.

4. The Committee also asks the Scottish Government to provide full details of the current and prospective availability of public and public/private partnership funding for small business and to indicate how it can address concerns of some in the business community relating to the availability and affordability of finance and information about available sources of funding. Please update the Committee on actions taken by the SG and what improvements these have brought.

The Scottish Government response of 6 May set out in some detail an illustrative range of support available from the enterprise agencies and Business Gateway to assist the business community to access finance. It remains the position that using currently devolved powers, advisory support is available through Scotland’s enterprise agencies and Business Gateway, to help SMEs improve their chances of securing funding from relevant public or private sector sources. Business Gateway has qualified growth advisers experienced in helping companies find the funds they need. The Scottish Business Portal also now includes an advisory Finance Hub which companies are encouraged to look at before pursing forms of finance. As to
full details of funding initiatives/schemes, SPICE produced a helpful detailed guide (online at http://www.scottish.parliament.uk/parliamentarybusiness/68964.aspx) to potential sources of funding for small businesses including public/private initiatives. The lending landscape has changed, funding (from banks and alternative lenders) is not automatic and will depend on the business case.

**Women and SME start-ups [paragraphs 59-67]**

5. As a general principle this Committee supports opportunities for all in terms of initiatives to encourage business start-ups. However, the majority of the evidence which we heard related to the participation of women and ethnic minority groups.

6. The Committee recommends that the Scottish Government provides further details of the work which it is taking forward with, for example, Professor Sara Carter and Women in Business and, furthermore, outlines its plans for increasing both the total number of business start-ups and the proportion of these by women. We recommend that the Scottish Governments set out how this goal could be better reflected in the NPF. Please update the Committee on actions taken by the SG and what improvements these have brought. Further, where does consideration stand with regards inclusion in the NPF?

In February the ‘Women In Enterprise: A Framework and Action Plan’ was launched. Upon release the Scottish Government committed a further £35,000 to support a programme of mentoring and role-models facilitated by Women’s Enterprise Scotland and £50,000 to support ‘Investing Women’ better prepare women-led businesses for growth.

The Scottish Government is now supporting Women’s Enterprise Scotland as they lead an implementation group of public, private and third sector partners towards the commitments made in the document.

Discussions are continuing with partners as to whether the specific inclusion of women in enterprise figures in the NPF would be useful. It should be noted some concern has been expressed that this may be perceived as showing women in enterprise measures as being ‘different’ from mainstream economic measures.

**Ethnic minority community and SME start-ups [paragraphs 68-73]**

7. The Committee recommends that the Scottish Government provides further details of its plans for increasing both the total number of business start-ups and the proportion of these by ethnic minority groups. We also recommend that the Scottish Government sets out how this goal could be better reflected in the NPF. Please update the Committee on actions taken by the SG and what improvements these have brought. Further, where does consideration stand with regards inclusion in the NPF?

Evidence still shows that our people from ethnic minority groups tend to have higher rates of self-employment and entrepreneurial activity (14.7% for ethnic minorities compared to 10% for ‘White Scottish’).
We recognise that such headline figures do not tell the whole story and as such we will continue to work with the partners in academia, including the Hunter Centre for Entrepreneurship at Strathclyde, and private initiatives such as Radiant and Brighter.

**Equal access and participation in the policies and programmes within Skills Development Scotland [paragraphs 74-83]**

8. The Committee recommends that the Scottish Government outlines what specific budget and policies it will put in place to address the gender, ethnicity and disability imbalance in the Modern Apprenticeship scheme. **Please update the Committee on actions taken by the SG and what improvements these have brought. In particular, through Scottish Apprenticeship Week 2014?**

Addressing under-representation within the Modern Apprenticeship Programme was an area that we asked the Commission for Developing Scotland’s Young Workforce to look at within the role of suggesting improvements to our vocational education and training provision. The final report from the Commission was published in June and contained recommendations from improving equality across vocational education and training. We have issued our initial response to this including an announcement of £4.5 million to support more employment and training opportunities. Within this we have allocated £3 million for a skills package including piloting foundation and advanced apprenticeship; developing the career advisory service and addressing gender segregation and assisting young disabled people and minority groups into training and employment.

This will build on activity undertaken during Scottish Apprenticeship Week in May 2014 which included a number of specific events to increase participation of under-represented groups including:

- Get Connected – an event in Edinburgh in partnership with BEMIS and Capability Scotland to connect people from BME backgrounds and disabled people with vocational training opportunities.
- EKGTA held a Girls in Engineering open day for female pupils from local schools to meet with female apprentices.
- CITB ran a number of young women in construction events.
- A Launch of Early Learning: All About Men project to encourage more young men into childcare careers.

9. The Committee requests that the Scottish Government responds to the findings of the research and the submission from the EHRC and further details any actions which it will be taking as a result. **Please update the Committee on actions taken by the SG and what improvements these have brought. In particular, following the report of the Commission for Developing Scotland’s Young Workforce.**

As noted above, the report from the Commission for Developing Scotland’s Young Workforce contains recommendations for some stretching targets to improve under-representation across vocational education and training. The report however also recognised the difficulty in changing the perceptions and culture that can drive behaviours of young people and employers and to progress we must develop coherent approached to look at all stages of an individuals progress to work.
The recommendations have been welcomed by a number of equality groups and we are working with the EHRC and other partners to act on these to develop action plans which will build on the good work that is already happening. This work will be supported by funding as outlines above.

**Identification of potential growth SMEs and support [paragraphs 84-107]**

10. The Committee requests that the Scottish Government provides the following information for Business Gateway in 2012-13 and to date in 2013-14: the total (a) public expenditure on the service; (b) number of businesses assisted; (c) number of new starts assisted; and (d) number of new businesses started (i.e. new VAT registrations) in the corresponding period. **What are the figures for 2014-15 and 2015-16?**

The Scottish Government is providing local government in Scotland with over £10.6 billion in 2014-15 and in 2015-16. The vast majority of this funding, including money for the Business Gateway service, is being provided by means of a block grant. The annual budget allocation for Business Gateway since its transfer to Local Authority management and delivery in April 2008 has been in the region of £16 million. However, it remains the responsibility of each local authority to allocate the total financial resources available to it on the basis of local needs and priorities having first fulfilled its statutory obligations and the jointly agreed set of national and local priorities including the Scottish Government’s key strategic objectives.

In 2012-13, around 13,400 businesses were assisted by the Business Gateway to start-up, grow or received expert and local help. In 2013-14, 20,400 businesses were assisted by Business Gateway to start-up, grow or received expert and local help.

On 19 June 2014 Business Gateway published its first Annual Review, for 2013-14, highlighting an increase of 63% in enquiries to the 57 local offices, around 1.5 million pages on the Business Gateway website were viewed by almost half a million visitors, over 57,000 enquiries overall were handled and over 20,000 clients attended workshops/ events over and above some of the core contract output measures. Business Gateway continues to introduce ways for clients to gain and access information and in October 2013, introduced a new mobile phone app enabling start-up businesses to consider guidance on the move.

In 2012-13, the Business Gateway assisted 9,600 new start-ups and 10,153 businesses were assisted by the Business Gateway to start-up in 2013-14.

The latest available official figures on start-ups were published by the Office of the National Statistics (ONS) in 2013 and report that 17,385 companies in Scotland registered for VAT/ PAYE in the year to 31 December 2012.

Target setting is the responsibility of the Business Gateway lead local authorities and targets may be subject to revision during the year as part of routine contract management and delivery activities undertaken by the lead local authorities and in response to customer demand. In 2014-15, the Business Gateway service across Scotland will continue to support new businesses to start-up, new and growing...
businesses will be assisted across a range of channels, including in-depth one-to-one growth support and local service interventions.

**Social enterprises [paragraphs 108-113]**

11. The Committee invites the Scottish Government to indicate how it is developing the opportunities for social enterprises to expand, develop and become involved in entrepreneurial opportunities and what funding has been allocated to assist with this. **What are the figures for 2014-15 and 2015-16?**

The Scottish Government is committed to a vibrant and strengthened third sector and within that to supporting the development of social enterprise. We are particularly keen to create the right environment for social enterprise to flourish. As well as making resources available to provide direct support to entrepreneurs and to enterprising organisations, we have allocated resources to provide business support and advice, to open public sector markets, to provide training and development, to encourage Scottish social enterprises to grow their international reach, and to promote Scotland as a base for international social enterprises.

In particular, we continue to support the growth of social enterprise and entrepreneurship, through provision of advice and support through **Just Enterprise**, and working with the public sector, through **Ready for Business**, to open up its markets to the third sector.

We continue to strongly support the social enterprise national intermediaries, and networking and peer support, including our support for the **Social Enterprise Exchange Event Programme 2014-15**, providing opportunities for dialogue, sharing practice, exploring ideas and networking. We also support the **Social Enterprise Academy** in delivering learning and development focussed on leadership, enterprise and social impact, and its work across schools, colleges and universities.

In terms of funding allocated to provide direct support, the **Enterprise Ready Fund** was allocated £6 million over 2013 to 2015 to help maintain, develop and grow Scotland’s enterprising third sector. The fund opened to applications in September 2013 and the closing date for applications was 16 June 2014. To date £4.4 million has been awarded to 95 organisations. The remaining funds will be awarded during July and August 2014.

The **Social Entrepreneurs Fund** (SEF) supports the development of new social enterprise activity across Scotland. It is aimed at individual entrepreneurs with ideas to start up new social enterprises. Since the fund was established in 2009 it has helped more than 250 individuals test and develop their ideas. In 2014-2015, £500,000 was allocated. By the end of 2015, a total of £3 million will have been made available to support social entrepreneurs via this fund.

The position for 2015-16 with regard to the third sector will be outlined in the draft budget to be published later this year. Indicative figures were published in the 2014-15 budget. Decisions regarding allocations for activity beyond March 2015 will be made in due course.
The Scottish Government remains committed to support for the third sector and for the strengthening of social enterprise.

**Communication with SMEs over the Modern Apprenticeship scheme [paragraphs 123-125]**

12. The Committee welcomes the commitment from the Cabinet Secretary, and commends the work of the Scottish Employability Forum, to improve the communication from the public sector with all private sector bodies, such as those within the entrepreneurial sector. We invite the Forum to consider whether its efforts can be improved and whether it will meet with bodies such as the Entrepreneurial Exchange and WeDO Scotland to discuss this issue and to report back to the Committee setting out actions from such discussions. **Please update the Committee on actions taken by the SG and what improvements these have brought. In particular, did the Forum meet with WeDO Scotland and the Entrepreneurial Exchange?**

The Scottish Employability Forum is not due to next meet until late 2014. Whilst discussions are still to take place on the agenda for that meeting, it is likely that this meeting will focus on reviewing its existing action plan. SEF officials are considering the Committees recommendation and will identify an appropriate forum to have timely discussions around entrepreneurial support.

More generally on improving communication with SMEs a key outcome from our Make Young People Your Business Campaign is to increase the number of SMEs participating in MAs. Scottish Apprenticeship Week and the annual Scottish MA Awards also look to promote the programme to businesses including SMEs. The report from the Commission for Developing Scotland’s Young Workforce also included recommendations for support SMEs to participate in the MA programme and we will continue to engage with business ahead of the full implementation plan of action being brought forward later in the year.

**ENERGY ISSUES**

*Fuel poverty, domestic energy efficiency and climate change budget [paragraphs 126-136]*

13. Tackling fuel poverty remains a top priority for the Committee, particularly in light of the increases announced recently by a number of the ‘big 6’ energy suppliers at the onset of winter. We recognise that this is a goal shared by the Scottish Government and that action in this area is a joint initiative of the Scottish and UK Governments (for example through the ECO programme), as well as private sector utilities.

14. However, we are concerned at the ability of the Scottish Government to meet its statutory target by 2016 and the suggestion by some of our witnesses that at least £200 million per year from both the public and private sector will be needed in this respect and that there is a lack of clarity that the private sector component of this sum is being spent in Scotland. The Committee invites the Scottish Government to provide further information on the current total level of public and private expenditure.
and on projected expenditure levels for 2014-15 and 2015-16. **What are the figures for 2014-15 and 2015-16?**

Following the publication of official statistics on the Energy Company Obligation by the UK Government on 19 June we are confident that the £200 million target for 2013-14 has been exceeded (see answer below para. 15). For 2014-15, the Scottish Government will provide £79 million for HEEPS from within the Infrastructure, Investment and Cities portfolio. Councils advise us that they anticipate leveraging £30-40 million in ECO to supplement our Home Energy Efficiency Programmes for Scotland (HEEPS). And we recently announced a new, more generous £15 million phase of the Green Homes Cashback scheme funded from the Finance, Employment and Sustainable Growth portfolio which will help mitigate the potential reduction in green-house gas emissions caused by the UK Government’s changes to ECO. These schemes are reinforced and supported by a range of other public and private funding. For example, our national Affordable Warmth Scheme has leveraged ECO through Memoranda of Understanding with utility companies, and social landlords have also advised that they will invest significant levels of resources on HEEPS projects. In addition, considerable ECO investment in Scotland is also expected to be delivered through the actions of energy companies, installers and landlords operating independently of HEEPS and this all counts towards the overall headline investment target.

For 2015-16 we have announced a budget of £79 million for HEEPS. This includes the launch of a new national fuel poverty scheme to replace the current ‘safety net’ Energy Assistance and Affordable Warmth Schemes. And we will continue to work closely with obligated energy suppliers, councils and others involved in installing energy efficiency measures to maximise the range of public and private funding. We will continue to explore all possible routes of funding including Green Deal, Scottish Government funding streams for community renewables, European funding and other relevant public and private sources of finance.

15. The Committee further invites the Scottish Government, alongside the climate change level 4 figures (see ‘Provision of draft budget information’ below) each year, to provide a detailed breakdown of: the contributions which (a) it and (b) the private sector are making towards the £200 million budget; what programmes, and to what amount, are being funded through the £200 million; and what assessment has been made on the effectiveness of each area of spend. Will this information be published alongside the draft budget document?

Scotland’s Sustainable Housing Strategy set out our plan for a national programme to tackle fuel poverty, while maximising the measures available to all, supported by a combined energy efficiency funding pot of at least £200 million per year. This level of spending would be in line with the recommendations of the report on fuel poverty, by the Energy, Enterprise and Tourism Committee, published on 22 February 2012, which recommended a budget of at least £200 million a year to combat fuel poverty from both Government and energy company obligations.

Information on private sector ECO investment in Scotland is collected and held by Ofgem and there has been no specific information published on the costs of ECO in Scotland. However, there have been statistics published by the UK Government
which set out the estimated cost of ECO delivery across Great Britain as reported to Ofgem by energy companies.

By relating the Great Britain figure to the profile of measures delivered in Scotland over 2013-14 we can produce an estimate of investment in Scotland by energy companies under ECO of approximately £170 million. Taken together with budget allocations through Scottish Government programmes such as HEEPS, Warm Homes Fund and Green Homes Cashback, this indicates a total investment in the order of £260 million in 2013-14. This is considerably in excess of our commitment set out in Scotland’s Sustainable Housing Strategy of an overall funding pot of at least £200 million.

**Reporting and meeting targets [paragraphs 137-141]**

16. The Committee invites the Scottish Government to publish an annual report, alongside the draft 2015-16 budget document (and each year thereafter) and the climate change mitigation funding figures, on the progress of the fuel poverty programmes. **When will it publish this information?**

Information on the progress of our fuel poverty programmes will continue to be published annually. We intend to publish the next annual report towards the end of this year.

**Key factors in tackling fuel poverty [paragraphs 142-146]**

17. The Committee invites the Scottish Government to set out its strategy to better engage people in schemes which will lead to a reduction in fuel poverty and to detail how it will “elicit commitments” for example from energy companies in this regard. **Please update the Committee on actions taken by the SG and what improvements these have brought. In particular, the review by the Scottish Fuel Poverty Forum and the commitments from energy companies.**

The independent Scottish Fuel Poverty Forum published a final report of its *Review of the Scottish Government’s Fuel Poverty Strategy* in March 2014 and the Deputy First Minister wrote to the Committee in May to advise that all recommendations they made were accepted by Government.

A number of recommendations, covering a range of issues, were highlighted in the Forum’s report and a more detailed response to the individual points raised was attached to the Deputy First Minister’s letter. However, the Committee may wish to note that key areas where we are already making progress include: the introduction of increased flexibility to our HEEPS funding and an expectation that it will be used to specifically support delivery of hard to treat measures such as Solid Wall Insulation; we have increased the level of enabling funding councils can access via HEEPS by £3 million to overcome social barriers to delivering measures; and we have made specific provision within the Area Based Schemes allocations to local authorities to assist households in off gas grid areas currently finding it difficult to get funding for measures. In addition, we also recently announced £15 million of funding for a new, more generous, phase of our Green Homes Cashback Scheme —
providing grants to householders for up to £7,300 to contribute toward the installation of energy efficiency measures in their homes based on a Green Deal Assessment. Provision is also made for social landlords to access the scheme. This not only raised the profile of Green Deal but provided a market place for assessors and installers, which encouraged them to undertake the upskilling and certification required to participate in the Green Deal delivery market.

In her response to the report, the Deputy First Minister set out a commitment that this Government will continue working with the Fuel Poverty Forum as we take forward their recommendations and as we develop and strengthen our strategy to tackle fuel poverty in Scotland.

The Scottish Government’s ‘Doug the Caterpillar’ marketing campaign was launched in September 2013 and ran until February 2014. The campaign included TV adverts, field activity in local shopping centres and billboards in almost every Local Authority. This resulted in an increase in the number of calls coming into the Home Energy Scotland hotline - calls were averaging over 5,000 a week. In the first week the campaign went live on TV calls increased by 90%. And EST also reported that for the half hour following an advert the phones were 50% busier than directly before. This has impacted positively on referrals for both the Affordable Warmth and the Energy Assistance Schemes.

A further direct mailing exercise targeted at customers identified as likely to qualify for the Energy Assistance Scheme began in May 2014.

The Scottish Government has worked closely with energy companies and other delivery partners to seek to maximise ECO investment in Scotland. Based on official statistics published by the UK Government on 19 June, we estimate that during 2013-14 in the region of £170 million of investment by energy companies under ECO was made in Scotland. This has been achieved despite the uncertainty created by the UK Government following their announcement in December last year of planned changes to ECO.

The Energy Assistance Package and Home Insulation Scheme – transfer of resource to tackle the ‘bedroom tax’ [paragraphs 147-155]

18. The Committee invites the Scottish Government to confirm that any issues around the processes which it had to go through with the UK Government have been resolved and that it has put in place necessary measures to maximise uptake of the Home Energy Efficiency Programme in the 2014-15 budget year. **Please update the Committee on actions taken by the SG and what improvements these have brought.**

In response to the changes in ECO announced by the UK Government we introduced a range of changes to our HEEPS: ABS programme to give councils greater flexibility in how they deliver schemes. Feedback from stakeholders, including councils and installers, indicates that these changes helped to sustain a number of HEEPS schemes. We have continued to offer councils that flexibility for their 2014-15 HEEPS funding and liaise closely with councils and others involved in delivering HEEPS: ABS.
In addition, our Energy Assistance Scheme (EAS) has now been reprioritised to mitigate against reduced utility company activity in the Affordable Warmth Scheme (AWS); eligibility for EAS now takes precedence over AWS (a reverse of the earlier position). This is helping to provide a service to some of the most vulnerable households who would have received an offer from AWS. EAS received around 5,500 referrals in 2013-14 and 2,700 installations have been completed in the same period. (Additionally, some 3,800 installations were completed in respect of referrals received as EAP Stage 4 in 2012-13.) Energy suppliers received around 8,100 referrals in 2013-14 in respect of the Affordable Warmth Scheme and suppliers have reported 1,800 installations completed.

**A National Performance Framework indicator on renewable heat? [paragraphs 156-158]**

19. The Committee recommends that the Scottish Government gives consideration as to how national indicators on both renewable electricity production and heat could be included in the National Performance Framework. Please update the Committee on actions taken by the SG and what improvements these have brought.

Further, where does consideration stand with regards inclusion in the NPF?

Scottish Government published on 26 June a summary report of action taken on Renewable Heat which Minister for Energy, Enterprise and Tourism laid in parliament on the same day. This is available on the Scottish Government website at: [http://scotland.gov.uk/Topics/Business-Industry/Energy/Energy-sources/19185/Heat/RHUpdate2014](http://scotland.gov.uk/Topics/Business-Industry/Energy/Energy-sources/19185/Heat/RHUpdate2014). This report notes that in 2013 an estimated 0.662GW of renewable heat capacity was operational in Scotland, producing an estimated 2,904GWh of useful renewable heat. This represents an 18% increase in renewable heat capacity and a 17% increase in heat generated from renewable sources compared with 2012, meaning we are making good progress towards achieving our 2020 renewable heat target. This data is drawn from Renewable Heat in Scotland, 2013 published by the Energy Saving Trust on 26 June 2014 which provides further detail. (the report can be viewed at the following link [http://www.energysavingtrust.org.uk/About-us/About-us/Recent-reports](http://www.energysavingtrust.org.uk/About-us/About-us/Recent-reports)). This is the first time that the renewable heat report has used the new improved heat monitoring methodology developed in consultation with stakeholders. This provides an estimate of progress based on the current level of heat demand as opposed to a projection for 2020. Using the latest figures available for total heat demand, in 2011 the Scottish Government estimates that renewable heat generation equated to 2.6% of Scotland’s non-electrical heat demand. This grew from 1% in 2008/2009.

In order to ensure transparency this new heat monitoring measure is presented in tandem with the previous methodology. As heat demand in 2011 was higher than the forecast heat demand in 2020, the previous methodology results in a higher percentage of renewable heat generation. Using the previous methodology, in 2013 Scotland produced enough heat from renewable sources to meet 4.8% of the forecast heat demand in 2020, up from 4.1% in 2012 (and 3.8% in 2011).

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1 2011 is the latest available estimate due to a lag in the final energy consumption data for Scotland published by DECC. Data for 2012 will be available in Autumn 2014.
Annex C of Renewable Heat in Scotland, 2013 report sets out the improvements made to the methodology and its rationale.

To achieve the Scottish Government headline target of 30% of total Scottish energy use coming from renewable sources by 2020, individual targets were established for renewable electricity, heat and transport. As the data availability at a Scotland level has improved, more robust methodological options for measuring each of these targets have become available. Bringing each of these methodologies together to provide a consistent and transparent measure for monitoring the overall renewable energy target is key, and the Scottish Government have been consulting with key partners and exploring the options for presenting the overall energy target. The new measurement will be published as part of the next Energy in Scotland Statistical Compendium.

The Cabinet Secretary for Finance, Employment and Sustainable Growth hosts a Round Table with members from across the political parties in Scotland, key academics and Third Sector organisations (Carnegie UK Trust, Oxfam, nef, STUC, Environment Link). A subgroup has been established to review the coverage of the indicator set, investigate possible improvements and make recommendations. The subgroup is considering this recommendation and is yet to reach a conclusion.

**Investment in renewables [paragraphs 159-172]**

20. The Committee welcomes the Scottish Government's efforts to date in this policy area and seeks further information on its assessment of the market and policy developments which will restore momentum to investment in renewables and on projected investment growth in specific activities and forms of development over the next two years. The Committee seeks the Scottish Government's views on possible alternative measures to support investment in renewables if market conditions lead to an underspend of the budget for renewable energy capital expenditure. **Please update the Committee on actions taken by the SG and what improvements these have brought.** Further, where does consideration stand with regards inclusion in the NPF?

Our budget for 2015-16 will be focused on accelerating investment in low carbon infrastructure, including the promotion, subject to State aid rules, of new innovative local energy systems, as well as continuing support in key areas through the Community and Renewable Energy Scheme, REIF, NRIF, POWERS and the Wave First Array Support programme supporting projects that will significantly progress wave energy technology towards commercial readiness.

As indicated in our previous response, the Scottish Government has responded to market conditions by maintaining and extending the funding support to marine energy and extending REIF's periods of operation and ensuring they remains flexible to meet the needs of renewables sectors. For example, REIF is working closely with the developer and funder market and partner agencies to explore the scope for strategic intervention to facilitate community investment in commercial renewable projects, notwithstanding the need for projects to reach early financial close, which is being driven largely by the aggressive, imminent depression of support tariffs.
As already noted the Cabinet Secretary for Finance, Employment and Sustainable Growth hosts a Round Table with members from across the political parties in Scotland, key academics and Third Sector organisations (Carnegie UK Trust, Oxfam, nef, STUC, Environment Link). A subgroup has been established to review the coverage of the indicator set, investigate possible improvements and make recommendations. The subgroup is considering this recommendation and is yet to reach a conclusion.

21. The Committee requests that the Scottish Government provides further detail on the projected budget for the Renewable Energy Investment Fund in 2014-15 and 2015-16. The Committee also invites the Scottish Government to detail what projects, and to what amount, have been funded through the Fund since 2012-13. What are the figures for 2014-15 and 2015-16?

REIF outturn for FY 12-13 was £1.52 million (including management costs) as follows:

<table>
<thead>
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<th>Project</th>
<th>Details</th>
<th>Type</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barra &amp; Vatersay Wind Energy Ltd</td>
<td>900 kW wind turbine</td>
<td>Community</td>
<td>140,000</td>
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<tr>
<td>Gigha Green Power Limited</td>
<td>330 kW wind turbine</td>
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<td>49,000</td>
</tr>
<tr>
<td>Point &amp; Sandwick Power Limited</td>
<td>9 MW windfarm</td>
<td>Community</td>
<td>133,000</td>
</tr>
<tr>
<td>Pelamis Wave Power Limited</td>
<td>To support ongoing device design and development</td>
<td>Marine energy</td>
<td>1,050,000</td>
</tr>
<tr>
<td>Management costs</td>
<td></td>
<td></td>
<td>148,000</td>
</tr>
</tbody>
</table>

REIF outturn for FY2013-14 now confirmed as £9.38 million*:

<table>
<thead>
<tr>
<th>Project</th>
<th>Details</th>
<th>Type</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barra community wind</td>
<td>As above</td>
<td>Community</td>
<td>160,000</td>
</tr>
<tr>
<td>Gigha Green Power Limited</td>
<td>As above</td>
<td>Community</td>
<td>10,000</td>
</tr>
<tr>
<td>Point &amp; Sandwick Power Limited</td>
<td>As above</td>
<td>Community</td>
<td>552,391</td>
</tr>
<tr>
<td>Callander Community Hydro</td>
<td>425 kW hydro on national forest estate</td>
<td>Community</td>
<td>311,000</td>
</tr>
<tr>
<td>Galson</td>
<td>900 kW wind turbine</td>
<td>Community</td>
<td>400,000</td>
</tr>
<tr>
<td>Fintry</td>
<td>Refinancing investment in Earlsburn wind farm</td>
<td>Community</td>
<td>615,000</td>
</tr>
<tr>
<td>Pelamis Wave Power Limited</td>
<td>As above</td>
<td>Marine energy</td>
<td>3,250,000</td>
</tr>
<tr>
<td>Aquamarine</td>
<td>Commercialisation of inshore wave device</td>
<td>Marine energy</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Ocean Flow</td>
<td>Devt of ¼ scale tidal demonstrator</td>
<td>Marine energy</td>
<td>150,024</td>
</tr>
<tr>
<td>Atlantis</td>
<td>To secure Scottish engineering hub and establishment of Scottish office</td>
<td>Marine energy</td>
<td>1,500,000</td>
</tr>
<tr>
<td>2B Energy</td>
<td>Offshore wind innovative demonstrator</td>
<td>“Other”</td>
<td>436,207</td>
</tr>
</tbody>
</table>

*Management/legal costs for 13-14 totalled £1.2 million and were covered separately.
In line with good financial practice, 2013-14 underspends were utilised to support the Scottish Government’s overall outturn position.

The REIF budgets for 14-15 and 15-16 are £35 million in each FY. Scottish Investment Bank is pursuing a wide pipeline of projects and more details will be released as deals come to conclusion.

The initial three year plan for the Fund was extended to financial year 2015-16 and the £103 million commitment is profiled accordingly.

22. Finally, in light of the Audit Scotland report, the Committee invites the Scottish Government to provide further information on how it will, given the level of funding it is making available in 2013-14, 2014-15 and 2015-16 and market conditions, meet its 2020 renewables target of 100% of demand for electricity from renewable energy as well as its target of 11% renewable heat. Please update the Committee on actions taken by the SG and what improvements these have brought.

The Scottish Government welcomed Audit Scotland’s positive assessment of public sector performance in developing renewable energy in Scotland. As the Audit report indicated, the deployment of renewable energy largely relies on investment from the private sector, and this has been affected by the economic climate and uncertainty about UK energy policy. The Scottish Government has used its devolved powers to influence the market through its targets, incentives and obligations, planning and consenting powers, and targeted financial support. We continue to make the case for improvements to the current GB regulatory regime, including the charges levied on use of the transmission system which disincentivise energy investments in Scotland.

Provisional figures published in January 2014 indicate good progress is being made towards the 2020 target for renewable electricity, with 46.5% of Scotland’s electricity needs coming from renewables in 2013.

Since 2007, Scottish Ministers have consented 65 renewable energy developments, equating to over 4.8 gigawatts of installed renewables capacity. While we are proud of this record we are focussed on making our consents processes more efficient. There is an ongoing programme of improvement, with the opportunity for stakeholders to contribute to the process through groups like the Short Life Working group, chaired by the Minister for Energy, Enterprise and Tourism. As part of this programme officials are undertaking a root and branch review of the process for dealing with energy applications, to ensure we continue our strong decision-making record, and adapt to changing circumstances. In the meantime, the Scottish Government-led Eska lane eye Working Group has been successful in freeing up around one gigawatt of proposed renewables development which has been stuck in planning due to MOD objections. The MOD has now withdrawn its objections, which will allow these proposals to be considered on their merits in the normal and proper way.

The National Planning Framework and updated Scottish Planning Policy, published on 23 June, will be a further tool to help deliver the 2020 targets.
Our draft Heat Generation policy Statement, published for consultation on 4 March sets out our ambitions on how low carbon heat can reach more householders, businesses and communities, and provides a clear framework for investment in the future of heat in Scotland.

**District heating [paragraphs 177-182]**

23. The Committee invites the Scottish Government to clarify what funding is being made available in 2014-15 for district heating projects and under what schemes and what funding it has made available as part of its response to the District Heating Action Plan. **What are the figures for 2014-15 and 2015-16?**

In the Draft Heat Generation Policy Statement, published March 2014, the Scottish Government announced an additional £4 million over two years for the District Heating Loan Fund, making £3 million available in 2014-15 and £5 million in 2015-16. Since 2011, £4.6 million has already been allocated to 23 projects since 2011.

The Warm Homes Fund has a budget of £6.5 million for 2014-15, which can support renewable district heating and other renewable projects which address fuel poverty. To date, £0.5 million has been committed to district heating projects in 2014-15.

The Renewable Energy Investment Fund has set district heating as a priority sector and is working closely with the sector to identify opportunities for finance. Additionally, in April 2014, £20 million (£12.25 million of which for financial year 2014-15) from the Scottish Government through the Scottish Funding Council was announced for three Scottish Universities to deliver carbon reduction projects. All three projects had district heating as their main element. District heating projects in Scotland are also accessing significant support from the Renewable Heat Incentive and Energy Company Obligation.

Project development support is being provided in 2014-15 by the Heat Network Partnership, through a number of Scottish Government programmes including Scottish Futures Trust's Low Carbon and Energy Efficiency work stream, Resource Efficient Scotland, Energy Saving Trust and Scottish Enterprise. Work programmes of support in 2015-16 will be finalised later in the year. In addition, support has been made available for strategic district heating planning and development, standards and regulation, through the European funded STRATEGO project, a dedicated policy and programme officer, and to support implementation of the European Energy Efficiency Directive.

24. The Committee invites the Scottish Government, as part of its climate change mitigation measures figures each year, to specify what funding is being allocated specifically for district heating projects, including those measures which it agrees to take forward on the recommendation of the continuing work of the Expert Commission on District Heating. **What are the figures for 2014-15 and 2015-16?**

As set out above, a range of funding is available for district heating. Funding is specifically allocated to district heating projects through the District Heating Loan Fund, with a total budget of £8 million over the next two years. In addition, development support through the Heat Network Partnership. This support includes
technology options appraisals, feasibility studies and technical business cases for business, industry and public sector district heating projects such as the Edinburgh Bioquarter, Glasgow North and City Centre and Ignis Wick, awareness raising of funding available through the District Heat Loan Fund and Warm Homes Fund, such as case studies, detailed businesses cases and procurement guidance for projects such as the Dunfermline District Heating Extension, development of guidance on legal powers of Scottish public bodies to generate / procure heat and electricity supplies, and to supply heat and electricity to third parties and running targeted workshops and events. Information and guidance produced by the Heat Network Partnership is available through the www.districtheatingscotland.com. In addition the Scottish Government’s support for strategic planning, strategic district heating planning and development, standards and regulation will support delivery of the District Heating Action Plan and the continued work of the Expert Commission on District Heating.

OTHER ISSUES

Asset disposals [paragraphs 212-227]

25. One option would be for the Scottish Government to increase its grant assistance to both agencies. Consequently, the Committee invites the Scottish Government to confirm whether it plans to make up any shortfall in income for both enterprise agencies through an in-year adjustment or whether it has/will require the agencies to produce contingency plans for expenditure reductions in the event of asset sales not being achieved. What are the figures for 2014-15 and 2015-16?

Grant in aid (excluding non-cash) for Scottish Enterprise in 2014-15 is £220.1 million and in 2015-16 will be £231.1 million. For Highlands and Islands Enterprise the figures are £58.6 million in 2014-15 and £59.5 million in 2015-16. Using their expert knowledge and experience both SE and HIE estimate their own income generation in each financial year. In its 2014-17 Business Plan SE estimated its own income generation activities in 2014-15 at £75.5 million and in its Operating Plan HIE estimated its own income generation activities in 2014-15 at £5.6 million. Since the publication of their Business/Operating plans for 2014-17, both SE and HIE are currently estimating an increase in their income generation activities.

Both SE and HIE must adhere to the standards set out in the Scottish Public Finance Manual. They monitor their income and expenditure carefully throughout the year and any increase or shortfall in income is compensated for by a corresponding increase or reduction in expenditure. The Scottish Government has access to the latest forecasts and developments through monthly budget monitoring reports, access to financial reports in board papers, and quarterly meetings between the sponsoring division and senior finance staff in both bodies.

Provision of draft budget information [paragraphs 228-237]

26. The Committee recommends that the Finance Committee reviews this issue and invites the Scottish Government to consider whether it will in future make available, alongside the requested level 4 figures, the figures on climate change funding. Will the SG provide such figures alongside the draft budget document?
The Scottish Government will provide figures on climate change funding as early as possible in this year’s budget process and as closely aligned as possible to the timetable for providing other Level 4 figures.

**Budget co-production [paragraphs 238-239]**

27. Whilst we do not necessarily agree with Social Enterprise Scotland and SCVO comments on “co-production” of the draft budget we invite the Scottish Government to ensure that they and other key stakeholders are fully consulted. **What is its response to this?**

The Scottish Government recognises the key role that the third sector plays in our economy and as a social partner. It values the sector’s contribution to improved outcomes for communities through its advocacy, activity and the provision and delivery of services. The Scottish Government has been working to foster collaboration and engagement with the third sector in the design and reform of public services, and to work with a focus on co-production, prevention and improvement. The Scottish Government has supported the development of a third sector infrastructure at national and local level which in turn contributes to that process. Our current approach to the third sector and to strengthening social enterprises was developed in partnership and we are now in the process of discussing widely with the sector how we might shape our approach in the future. This wide range of engagement, and the regular dialogue that Ministers have with the sector, helps to shape our policy thinking and we will continue to ensure that the Government’s spending plans are informed by consultation with the third sector ahead of the Budget being published.
The section on "Co-operative farming" seems to be missing or incomplete. It appears that the content might have been cut off or not fully captured in the image.

"The Co-operative Co-operative association may also request the assistance of co-operatives for training and education purposes."

This section continues on the following page.