



The Scottish Parliament
Pàrlamaid na h-Alba

ECONOMY, ENERGY AND TOURISM COMMITTEE

MEETING DETAILS

2nd Meeting, 2016

Wednesday 13 January 2016

The James Clerk Maxwell Room (CR4)

Meeting starts at **9.30 am**

COMMITTEE PAPERS

Agenda

Draft Budget 2016-17 – SPICe briefing

ADDITIONAL INFORMATION

Previous Meetings

[Previous Meeting Papers and Official Reports](#)

NOTICES

Next Meeting is Wednesday 20 January 2016.

Business includes:

- Oral evidence from the Minister for Business Enterprise and Tourism on Enterprise Bill LCM.
- Oral evidence on the Longannet Task Force.



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ECONOMY, ENERGY AND TOURISM COMMITTEE

AGENDA

2nd Meeting, 2016 (Session 4)

Wednesday 13 January 2016

The Committee will meet at 9.30 am in the James Clerk Maxwell Room (CR4).

1. **Decision on taking business in private:** The Committee will decide whether its consideration of a draft report on Draft Budget Scrutiny 2016-17 should be taken in private at future meetings.
2. **Draft Budget Scrutiny 2016-17:** The Committee will take evidence on the Scottish Government's Draft Budget 2016-17 from—

John Swinney, Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy, John Mason, Director of Economic Development, and Mary McAllan, Director of Energy and Climate Change, Scottish Government.

3. **Draft Budget Scrutiny 2016-17 (in private):** The Committee will consider evidence heard at today's meeting.

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The papers for this meeting are as follows—


Agenda Item 2

SPICe Briefing

EET/S4/16/2/1

PRIVATE PAPER

EET/S4/16/2/2 (P)

Agenda item 1		EET/S4/16/2/1
13 January 2016		

Economy, Energy and Tourism Committee

Scrutiny of the 2016-17 Draft Budget

Members will have the opportunity to question Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy, John Swinney, on the [2016-17 Scottish Government Draft Budget](#).

SPICe produced a [briefing and infographic](#) on the Draft Budget which Members may find useful. Detailed [Level 4 figures](#) are also available on our website.

During October and November the Committee heard evidence from Scottish Enterprise and Highlands and Islands Enterprise as part of our pre-budget scrutiny. We also held sessions on fuel poverty and tourism which aimed to inform budget scrutiny once figures eventually became available. Due to the late publication of the UK Government's Spending Review, the Scottish Government was unable to publish its Draft Budget until December 16th, thus severely curtailing the time available for Committee scrutiny of the draft budget figures.

Enterprise agencies

Key points from 11th November evidence session:

- Scottish Enterprise (SE) accept that “some areas that we thought were large opportunities, such as offshore wind manufacturing, are not the opportunities we thought they were”;
- SE account manage 350 companies in the oil and gas sector (15% of total account managed companies);
- SE confirmed “our focus is on the growth element of ‘inclusive growth’. That is what Scottish Enterprise does”.
- Highlands and Islands Enterprise (HIE) is “hugely committed and hugely positive about the marine renewables opportunities”;
- HIE plans to invest between £18 and £20m on renewables in 2016/17, mostly through Wave Energy Scotland;
- HIE estimates 2,300 redundancy notices have been issued to workers in the oil and gas sector in the Highlands and Islands area since summer 2014.

Scottish Enterprise – Draft Budget (2016-17)

	2015-16 £m	2016-17 £m	Change %
Scottish Enterprise (resource)	174.5	166.5	-4.6%
Scottish Enterprise (capital)	54.7	41.9	-23.4%
Scottish Enterprise (non-cash)	27.1	25.2	-7.3%
Scottish Enterprise (financial transaction)	-	21.5	n/a
SE TOTAL	256.3	255.1	-0.5%

The above table shows SE's resource and capital budgets reducing by 4.6% and 23.4% respectively over the year. The combined resource and capital budget is therefore £208.4m for 2016-17 compared with £229.2m in 2015-16¹. This is what SE calls their 'baseline' budget. As in previous years, SE will be expected to make further 'strategic forum savings' of around £17m from this baseline. Therefore, Scottish Government combined capital and resource budget to SE is likely to be around £191m (before any in-year transfers).

However 'financial transaction' money of £21.5m will also be made available. This takes the form of loans and equity investment to the general public, third sector or private sector organisations. Notes accompanying Level 4 figures state that Scottish Enterprise is currently "considering options for this spend in conjunction with their overall spending plans".

Highlands and Islands Enterprise – Draft Budget (2016-17)

	2015-16 £m	2016-17 £m	Change %
Highlands and Islands Enterprise (resource)	30.5	30.0	-1.6%
Highlands and Islands Enterprise (capital)	28.5	26.2	-8.1%
Highlands and Islands Enterprise (non-cash)	12.2	11.0	-9.4%
HIE TOTAL	71.197	67.247	-5.5%

HIE's combined resource and capital budget is £56.2m compared with £59m in 2015-16. Anticipated 'strategic forum savings' of around £3.2m are expected meaning combined capital and resource grant in aid allocation will be in the region of £53m. The capital budget has been reduced by 8.1% over the year; however, unlike Scottish Enterprise, HIE has no 'financial transaction' allocation.

¹ All changes between years are in 'cash' terms, ie are not adjusted for expected inflation. If Members would like any of these figures put into 'real' terms please contact Greig Liddell in SPICe.

As with the SE budget, a considerable proportion of total HIE budget is comprised of “non-cash”. Level 4 notes state that this £11m is to cover “depreciation of Highlands and Islands Enterprise’s assets, including its estate”. This represents 16% of HIE’s total allocation (and 10% of SE’s total allocation).

Tourism

Key points from 18th November evidence session:

- VisitScotland emphasised the importance of improving digital connectivity for tourism businesses;
- Scottish Tourism Alliance confirmed that the industry is *not* on track to meet its target of achieving an additional annual overnight visitor spend of £1 billion or more by 2020;
- Scottish Tourism Alliance believes it is particularly difficult for the hospitality industry to pay staff a living wage. Tourism is one of the Scottish Government’s key sectors.

Tourism Draft Budget

	2015-16 £m	2016-17 £m	Change %
VisitScotland (Resource)	48.0	45.8	-4.5%
VisitScotland (Capital)	0.7	0.7	0.0%
VisitScotland (Non Cash)	1.5	2.2	48.6%
Tourism special projects	0.4	0.4	0.0%
Total Level 3	50.6	49.1	-2.8%

VisitScotland’s resource budget reduces over the year by £2.2 million, or 4.5%, “reflecting current plans and the shift to digital marketing campaign freeing up resources” (according to the Scottish Government). ‘Non-cash’ which covers “the depreciation of assets” increases by almost 50% over the year.

Fuel Poverty

Key points from 28 October evidence session:

- The target to eradicate fuel poverty by November 2016 “so far as is reasonably practicable” will not be achieved (according to EAS);
- In line with the Scottish Government announcement in June 2015, home energy efficiency is to be a national infrastructure priority;
- A plea to maintain overall funding for energy efficiency schemes at least at 2014-15 levels (£119m);

- As some of the most fuel poor households are hard to treat properties in remote rural locations a question whether funding be prioritised to these households;
- The need for funding to support local, trusted, energy efficiency advisory services which can assist homeowners and tenants.

Fuel poverty draft budget

	2015-16 £m	2016-17 £m	Change %
Fuel Poverty/Energy Efficiency	79.0	79.3	0.3%
Fuel Poverty/Energy Efficiency Financial Transactions	10.0	24.0	140.0%
Total Fuel Poverty	89.0	103.3	16.0%

The figures above show an overall increase of £14m, or 16% between Draft Budget 2015-16 and Draft Budget 2016-17. However, the addition of UK Government ‘financial transactions’ consequentials, an internal budget transfer between portfolios and extra funding, announced at the time of the [Stage 3 Budget debate](#) last year by Cabinet Secretary John Swinney (and transferred at the time of the Autumn Budget Revision) means that the **final budget available for 2015-16 is actually £119m rather than £89m.**²

The table above shows there has been an increase in the loan element of the fuel poverty budget (of £14m, or 140%). This will be used for the Home Energy Efficiency Programmes for Scotland (HEEPS): Loans and other loan schemes to be developed. The Scottish Government makes available interest free, unsecured loans of up to £10,000 to householders for installing a variety of measures such as solid wall insulation, double glazing or a new boiler. These loans are funded from the ‘financial transactions’ element of the budget.³

² Cabinet Secretary John Swinney announced in February 2015: “Having listened to points raised by Parliamentary committees, I can announce that we will increase investment in domestic energy efficiency by £20 million to provide a total budget of £114 million in 2015-16.” Following the transfer of responsibility between Directorates within Scottish Government who had previously jointly funded advice and support, the total available budget for 2015-16 became £119m.

³ Financial transactions relate to Barnett consequentials resulting from a range of UK Government housing-related equity/loan finance schemes. The Scottish Government has to use these funds to support equity/loan schemes beyond the public sector, but has some discretion in the exact parameters of those schemes and the areas in which they will be offered. This means that the Scottish Government is not obliged to restrict these schemes to housing-related measures and is able to provide a different mix of equity/loan finance

Other areas not covered during pre-budget scrutiny sessions

Energy

	2015-16 £m	2016-17 £m	Change %
Energy Efficiency & Policy Implementation	9.8	9.3	-4.7%
Renewable and Community Energy	6.1	12.4	101.2%
Fossil Fuel Levy - Renewable Projects (capital)	15.0	2.5	-83.3%
Low Carbon Economy	7.5	6.4	-14.8%
Oil and Gas investment in a low carbon economy	0.4	3.3	760.5%
Grid Enhancement	0.25	0.25	0.0%
Energy (Capital)	60.8	23.1	-62.0%
Financial Transactions	8.5	14.0	64.7%
Total Level 3	108.4	71.2	-34.3%

The total level 3 'Energy' line will see a fall from £108.4m in 2015-16 to £71.2m in 2016-17, a reduction of 34%. This is mainly due to a reduction of £38m in the 'Energy Capital' line. The Scottish Government provides the following explanation:

"The challenging macroeconomic conditions for the energy sector as a whole and the raft of UK regulatory and policy changes, now threaten the Scottish Government's approach to energy. These changes, combined with the sustained uncertainty concerning future levels of support for other technologies such as offshore wind, have created a difficult investment climate. The Scottish Government's capital settlement for its Energy portfolio recognises this and the budget reductions are a pragmatic response to the consequences of UK Government policy."

There is also a significant fall in the 'Fossil Fuel Levy – Renewable Projects (capital)' line, of £12.5m. However, the Scottish Government believes this reduction is partly off-set by an increase of £5.5 million in the 'Financial Transactions' budget line. 'Financial transactions' in the Energy portfolio will help fund loan and equity schemes including the District Heating Loan Scheme, The Resource Efficient Scotland SME Loans scheme, the Renewable Energy Investment Fund and also the capital aspects of the community renewables support scheme (CARES).

The 'Renewable and Community Energy' line sees an increase of £6m, which, according to the Scottish Government, "reflects the on-going commitment to the marine sector through funding for Wave Energy Scotland".

'Oil and Gas investment in a low carbon economy' budget line will increase by £2.9m over the year. This budget line supports "critical new technologies that would transform the way we generate power, help reduce carbon emissions and ensure security of supply". This budget increase is due to "the delivery costs associated with an extensive consultation on unconventional oil and gas, whilst also reflecting support for the challenges faced by the offshore oil and gas sector".

Fair Work

The 'Fair Work, Skills and Training' portfolio was created in November 2014. Most budget lines within the portfolio previously appeared in the 'Training, Youth and Women's Employment' portfolio. Nevertheless, there is now a new Level 4 line within the Employability and Skills line relating specifically to 'Fair Work'. This £1.5m (0.6% of total portfolio budget) will "build on the work of the Fair Work Convention and other related activity to promote Fair Work, including continuing adoption of the Living Wage."

The overall 'Fair Work, Skills and Training' portfolio sees a reduction of 3.5% over the year, mostly explained by a 4% fall in the Skills Development Scotland budget. The reason given for this reduction is "changes to the labour market and wider economy, as well as further efficiency measures, facilitate a modest reduction in Grant in Aid funding".

Greig Liddell

SPICe, January 2016

Note: Committee briefing papers are provided by SPICe for the use of Scottish Parliament committees and clerking staff. They provide focused information or respond to specific questions or areas of interest to committees and are not intended to offer comprehensive coverage of a subject area.