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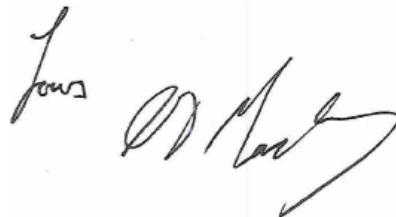
19 December 2018

Dear Gordon,

### **Response to Economy, Energy and Fair Work Committee – Pre-Budget Scrutiny Report**

Thank you for your submission regarding the Committee's pre-budget scrutiny of the Scottish Budget 2019-20. The input of the Parliament's committees is a valued part of the budget scrutiny process, and I thank you for your time and care in preparing your submission.

Following the publication of the Scottish Budget on 12 December, I am writing in response to the substantive items the Committee have raised. Response to these can be found in the attached annex.



**DEREK MACKAY**

**The Scottish Government welcomes the Committees consideration. Responses to the points raised are presented below.**

### **Employability Programmes - Overall Budget for Employability Services and Alignment with Other Services**

The Committee believes that it is vital to know the extent of provision and expenditure across all employability programmes. The Committee notes that the Scottish Government is currently mapping out the provision of services across Scotland. This should be a clearly coordinated information gathering exercise, carried out with the cooperation of local authorities, with a view to developing a coherent, strategic and crosscutting plan. We urge the Scottish Government to provide the Committee with this further information on employability service provision as soon as possible. The Committee will examine that data as part of its ongoing budget scrutiny.

**SG Response:** We are working with local authority counterparts to assess local employability delivery, to identify and share best practice, and to develop closer alignment of local and national government employability delivery. This includes working with Local Government to agree a partnership working agreement in employability for sign off in December 2018. We will then work collectively to develop a joint employability alignment action plan. This is intended to be a coherent, strategic and cross cutting plan – but also a plan that will drive partnership actions for greater integration and closer joint working in employability. We will keep the committee informed as this work progresses.

The Committee welcomes the indication from the Minister that work is being done on aligning employability and other complementary services. This is an opportunity for the Scottish Government to galvanise those services into a more coherent approach. The Committee requests an update on this work once these projects are completed.

**SG Response:** Noted. The Scottish Government will keep the committee updated.

### **Employability Fund**

The Committee notes the evidence that one-year contracts can be problematic. Tendering for work takes time, effort and money, and doing this on an annual basis imposes unnecessary insecurity on providers. The Committee recommends that organisations are given three-year contracts under the Employability Fund.

**SG Response:** Fair Start Scotland (FSS) and the Employability Fund (EF) are aimed at helping different groups of unemployed people. EF is largely aimed at supporting people with short and sharp interventions. FSS is an all age service that supports people over a longer period (up to 18 months pre-work support, and 12 months in work). The contracting models reflect that. We understand that EF Providers would prefer the security of 3-year provision. This has been raised during the review of Scottish Government directly funded employability services; and we will this consider as part of that process and keep the committee updated.

### **FSS Voluntary programme**

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See [www.lobbying.scot](http://www.lobbying.scot)



The Committee welcomes the voluntary nature of FSS, but notes that people are excluded if they start the programme and drop out early. The Committee recommends that the Scottish Government should review this policy with a view to giving people further opportunities to engage with the programme.

**SG Response:** The Scottish Government welcomes the committees support for the voluntary approach we have followed in FSS. We are committed to continuous improvement of our employment support services and are currently reviewing our policy on participants who subsequently disengage from FSS. We will keep the committee updated.

### **Fair Start Scotland Contracts**

The Committee recommends that, as part of a review of the initial programme, the Scottish Government seeks to address these issues by ensuring that there is sufficient time to bid and taking steps to ensure that the process is accessible to all organisations, regardless of size.

**SG Response:** FSS Contracts were awarded following an open and transparent process, and the contracts awarded reflect significant levels of partnership delivery. In addition, the Scottish Government Commercial Directorate undertook extensive pre-market engagement and discussions with potential bidders – large and small – as part of the commissioning process. Additionally, at each of the Supplier Open Days and the subsequent Potential Bidders event we arranged presentations by organisations whose function is to support potential bidders. These included the Supplier Development Programme; Ready for Business; Just Enterprise; and Senscot. These presentations were published online for ease of access.

The Scottish Government believes joint working between private, public and third sector is a key strength of our approach. Over half of the provision is being delivered by public and third sector organisations and by supported businesses. We will continue to ensure all organisations considering bids, regardless of size, are given sufficient time and information to consider before submitting bids in future for contracted procurement.

### **Payment by Result and Outcomes**

The Committee notes evidence that SAMH, who are experts in relation to individual placement support, have opted out of its delivery due to funding constraints. Given that this is cited as being an effective intervention, the Committee recommends that the Scottish Government pilot this service to be delivered by the third sector within the next three years before the new round of FSS contracts. This could be funded by any underspend in the Fair Start Scotland budget.

**SG Response:** We agree individual placement support is an effective way of supporting people to find work, and to stay in work, which is why it is part of the FSS offer. We will continue to review how individual placement support is working as part of our commitment to continually improve our services and feed into our next steps. We will continue to work with third sector interests on these issues.

### **FSS Outcomes – Alternative Payment Models**

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It is clear to the Committee that the payment by result model must be monitored carefully. As it currently stands, it does not sufficiently recognise the complex nature of the people engaging with the services. The Committee invites the Scottish Government to build flexibility into the outcomes, to allow them to be tailored towards the person's needs. The Committee agrees with evidence which suggested that progression towards employment should be considered a successful outcome as well as sustained job outcomes.

**SG Response:** Noted. We are considering how best to define outcomes for publically funded employability support as part of our Scottish Government employability services review and will continue to review and discuss with partners. However, it should be noted that FSS offers a significantly larger service fee than previous programmes to allow providers more flexibility. This was built into the funding model as the Scottish Government felt it important that a level of security be provided to FSS providers, particularly smaller or third sector organisations. FSS also offers varied outcome payments across three different service strands to incentivise supporting those with more complex barriers into work.

## Referrals

The Committee notes the key role of Job Centre plus in referring people to the Fair Start Scotland Programme. The Committee will seek to engage with them as part of its ongoing budget scrutiny over the coming year.

The Committee welcomes the development of other referral mechanisms to the programme and will monitor the progress of this work.

**SG Response:** Noted. We welcome any support the Committee can bring to engaging with the Job Centre Plus network and promoting the visibility of Fair Start Scotland.

## Apprenticeship levy

The Committee notes the issues raised in relation to the apprenticeship levy. The Committee asks the Scottish Government to share its analysis of the HMRC data as soon as possible. The Committee will examine this issue in more detail as part of its forthcoming inquiry on skills.

## SG Response:

Noted and SG will keep the committee updated. (As detailed in correspondence to the Convenor of the committee on 28 September, the Minister for Business, Fair Work and Skills pledged to update the committee once analysis of the HMRC data is complete).

## Scottish Enterprise and Highlands and Islands Enterprise

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## Expenditure

The Committee is concerned about the lack of progress in committing the money for the Scottish-European Growth Co-investment Programme. With only £0.5 million invested by Scottish Enterprise out of a pot of £10 million, the programme has not been a success to date.

Given the underspend in financial transaction money over the last year, the Committee does not have confidence that Scottish Enterprise will commit the increased funds, consisting of financial transaction money, which largely accounts for its increased budget for the forthcoming year.

The Committee recommends that Scottish Enterprise take urgent action to ensure that this money is spent to benefit the Scottish economy. We ask Scottish Enterprise to provide us with an update in six months on progress in committing these funds.

### **SG Response:**

The reported £10 million underspend by Scottish Enterprise in 2017/18 was in relation to a specific initiative, the Scottish European Growth Co-investment Programme. The Programme is managed by the European Investment Fund (EIF) and can provide equity investment of £2 million to £10 million in relevant companies. The Programme operates by bringing together investment from Scottish Enterprise (25%), the European Investment Fund (25%) and European Fund Managers (50%) to invest in Scottish SMEs.

Scottish Enterprise provides support to help individual companies become investor ready. This includes facilitating introductions to a range of EIF accredited fund managers, who make the investment decision, which Scottish Enterprise can then match fund. Given the level of individual investments, these deals can be complex and take time. Due diligence must be undertaken by Fund Managers and businesses seeking investment.

Scottish Enterprise is working to convert interest in the Programme into investment deals. The Programme is one part of the £500m Scottish Growth Scheme. The Scottish Growth Scheme as a whole has supported investment of more than £106 million (equity) in 82 companies. Scottish Enterprise will update the Committee in April on progress in committing Financial Transactions funding.

### **Level of spend**

The Committee notes the Cabinet Secretary's assurance that Scottish Enterprise's assessment of the impact of its spend is achieving the outputs that they claim. However, the Committee is keen to understand the detail behind the claim that Scottish Enterprise generates between £6 and £9 GVA for every pound it spends. We recommend that Audit Scotland should carry out a further performance audit report to examine and explain this assessment. This would provide clarity and transparency and would allow the Committee and the wider business community to understand how this is being achieved.

### **SG Response:**

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Scottish Enterprise has a wide range of independent evaluation evidence of the impacts of support which are carried out by independent consultants and academics and published online. This evaluation evidence and internal and independent economic impact appraisal evidence, allows Scottish Enterprise to model the potential economic impacts of its investment in growing the Scottish economy.

Sheffield Hallam University reviewed this model in 2011. They found that “SE’s approach to estimating impact was found to be a sensible one which has been informed by approaches taken by other agencies. Several characteristics of the approach are highlighted as particularly positive: the use of evaluation evidence from a range of sources to inform the estimates; the aim to use survey and beneficiary data to drive estimates of impact; and the flexibility to undertake impact estimation at the appropriate time in the project or programme life cycle”.

The Committee welcomes the Scottish Government’s commitment to producing an action and implementation plan for its economic strategy. The Committee supports Audit Scotland’s recommendation that the Scottish Government should set out the role of the enterprise agencies in delivering the strategy as part of the action plan. In future annual reports, the enterprise agencies should report on progress with these actions.

**SG Response:**

The enterprise agencies have a statutory requirement to publish an annual report of their activities together with their audited accounts after the end of each financial year. The annual report must cover the activities of any corporate, subsidiary or joint ventures under their control, and outline the agencies main activities and performance against agreed targets for the previous financial year. The Scottish Government’s strategic guidance to the agencies will affirm the requirement for the agencies to deliver the Economic Action Plan

**Are the agencies’ targets Challenging Enough?**

The Committee notes that the enterprise agencies set and mark their own homework. There is a role for the Strategic Board to ensure that their targets are sufficiently challenging. The Committee welcomes the role of the Strategic Board in performing a ‘challenge’ function; it must ensure that the enterprise agencies set ambitious and stretching targets.

**SG Response:**

The Strategic Board’s Analytical Unit is developing a measurement framework which will allow the Board to track progress against outcomes and impacts using relevant indicators from the newly refreshed National Performance Framework, and to use the agencies’ management information and existing performance frameworks to shed light on the agencies’ contribution to outcomes and impacts. Importantly, agency level information about inputs, activities and outputs will be aligned with the NPF to ensure that there is a clear understanding of which agency activities contribute to which outcome and consistency in terms of the outcomes which are measured. The Board will then use this information to inform its recommendations on agency targets and priorities.

The Committee will take evidence from the Strategic Board in early 2019 as part of its ongoing budget scrutiny. The Committee will also gather evidence from businesses on the enterprise agencies’ targets and how these are achieved and measured.

**SG Response:**

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Noted. The Scottish Government will keep the committee updated on progress with the Strategic Board's performance framework.

## **Inclusive growth**

The Committee recommends that the enterprise agencies produce more explicit, measurable inclusive growth targets in future business plans.

### ***SG Response:***

The delivery of sustainable and inclusive growth underpins the business plans of both Scottish Enterprise's and Highlands and Islands Enterprise. The current Scottish Enterprise business plan includes a number of inclusive and sustainable growth indicators which have been designed to help establish baseline data to introduce outcome measures for inclusive growth in future.

Scottish Enterprise is beginning its planning process for 2019 and beyond, which will include consideration of its performance framework, including inclusive growth measures.

Highlands and Islands Enterprise recognise the importance of measuring progress across the region as a whole but also in their more fragile areas which is why they include geographically explicit targets relating to job creation and sales in these areas. These are supplemented with average wage level and social investment targets and a range of business values we monitor across client businesses. Raising wage levels and addressing the imbalance in wage distribution across the region remains a long-standing objective of Highlands and Islands Enterprise.

The recording of the average salary of jobs supported was introduced in 2016/17 and, in the absence of comprehensive regional statistics, this target provides a useful inclusive growth indicator as it allows Highlands and Islands Enterprise to track the contribution its interventions make to raising average wage earnings across the region.

## **Equalities**

The Committee notes evidence from both enterprise agencies that they could do more to address diversity in businesses across Scotland. The Committee recommends that they set clear, measurable diversity targets in future business plans. These targets should be broad to include, but not be restricted to, the full range of protected characteristics.

### ***SG Response:***

Scottish Enterprise's equality outcome targets are set out in its Equality Mainstreaming Reports, which are published every two years and are referenced in its business plans. The current set of outcome targets are:

1. Increase the number of account managed companies (meeting Scottish Enterprise's growth criteria) led by women, ethnic minorities, young and disabled people
2. Business ownership of companies who have taken up Scottish Enterprise's service for the first time (meeting Scottish Enterprise's growth criteria) are in line with Scottish data for gender, disability, race and age

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3. Improve Scottish Enterprise's equal pay occupational segregation profiles for gender, ethnicity and disability. Ensure its workforce profile reflects national benchmarks for all protected characteristics

The current Scottish Enterprise Business Plan (2018-19) includes a number of inclusive and sustainable growth indicators, including the number of female-led account managed companies. These have been designed to help establish baseline data, in order to introduce outcome measures for inclusive growth in future.

Highlands and Islands Enterprise currently considers the inclusive elements of growth in relation to people and to place. Highlands and Islands Enterprise's Operating Plan reflects its equality outcomes to increase the diversity of leadership and workforce participation. Its focus to date has been on increasing employment prospects for young people and the number and proportion of women accessing its leadership programmes, the business leadership community and its board membership. It is also currently exploring how it can extend this focus to the employment of other under-represented groups and grow the working age population in every part of the Highlands and Islands.

### **Conditionality**

The Committee notes the assertion from the Enterprise Agencies that positive influence is effective. However, with the focus on conditionality in the Programme for Government, it appears that a shift in approach will be required to achieve this. The Committee will scrutinise progress in implementing this aspect of the Programme for Government as part of its ongoing budget scrutiny.

**Response:** The Committee's interest in progress on this as part of its ongoing budget scrutiny is noted.

### **Enterprise Agencies and Job Quality**

The Committee will examine the regional challenges in attracting skills as part of its forthcoming inquiry on skills.

**Response:**

Noted.

### **Impact of Automation**

The Committee would expect to see more about planning for the fourth industrial revolution in future business plans.

**Response:**

Meeting Scotland's future skills needs is an important element of mobilising our economy to take advantage of the opportunities emerging through technological change, as well as mitigating the potential risks of disruption in the labour market. The Scottish Government will publish a Future Skills Action Plan in early 2019, informed by the establishment of a National Retraining partnership, which includes employers and unions.

We are undertaking a wide range of activities to reflect and prepare the Scottish Economy for the opportunities that technological change will bring to business and industry. This includes; establishing a National Manufacturing Institute for Scotland (NMIS) which will

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incorporate a Skills Academy; helping businesses to identify and evaluate opportunities around digital technologies, such as automation, in order to develop a business case for investment; supporting cross sector engagement events, such as the Scottish Manufacturing Advisory Service led National Conference on Manufacturing 4.0, to highlight the benefits and opportunities of automation and technological change in the workplace; and creating the right environment for growth through our commitment to providing superfast broadband to every home and business in Scotland.

## **Evidence on Community and Locally Owned Energy**

Scottish Government's approach to financing and supporting community and locally owned energy

### ***SG Response:***

I welcome the endorsement for our CARES scheme, it has supported hundreds of communities up and down the country to develop renewable projects.

However, the erosion of support by the UK government has made future development of 'standard' standalone community energy schemes more challenging.

We have made our disappointment clear to the UK government that the potential closure of the Feed-in Tariff Scheme (FITS) in March 2019 with no replacement scheme being considered, will be detrimental to the small scale sector.

CARES has adapted in the past to respond to UK changes in energy policy and a key priority for the current CARES contract is the ability to be flexible and responsive to changing circumstances.

We are in this transitional phase and communities require a funding package that better reflects the shift toward a more localised energy approach, as outlined in our Energy Strategy. CARES offers a flexible package of support to better reflect this change. We continue to review CARES support to ensure it remains relevant.

In terms of who is eligible to apply for CARES funding, it is wider than community organisations and includes rural SMEs, Local Authorities and Housing Associations. Full details available at: <https://www.localenergy.scot/funding/>

Our Energy Strategy sets out a vision for a flourishing competitive local and national energy sector, delivering secure affordable, clean energy for Scotland's households, communities and businesses. Our policy of encouraging commercial developers to offer host communities a shared ownership opportunity in a renewable energy development, supports our ambition for increased levels of local ownership where all stakeholders stand to benefit from greater partnership working and other additional benefits, including creating a lasting legacy, building community capacity, and strengthening corporate social responsibility/

Is there adequate funding to hit the 2020 target of 1GW of community and locally owned energy by 2020 and 2GW by 2030?

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## **SG Response:**

Since 2013, £35 million has been made available through the Community and Renewable Energy Scheme (CARES), placing the scheme at the forefront of supporting community and local energy in Scotland.

Our target is challenging but we are making good progress. As at June 2017, 666 MW of community and locally owned renewable energy capacity was operational. The next annual report, (produced by the Energy Saving Trust), is due to be published imminently, and subject to final review, it is expected to show that as at June 2018, the figure has increased to 706 MW.

*Which technologies (heat and/or electricity) have the most potential to transform community and locally owned energy, and are resources being adequately targeted?*

## **SG Response:**

Our Low Carbon Infrastructure Transition Programme (LCITP) launched in March 2015, focuses on supporting the acceleration of low carbon infrastructure projects across the public, private and community sectors to develop investment grade business cases to help projects secure public and private capital finance.

Since its launch over £40 million has been offered to support 16 low carbon demonstrator projects, which includes a number of Local Authority led district heating projects, in Dundee, West Dunbartonshire, and Fife.

Organisational structures and benefits.

## **SG Response:**

### **Role of local authorities**

The Scottish Government has consulted on the introduction of a statutory duty for local authorities to develop Local Heat & Energy Efficiency Strategies (LHEES). These would set the strategy and a framework for reducing energy demand and decarbonising the heat supply of buildings in the area covered, across the timeframe of the Energy Efficient Scotland programme. It is intended that LHEES underpin local delivery programmes operating under Energy Efficient Scotland.

The Scottish Government wants LHEES to act as an investment prospectus for energy efficiency and district heating, with a key role for local authorities in guiding and shaping that investment in the heat and energy efficiency markets, building on existing programmes.

In our second consultation on LHEES and District Heating regulation, we proposed that local authorities would develop LHEES through close consultation with their communities. Scotland has a legacy of strong community engagement in local renewable generation, led by rural Scottish communities, including islands. These groups have led the way in developing innovative local energy solutions, overcoming their limited access to national infrastructure. This work has taken a wider view of the energy system than what we have proposed for LHEES and has been led at a community level, rather than by local

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government. The Scottish Government has supported a number of these early pilot projects through initiatives such as the Low Carbon Infrastructure Transition Programme and the CARES Local Energy Challenge Fund.

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