DRAFT BUDGET 2015-16

SUBMISSION FROM SCOTTISH ENTERPRISE

1. INTRODUCTION

We are pleased to submit written evidence on Scottish Enterprise’s (SE) Draft Budget Proposals for 2015/16. This sets out our focus to improve Scotland’s economic performance, while addressing the questions raised by the Committee in their 2014/15 Budget Report.

International competitiveness is a major determinant of strong and sustainable growth, particularly for countries, such as Scotland, with relatively small domestic markets. Research highlights innovation, internationalisation, investment and talent as important and interconnected drivers of international competitiveness, leading to improved productivity, growth and employment.

During 2015/16 we will continue to adapt and strengthen our focus on these drivers and the economic outcomes they will generate. This includes:

- extending the number of companies in Scotland that are investing, innovating, and are connected internationally;
- responding to changing patterns in global trade, such as making more of global value chains and capitalising on London’s position as a global hub and marketplace;
- building on Scotland’s position on the global stage in 2014 by maintaining momentum and maximising opportunities for Scotland’s companies and sectors in key markets.

This focus on developing Scotland’s International competitiveness to drive sustainable economic growth will form the basis of detailed discussions by SE’s Board and Executive Leadership Team when they meet in November to review priorities and agree proposals for next year and beyond.

2. THE SCOTTISH ECONOMIC PICTURE

Scotland’s economy continues to strengthen, with underlying data and trends indicating 2014 will be Scotland’s strongest year of growth since 2007. Scottish GDP has grown for seven successive quarters\(^1\) and it is now above pre-recession levels.

However, challenges remain, including the pace of growth in key international export markets; the labour market along with the outlook for labour productivity and wages; the relatively narrow competitive core of companies, particularly those achieving international growth, and the as yet uncertain response to the expected gradual increases in interest rates as the recovery continues.

\(^1\) up to Q1 2014
Latest labour market figures\textsuperscript{2} show employment increasing for the seventeenth consecutive rolling quarter. Over the year, Scottish employment has grown to a record high of 2,623,000 and Scotland’s employment rate rose 1.5 percentage points to reach 73.9\% (UK 73.0\%), although it is still below the pre-recession peak of 74.6\% (2008). The trend of rising female employment has continued, reaching a record high of 1,266,000 or 70.6\%.

Despite recent improvements in the wider economy and the labour market, youth unemployment remains a challenging area. The unemployment rate for 16-24 year olds, 17.9\%\textsuperscript{3} (relative to UK 17\%), remains significantly higher than the adult rate and is still above its pre-recession level, despite having decreased by 3.7 percentage points over the year.

While Scotland has improved its performance against some of the key drivers of international competitiveness, there is still much to do:

- **Productivity**: Scotland’s productivity is below the UK’s and a number of other countries, and is only showing weak growth;

- **Innovation**: BERD is rising, and the performance gap with the UK and OECD average is narrowing, but Scotland remains among the lowest performers compared to other countries. On wider business innovation measures, Scotland’s performance is improving but still lags the UK and some other European countries;

- **Exports**: Exports are increasing, but 60\% come from 100 companies and 50\% come from our top five exporting industries. Not enough of our business base sell overseas – just 15\% of our SMEs export (relative to UK rate of 19\%);

- **Attracting investment**: Scotland was again the top performing region in the UK outside London for Foreign Direct Investment in 2013, with the number of projects secured hitting a 16 year high of 82 (8\% increase on 2012) – over 10\% of all projects into the UK. Scotland secured 33\% of all R&D projects into the UK (18.5\% in 2012). However, Scotland relies more on projects from existing investors than the rest of the UK, and continues to lag behind in investments from India and China.

We continuously monitor economic trends and this helps to inform and shape our decisions along with our evaluation and research evidence. Our disciplined evidence-based approach to the design and delivery of projects ensures we focus on areas where we add greatest value for the economy.

**3. COMPANY GROWTH**

To achieve our aim of sustainable economic growth, we work with ambitious companies to help them realise their growth potential. This can include targeting a specific opportunity such as help to internationalise through Smart Exporter,
improving productivity through the Manufacturing Advisory Service (SMAS), or supporting those with the greatest growth potential through an integrated Account Management programme. In any one year, we work with approximately 10,000 companies.

Account Management remains at the heart of our company support, tailored to meet individual needs and opportunities. In our May 2014 business plan submission, we set out our progress towards the ambitious target of increasing our account management portfolio by 10-20% over 2012/13 to 2014/15. Our latest forecast indicates that by March 2015 the portfolio will have grown by 13% against the March 2012 baseline figure, to around 2,300.

In 2013/14, the Account Management portfolio increased their turnover by £1.3bn. We know from the Account Management evaluation, that support makes a real impact on performance, generating £5.30 of GVA for every £1 spent and being directly responsible for the creation or safeguarding of 15,000 jobs over 2008/9 to 2011/12.

Through a process of continuous improvement, and drawing lessons from the Account Management evaluation, we have developed the following:

- A differentiated approach to Account Management to ensure customers get the right service at the right time, e.g. access to finance via the Scottish Investment Bank (SIB), innovation advice and support, or links to our international networks via SDI and Global Scots.

- Working more intensively with the small group of companies that offer strongest potential to bring positive economic outcomes.

- A greater focus on innovation and international growth.

We work closely with our partners, including Business Gateway, SDS and others, to identify companies with growth potential and ensure the pipeline of growth companies is working effectively.

3.1 Listening to our Customers

We regularly seek feedback from customers to gather insights on business confidence, current challenges, and the perception of support available. This helps us to monitor the changing business environment and identify service improvements.

We carry out regular research outside Scotland to gain insights into the international perceptions of Scotland as a business location and to understand the motivations of potential investors and their propensity to invest. This enables us to develop an even stronger Scottish proposition for investors.

4. INNOVATION

Innovation is a major driving force of international competitiveness, and is especially critical in recovering from recession. Countries that exited recession faster and were able to take advantage of expanding new markets are those with
high levels of innovation, for example Finland, Sweden, Singapore, Germany and USA.

Evidence has shown that SMEs with a track record of innovation are more likely to export and successfully generate long-term sustainable growth from it. It is vital for Scotland’s future international competitiveness that we build an even stronger base of innovative companies.

To help achieve a significant change in Scotland’s business performance we aim to deepen our engagement with existing innovators to increase the scale of their impact, working with an initial target group of 50 companies per year to develop a more strategic approach to innovation. We will also work to increase the number of businesses active in innovation, by 5,000 to over 13,000 over the next 5 years. Through these measures, we aim to help companies add between £3b to £4b to Scottish turnover and £1b in new export sales.

Our approach includes a focus on customer led innovation, utilising demand from international corporates and public procurement opportunities for innovative Scottish companies to become established in global supply chains. An example of this is the recently signed MOUs with Statoil Technology Invest, a subsidiary of Statoil ASA, and Devro plc to create a package of combined innovation support. Through these partnerships we are seeking to stimulate companies to invest in early phase development projects and encourage larger companies to work more closely with SMEs to help provide solutions for industry challenges. Building on this, SE aims to have 5 - 10 further agreements in place in 2015. Working jointly with Scottish Government, we are designing a project to invite NHS Boards to participate in an Open Innovation programme that will seek innovative new solutions through their tendering approach.

Our approach to supporting sector innovation is informed and developed in partnership with Industry Leadership Groups. For example, SE innovation and internationalisation specialists are working with Food & Drink Scotland to create an innovation plan to identify opportunities bringing together innovation action with international market demand, e.g. in the area of food and health.

In addition, we’re working closely with partners, in particular universities, the Scottish Funding Council and Innovate UK to deliver greater impact from a variety of sector projects, including the Innovation Centres and UK Catapult Centres. These present the opportunity to engage more companies to innovate in areas of Scottish capability from oil and gas to sensors and digital health.

5. INTERNATIONALISATION

Scottish companies are operating in a world economy that looks radically different than it did just a few years ago, with a significant shift towards emerging high-growth markets.

5.1 Supporting Growth Through Exports

Working as an integral part of our account and sector teams, Scottish Development International (SDI) leads our efforts to help Scottish companies and sectors benefit
from the substantial opportunities and revenues that internationalisation presents, particularly in fast growing markets.

This is an important contribution to Scotland’s international trade and investment strategy and the realisation of the ambitious target of raising Scotland’s exports by 50% by 2017. The latest Global Connections survey\(^4\) shows growth of 14% over the first two years (from the baseline year 2010), broadly in line with this target. However, there is no room for complacency as we see continued slow growth in European markets, which play a significant role in Scotland’s exports.

In relative terms, Scotland has fewer exporting companies than the UK (15% vs 19%). We will continue to increase the number of exporting companies and increase export revenues.

We will provide companies with practical advice and support on new market opportunities through programmes such as Smart Exporter, which has already helped 4,500 companies. Following a review, the programme has been improved to include support to all Scottish companies, across all sectors, sizes and types of activities with the potential to sell overseas. It is our approach to the broad business market in Scotland and focuses on encouraging and helping non exporters to start exporting, and early stage and occasional exporters to grow their overseas sales. Our aim is to increase the number of Scottish companies exporting and the value of these exports to the Scottish economy.

To accelerate the rate of growth of international sales to three of the emerging high growth markets - China, India and the Middle East - we will establish a High Growth Market Unit by January 2015. This unit will enhance the support provided in Scotland and in-market for companies with the potential to sell into these harder to enter but high opportunity markets.

We will continue to focus on sectors with the greatest international growth potential and work with industry and partners to deliver on their ambitions. For example:

**FOOD & DRINK**

The *Scotland Food & Drink Export Plan* (launched March 2014) set a new export target of £7.1bn by 2017 after hitting the previous £5.1bn target six years early. Latest figures show export growth of over 50% from 2007 to 2013. 2015 is the year of Food and Drink and we will work with the industry in priority export markets, via global experts in the seven highest priority markets.

**OIL & GAS**

Total Oil and Gas supply chain sales stand at £10bn, an increase of 22% since 2011/12, and reach more than 100 countries. In the last few months we have built upon our overseas presence in Norway, the Middle East, Brazil and Ghana. In 2015 we will look to further expand our footprint into East Africa.

\(^4\) Global Connections Survey 2012
5.2 Gaining Experience of New Markets

International trade shows and exhibitions are an excellent way for companies to explore new markets and network with potential new customers. In 2013/14 we saw over 400 companies attend exhibitions, missions and learning journeys.

A number of food and drink companies recently participated in two major international food and drink events (Food & Hotel Asia (FHA) and The World Gourmet Summit), from which a number of contracts have already been secured for Scottish businesses:

- **JPL Shellfish's** dived scallops and lobsters have made their way from Caithness onto the menu of JAAN - one of Singapore's top restaurants;
- **Strathleven Distillers** recently signed a contract with a distributor they met at FHA to promote their Gin and Vodka through sponsorship of the Singapore Rugby Club;
- **Nevis Bakery** shipped their first order to Cold Storage - Singapore's second largest grocery chain. Introductions were facilitated by a Globalscot at an FHA networking event.

A series of cross-sector trade missions and exhibitions is planned in 2015/16. Including the **Offshore Technology Conference** (May 2015) in Houston, USA.

5.3 Inward Investment

Scotland has been ranked in the top two locations in the UK in each of the last four years for employment generated by foreign direct investment. We continue to be seen as a competitive business base with world class skills (e.g. Life Sciences), infrastructure (e.g. Dundee Waterfront, Energetica, ITREZ), natural assets (e.g. Tourism) and supply chains (e.g. Oil & Gas).

5,833 jobs have been created or safeguarded as a result of our support in the first two quarters of 2014/15. Nearly half of these were created by US investment, up 140% on the same period last year.

The global events of 2014 provided a platform for Scotland’s companies and sectors to showcase their international growth potential. Business focused events held as part of the Commonwealth Games and Ryder Cup have helped consolidate and build new relationships with key players in international markets and potential inward investors. We will build on this opportunity, and actively pursue growth opportunities that show promise for investment and jobs.

5.4 Connectivity

With Team Scotland partners such as VisitScotland, we will engage airlines and airports on new route development opportunities. Recent new routes secured include Edinburgh to Chicago, Glasgow to Helsinki and Inverness to Amsterdam.
6. INVESTMENT - GROWTH FUNDING FOR BUSINESS

The improving economic outlook raises the potential for increased demand for growth finance as more companies seek to fund their growth plans. In response, we are continuing to place support for businesses to access finance for growth as a core part of our support to growth companies, via our investment arm the Scottish Investment Bank (SIB).

6.1 Current Trends

Evidence shows that many growth businesses are looking to their own cash reserves to finance growth and the overall indebtedness of businesses is reducing. This reflects a trend that companies continue to see difficulties in accessing external finance.

Increasingly, commentators and policy makers are looking at how to stimulate more demand by researching discouraged/suppressed and reluctant borrowers. For example, initiatives such as the Better Business Finance programme have been launched to raise awareness among businesses and entrepreneurs that they are a lot more likely to secure bank finance than they think. While only 38% of SMEs believe that they will be approved for finance by their bank, actual approval rates are considerably higher, at almost 67%.

There are signs that demand is recovering. For example, the Bank of England’s network of regional agents indicate that credit conditions have improved for firms of most sizes over Q1 2014/15 and that demand across all business sizes has increased significantly during 2014. Also, SIB’s Financial Readiness Specialists report similar increases in demand for debt finance and that high growth firms are being supported to secure finance from multiple sources.

The Scottish early stage risk capital market is showing encouraging signs of increased activity, driven by a small number of very large deals. Our most recent market data shows £200m invested in 2013 a 75% uplift on 2012 (£116m). This includes some very large deals that attracted international investment for example, Skyscanner, Senergy, Fanduel and Silent Herdsman.

6.2 Supporting Business Access Capital for Growth

Our work in access to capital continues to play a key part in the Scottish finance community and 2013/14 saw the highest level of investment over the last five years (£32.4m), number of companies supported (111), deals undertaken (153) and income received (£16.6m).

Private sector leverage also reached its highest ever recorded point (£93.3m), with Nucana (Edinburgh based drug discovery company) attracting £33m from the private sector in March 2014.

To stimulate greater demand, Financial Readiness specialists provided intensive support, guidance and mentoring to 378 companies last year to help them raise growth finance. This included 60 companies assisted to secure UK export finance guarantees valued at £24m.
SE’s investment activities focus primarily on the early stage risk capital market which is a high risk, and potentially high return, environment. Within that market, SE is filling a gap where the private sector is not adequately fulfilling business demand for investment, either due to capacity constraints or risk profile. Consequently, the level of failures and write-offs reflects that level of risk.

A key finding from the PACEC evaluation is that the annual survival rate of companies receiving support from the Scottish Venture Fund was 98% over the first three years (after 3 years 26 out of 28 survived)\(^5\). This is far in excess of the 90% annual survival rate of all companies in Scotland. This high survival rate may reflect the fact that these businesses received funding in the absence of which they may have otherwise failed, coupled with the high quality of the due diligence process in selecting companies for investment which are most likely to survive. When consulted on this issue, SVF-funded businesses and SVF advisors both suggested that this survival rate was enhanced by the operation of the fund and the advice provided.

6.3 Improving the Investment Environment

There remains long standing and persistent challenges for early stage and higher risk businesses to secure both seed and later stage funding. Investments in companies seeking external equity investment for the first time (seed and first round investments) have stayed steady over the last year and are only now back at 2007 levels (deals averaging between £200k and £300k). In response to this we are working with LINC, (the Angel Capital Association) to establish new Angel Syndicates and we’re increasing SE Scottish Seed Fund Activity.

Securing investment above £2m remains a challenge for companies in Scotland. SE is undertaking work to attract more international VC and Corporate investment into Scottish companies, for example in 2013-14 we agreed new partnership arrangements with 6 international investors including Longwall Ventures, Downing LLP and Ikea Green Tech Ventures.

As part of our integrated approach to help companies achieve their growth ambitions, SE provides a variety of further support to investee companies. Including; Talent attraction – strengthening management teams, linking with GlobalScots and appointing experienced NXDs onto company Boards and Exit readiness – helping companies articulate and develop exit strategies for investors.

7. PEOPLE & SKILLS

The increasingly competitive global business environment demands that we develop the skills and talents of our current and future workforce. We work closely with businesses, Industry Leadership Groups and with our partners in SDS and the SFC to address these challenges.

7.1 Leadership and Mindset

Scotland needs more business leaders that are internationally ambitious in their growth plans and keep abreast of the latest leading edge thinking and practices. A

\(^5\) SVF Evaluation (2012, PACEC)
key focus of the account management service is on helping to develop and attract the business acumen and leadership needed to build a strong global mind-set as well as strengthening leadership capacity.

We support around 1500 companies each year to encourage ambition and creative leadership excellence, offering a range of leadership development programmes, best practice events and master classes. It also provides access to a global network of world class leaders, leadership experts and mentors.

A strong international dimension to the programme is being developed for 2015/16 including:

- **Expanding peer to peer learning platforms** & collaboration with GlobalScots & Business mentors;

- **Strengthening links** with international faculty and global business leaders and networks;

### 7.2 International Networks

The GlobalScot network is a valuable resource willing to share their time, knowledge and expertise with companies of various shapes and sizes and at differing stages in the growth cycle to accelerate leadership development and international mindset. GlobalScot represents something that is genuinely unique to Scotland and is most effective when delivered as part of a broader plan to equip Scottish companies or sectors to succeed internationally. Some examples of their support include:

- **Start Global Programme** - work is underway to match GlobalScot expertise to support new ventures across key sectors of technology, creative industries, energy and life sciences;

- **Entrepreneurial Mentoring** - all 10 winners of the 2014 Young EDGE programme have been matched with a GlobalScot mentor, in addition to 13 of the main category winners who have also been matched to a mentor;

- **Learning journeys** - a programme of one-day Learning Journeys themed around Internationalisation and Sales and Marketing forum for companies to learn from both GlobalScots and each other.

We will continue to drive quality and appropriate demand for the GlobalScot network, with our efforts focusing on where we believe the wins will be greatest: A more focused approach in working with companies with high levels of growth and ambition; and building the ambition and capacity of Scottish companies to operate in new markets.

### 7.3 Attracting Talent

**Attraction and retention** of the right skills and experience are crucial to company growth and productivity. Scottish employers are competing in a global marketplace to attract skilled and experienced professionals in a number of fields including science, financial services, engineering and software. **TalentScotland** showcases Scotland as a world class career destination for professionals in these fields, helping
companies successfully access, attract, recruit and retain the international talent required to achieve their growth ambitions.

There are over 800 companies profiled on the Talent Scotland website and over 39,000 job seekers registered. Companies supported over the last 12 months include Rubber Atkins, Rock Star North, Charles River, Wood Group PSN, A2E Limited, Calnex, BBI Solutions and Bitwise.

Priorities in 2015/16 will focus on sectors continuing to experience significant talent pressures such as energy, engineering, software and games. Support will also be given to the Commercialisation team’s Talent Attraction Programme, a pilot targeting recruitment of experienced individuals to the management teams of future high growth companies.

7.4 Scotland’s Young Workforce

Over 40% of Scotland’s working age population is aged 45 or older, making the flow of young talent into Scotland’s workforce crucial to our future competitiveness. At the same time, the pathway for young people into the workforce is not easy, with youth unemployment standing at just under 20%, more than three times the unemployment rate across all ages. This makes developing Scotland’s young workforce and boosting youth employment a priority across the public sector.

In response to the particular challenges for youth employment, and in line with the Scottish Government Youth Employment Strategy, we will focus on;

- Stimulating demand for youth employment amongst businesses, for example through the Scotgrad Programme;

- Sharing intelligence and insights with partners and working alongside skills and employability partners to include community benefit clauses in major infrastructure projects eg Edinburgh BioQuarter, Creative Clyde and Dundee Waterfront);

- SE contribution as an employer of young people – includes our apprenticeship programme, 10 new apprentices recruited September 2014, and the SE Graduate Development Programme, 10 new graduate trainees recruited August 2013.

The Commission for Developing Scotland’s Young Workforce published its report recommendations in June 2014. We are working towards 3 new approaches from the beginning of 2015/16 in response to these:

- **Account Managed Companies:** through Organisational Development Reviews, provide assistance to develop youth appropriate recruitment strategies, up-skilling and wider organisational change;

- **Finance:** provision of additional financial support to strategic growth projects with an added youth dimension. Criteria for securing additional support (eg recruitment of a young person) would ensure that additional outcomes are secured;
• **RSA:** From 2015/16 SE will be using RSA to encourage supported businesses to implement an Invest in Youth Policy which includes setting a target for youth employment as a percentage of their workforce.

### 8. EXTREME COLLABORATION

Through the Team Scotland approach, SE has a strong track record of partnership working to deliver better results than we could achieve alone. Extreme collaboration with public and private partners will help build a business environment that contributes to Scotland’s international competitiveness.

We are working alongside Local Authority partners and others to bring new investment, new jobs, and greater growth opportunities to their areas. This is supported by our engagement with Community Planning Partnerships and local economic fora.

Scotland’s seven city regions account for over 85% of Scotland’s onshore GVA. SE is committed to working alongside individual city and city-region Local Authorities, and the Scottish Cities Alliance, to harness their collective contribution to the economy. Each of the city-regions has a distinctive array of economic assets and SE has been actively supportive in developing the value of these eg:

- Building on Aberdeen City and Shire’s strength in oil and gas through initiatives such as Energetica;
- Working with Glasgow Economic Leadership to develop the bio-corridor from the Enterprise Area in Irvine through the new Glasgow South Hospital Campus and West of Scotland Science Park to Bio-City at Newhouse;
- Supporting the development of Scotland’s creative industries through, for example, the video games cluster in Dundee.
- In Edinburgh, the Bio-Quarter development with a focus on Life Sciences now has 15 commercial tenants including Molnlycke Health Care.

Partnership working has brought robust, positive results. However we can do more, and go beyond our current approach with public sector partners to build greater collaboration with the private sector. For example, we need to build on the excellent progress made on the Innovation Centres by developing additional, strategic partnerships with the private sector, to bring about the transformational change required to improve Scotland’s innovation performance.

### 9. EQUALITIES

Our first biennial report on Equality\(^6\) sets out both a clear agenda to guide our approach to equality over the next few years and highlights the progress we have made so far in embedding equality across our work. We are also active with other groups, particularly young people, having established a youth strategy and support for the delivery of the ‘Young EDGE’ programme.

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Regional equity is crucial to the National Performance Framework cohesion target. Along with partners, we seek to identify growth potential in all areas of Scotland and help to connect businesses and people in those areas with opportunities in the wider economy. We are carrying out a review of our approach in this area to ensure this work is further embedded within our operations.

In rural Scotland, for example, this means ensuring that businesses maximise the potential of the unique natural assets and growth opportunities, such as mountain biking in the South of Scotland. We have specific programmes and approaches in rural areas which are aimed directly at challenges faced by such areas. For example, the Rural Innovation Programme was developed in response to rural businesses being distant from traditional innovation networks and helps those businesses access academic expertise and knowledge.

10. 2015/16 BUDGET

Table 1 below provides a comparison of our 2014/15 Published Plan and our current income projections and draft expenditure plans for 2015/16.

The 2015/16 income projections reflect the Draft Budget 2015/16 figures announced by the Scottish Government on 9 October 2014. These reflect an increase in our Grant-in-Aid baseline of £9m and the anticipated contribution of £17.3m to the Strategic Forum Savings target of £40m.

We anticipate being in a position to apply £77.4m of other income to support our planned expenditure of £309.7m.

In line with the Scottish Government’s Draft Budget 2015/16, we have re-profiled our draft expenditure plans to recognise the slower than anticipated spend of public funds in support of the renewable energy sector.

The following table details the Scottish Enterprise draft budget 2015-16.
## Scottish Enterprise

### Table 1 - 2014/15 Published Plan v 2015/16 Initial Draft Budget

<table>
<thead>
<tr>
<th>INCOME ANALYSIS</th>
<th>Published Plan 2014/15 (£m)</th>
<th>Draft Budget 2015/16 (£m)</th>
<th>Change (£m)</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant in Aid (baseline)</td>
<td>220.1</td>
<td>229.1</td>
<td>9.0</td>
<td>4%</td>
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<tr>
<td>Anticipated reduction to baseline budget</td>
<td>-17.3</td>
<td>-17.3</td>
<td>0.0</td>
<td>0%</td>
</tr>
<tr>
<td>Anticipated in-year transfers from Scottish Government (net)</td>
<td>51.7</td>
<td>29.5</td>
<td>-22.2</td>
<td>-43%</td>
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<tr>
<td><strong>Total anticipated Grant in Aid</strong></td>
<td>254.5</td>
<td>232.3</td>
<td><strong>-22.2</strong></td>
<td><strong>-9%</strong></td>
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<tr>
<td>EU Funds</td>
<td>6.3</td>
<td>17.6</td>
<td>11.3</td>
<td>179%</td>
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<tr>
<td>Property Disposals</td>
<td>23.0</td>
<td>18.8</td>
<td><strong>-4.2</strong></td>
<td><strong>-18%</strong></td>
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<tr>
<td>Property Income</td>
<td>6.8</td>
<td>5.8</td>
<td><strong>-1.0</strong></td>
<td><strong>-15%</strong></td>
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<tr>
<td>Scottish Co-Investment Fund</td>
<td>8.8</td>
<td>3.0</td>
<td><strong>-5.8</strong></td>
<td><strong>-66%</strong></td>
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<tr>
<td>Scottish Loan Fund</td>
<td>8.0</td>
<td>12.0</td>
<td><strong>4.0</strong></td>
<td><strong>50%</strong></td>
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<td>Other Business Income</td>
<td>12.9</td>
<td>20.2</td>
<td><strong>-7.3</strong></td>
<td><strong>-59%</strong></td>
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<tr>
<td><strong>TOTAL INCOME</strong></td>
<td>330.3</td>
<td>309.7</td>
<td><strong>-20.6</strong></td>
<td><strong>-6%</strong></td>
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</table>

<table>
<thead>
<tr>
<th>PLANNED INVESTMENT</th>
<th>Published Plan 2014/15 (£m)</th>
<th>Draft Budget 2015/16 (£m)</th>
<th>Change (£m)</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Growth Companies</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy, Leadership &amp; Organisational Development, Domestic Market Development and Business Efficiency</td>
<td>16.4</td>
<td>16.4</td>
<td>0.0</td>
<td>0%</td>
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<tr>
<td>Regional Selective Assistance (RSA)</td>
<td>30.0</td>
<td>12.0</td>
<td><strong>-18.0</strong></td>
<td><strong>-60%</strong></td>
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<tr>
<td>Enterprise Support - Training Plus, CDS etc</td>
<td>2.4</td>
<td>2.2</td>
<td><strong>-0.2</strong></td>
<td><strong>-10%</strong></td>
</tr>
<tr>
<td>Entrepreneurial Support - EDGE, HIT &amp; High Growth Start Up</td>
<td>3.1</td>
<td>1.6</td>
<td><strong>-1.5</strong></td>
<td><strong>-49%</strong></td>
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<tr>
<td>Equity Investment &amp; Loans</td>
<td>27.3</td>
<td>39.5</td>
<td><strong>12.2</strong></td>
<td><strong>45%</strong></td>
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<td><strong>Innovation Specialist Support</strong></td>
<td>6.5</td>
<td>6.5</td>
<td>0.0</td>
<td>0%</td>
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<tr>
<td>R&amp;D Support</td>
<td>10.3</td>
<td>10.3</td>
<td>0.0</td>
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<tr>
<td>SMART</td>
<td>6.0</td>
<td>6.0</td>
<td>0.0</td>
<td>0%</td>
</tr>
<tr>
<td>Commercialisation Support</td>
<td>5.8</td>
<td>5.8</td>
<td>0.0</td>
<td>0%</td>
</tr>
<tr>
<td>Direct staff costs of delivering Growth Companies and Innovation services</td>
<td>22.1</td>
<td>23.2</td>
<td><strong>1.1</strong></td>
<td><strong>5%</strong></td>
</tr>
<tr>
<td><strong>INTERNATIONALISATION</strong></td>
<td>127.5</td>
<td>154.2</td>
<td><strong>26.7</strong></td>
<td><strong>21%</strong></td>
</tr>
<tr>
<td><strong>Renewable Energy</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Renewable Energy Investment Fund</td>
<td>35.0</td>
<td>15.5</td>
<td><strong>-19.5</strong></td>
<td><strong>-56%</strong></td>
</tr>
<tr>
<td>National Renewables Infrastructure Fund</td>
<td>10.3</td>
<td>3.2</td>
<td><strong>-7.1</strong></td>
<td><strong>-68%</strong></td>
</tr>
<tr>
<td>International Technology &amp; Renewable Zone (ITREZ)</td>
<td>2.7</td>
<td>0.6</td>
<td><strong>-2.1</strong></td>
<td><strong>-78%</strong></td>
</tr>
<tr>
<td>Renewable Energy R&amp;D Support - WATERS/POWERS/SIFT</td>
<td>8.0</td>
<td>4.0</td>
<td><strong>-4.0</strong></td>
<td><strong>-50%</strong></td>
</tr>
<tr>
<td><strong>Sectoral Priorities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry Sector Project Support</td>
<td>14.9</td>
<td>14.9</td>
<td>0.0</td>
<td>0%</td>
</tr>
<tr>
<td>Rural &amp; Other Enterprise Support Projects</td>
<td>1.1</td>
<td>1.1</td>
<td>0.0</td>
<td>0%</td>
</tr>
<tr>
<td>Life Sciences Venture Fund</td>
<td>1.2</td>
<td>1.0</td>
<td><strong>-0.2</strong></td>
<td><strong>-17%</strong></td>
</tr>
<tr>
<td>Direct staff costs of delivering Renewable Energy and Sectoral Priorities services</td>
<td>8.9</td>
<td>9.4</td>
<td><strong>0.5</strong></td>
<td><strong>6%</strong></td>
</tr>
<tr>
<td><strong>Business Infrastructure &amp; Connectivity</strong></td>
<td>35.3</td>
<td>36.5</td>
<td><strong>1.2</strong></td>
<td><strong>3.5%</strong></td>
</tr>
<tr>
<td><strong>Domestic Marketing &amp; Research and Stakeholder Engagement</strong></td>
<td>2.6</td>
<td>2.6</td>
<td>0.0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Domestic Premises &amp; Facilities Management costs</strong></td>
<td>13.3</td>
<td>13.0</td>
<td><strong>-0.3</strong></td>
<td><strong>-2%</strong></td>
</tr>
<tr>
<td><strong>Corporate Services, including ICT, Legal, Travel etc</strong></td>
<td>15.1</td>
<td>12.2</td>
<td><strong>-2.9</strong></td>
<td><strong>-19%</strong></td>
</tr>
<tr>
<td><strong>Support Staff Costs</strong></td>
<td>12.5</td>
<td>13.1</td>
<td><strong>0.6</strong></td>
<td><strong>5%</strong></td>
</tr>
<tr>
<td><strong>TOTAL CASH INVESTMENT</strong></td>
<td>330.3</td>
<td>309.7</td>
<td><strong>-20.6</strong></td>
<td><strong>-6%</strong></td>
</tr>
</tbody>
</table>
### Explanatory Notes for Table 1 – 2014/15 Published Plan v 2015/16 Initial Draft Budget

<table>
<thead>
<tr>
<th>No.</th>
<th>Explanatory Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>These are the base-line budget figures from the Scottish Government Spending Review from September 2013 and the draft budget for 15/16 announced in October 2014 respectively.</td>
</tr>
<tr>
<td>2.</td>
<td>The decrease is mainly due to 4 factors. Firstly, the funding available for REIF activity has been reduced by £19.5m (see point 11 below). Secondly, based on current market conditions, no expenditure is anticipated on POWERS and SIFT until 16/17 and hence the anticipated transfer of funds for these programmes for 15/16 have been removed resulting in a reduction of £8m compared to 14/15. Expenditure of £8m has similarly been removed from the draft 15/16 budget at point 14 below. Thirdly, the 14/15 plan included provision for a one-off transfer of £2m relating to a SIB investment which was not therefore replicated in the 15/16 plan. Finally, funding for EDGE of £1.5m comes to an end in 14/15 and is therefore not included in 15/16 figures (see point 9 below).</td>
</tr>
<tr>
<td>3.</td>
<td>A significant increase in EU income is expected as 15/16 will be the first full year of income expected from the new 2014-2020 EU programme.</td>
</tr>
<tr>
<td>4.</td>
<td>A decrease in Property Disposals is anticipated. The projections from this income source can vary materially from year to year depending on a number of factors including the state of the property market, the relative value and attractiveness of assets held by SE and the balance of income required to fulfil our investment plans.</td>
</tr>
<tr>
<td>5.</td>
<td>The decrease results from the full utilisation of the original capitalised fund in early 15/16. Planned Co-Investment Fund (SCF) expenditure (see point 10 below) will then be funded from other income sources.</td>
</tr>
<tr>
<td>6.</td>
<td>The increase represents the planned increase in Scottish Loan Fund expenditure as the fund reaches maturity. The expenditure is fully funded from capitalised reserves. The increase in expenditure is noted at point 10 below.</td>
</tr>
<tr>
<td>7.</td>
<td>The net decrease is due to 3 factors. Firstly, the 14/15 target includes the use of £3m of income generated from Scottish Loan Fund activities while the 15/16 income target has been reduced to £1m. Secondly, income from projects and other sources is expected to decrease by £2.2m in 15/16 which is mainly a reflection of the portfolio of projects being delivered. Finally, these decreases are partially offset by an increase in general SIB investment income of £1.5m as the SIB portfolio matures.</td>
</tr>
<tr>
<td>8.</td>
<td>The increase reflects the significant upturn in demand ahead of the change in the eligibility criteria for RSA in 2014 which has created an increase in budget requirement over the next 2 financial years.</td>
</tr>
<tr>
<td></td>
<td>The decrease is due to EDGE delivery being undertaken by Scottish Government sub-contractors as opposed to SE in 15/16.</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>10.</td>
<td>The increase is due to 2 factors. Firstly, there is a general increase in SIB funds of £8.2m reflecting the upturn in demand for access to finance experienced during 14/15 which is anticipated to continue in to 15/16. Secondly, there is an increase in funding for the Scottish Loan Fund of £4m as the fund reaches maturity which is expected to lead to an increased demand for funding. Note also the planned level of SCF expenditure is anticipated to increase from £8.8m in 14/15 to £10.7m in 15/16 and this increase is included in the £8.2m increase noted above (see also point 5 above regarding funding for SCF).</td>
</tr>
<tr>
<td>11.</td>
<td>The planned expenditure in 15/16 reflects the level of budget confirmed in the draft budget announcement in October 2014 (see point 2 above).</td>
</tr>
<tr>
<td>12.</td>
<td>A decrease in budget is planned as demand for physical port infrastructure has been lower than originally anticipated and this has also been reflected in the latest 14/15 budget for NRIF.</td>
</tr>
<tr>
<td>13.</td>
<td>The decrease is due to the fact that the main expenditure on the ITREZ project comes to an end in 14/15 as the construction phase concludes.</td>
</tr>
<tr>
<td>14.</td>
<td>The net decrease is mainly due to the removal of expenditure on POWERS and SIFT in 15/16 reflecting market conditions which results in a decrease of £6m. No expenditure is now anticipated on these programmes until 16/17. This is partially offset by an increase of £2m on the WATERS programme reflecting anticipated demand including the launch of WATERS 3.</td>
</tr>
<tr>
<td>15.</td>
<td>The decrease is primarily due to the 14/15 budget including £3m for one-off Information Services sub-contractor transition costs. However, the 15/16 budget is still being reviewed in more detail based on the current status of the IS transition and likely future costs.</td>
</tr>
</tbody>
</table>

Scottish Enterprise, October 2014