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19th December 2023

Dear Convenor,

Economy and Fair Work Committee pre-budget 2024-25 views

Thank you for your letter dated 25th October 2023, seeking an update in relation to the Scottish Budget 2024-25. I note your emphasis on wishing to maintain **support for business, support for women's enterprise and skills development.**

Please find within the Annex to this letter responses to the questions and requests for information raised within your letter. I trust you will find this information useful.

I would also like to take this opportunity to thank the Committee for the recommendations issued as part of the pre-budget scrutiny and look forward to engaging with you further on these soon.

Yours sincerely,

NEIL GRAY

ANNEX

Support for Business

1. The Scottish Government has a £100m commitment to help businesses improve their digital skills, capacity and capability. DigitalBoost grants were well-received but significantly oversubscribed. In February, the Scottish Government advised around £38 million of the £100m had been spent and that, at the appropriate time, the Committee would be advised how the remainder of this funding would be allocated**. The Committee requests an update on allocations since February, the criteria for allocations and, given the demand, asks the Scottish Government to set out what budgetary provision will be made in 2024-25 to deliver digital support to businesses.**

The figure of £38m provided in February referred to financial and advisory support delivered to businesses specifically through four schemes: Digital Development Grants, Digital Development Loans, the DigitalBoost National Programme and a pilot project on digital productivity. Due to the extraordinary pressure on public finances and the emergence of new priorities, these programmes are currently paused.

It is important to be clear, however, that these schemes do not represent the totality, or even the majority, of the Scottish Government's investment in support for businesses to improve their digital capability. Broader institutions and publicly funded programmes engaged in activity of this kind include the DataLab, CENSIS, the National Manufacturing Institute Scotland, Techscaler, Business Gateway, the Smart Things Accelerator, Net Zero Technology Centre, the Scotland 5G Centre and the Medicines Manufacturing Innovation Centre. Once these broader commitments are included, we are confident that the Scottish Government will meet its commitment to invest at least £100m in the digital capabilities of Scottish businesses by the end of the Parliament.

2. The Committee acknowledges the reforms to the Small Business Bonus Scheme (SBBS) announced in last year's budget. As a consequence, the then deputy First Minister said he expected around half of properties in the retail, hospitality and leisure sectors in Scotland would pay no rates in 2023-24. **The Scottish Government is asked to confirm what proportion of the properties in those sectors are not paying rates this year. More widely, the Scottish Government is asked to set out how its reforms to the SBBS have impacted Scotland's businesses. The Committee also asks the Scottish Government to what extent the concerns in the FAI report about the availability of data have been addressed and what further steps will be taken to assess the effectiveness of the Scheme**

With effect from 1 April 2023, the Small Business Bonus Scheme (SBBS) was reformed and expanded, ensuring that it remains the most generous scheme of its kind in the UK. While we estimate that SBBS relief will ensure that around half of properties in the retail, hospitality and leisure sectors in Scotland can pay no rates in 2023-24, the publication of non-domestic rates relief statistics 2023 is currently planned for early 2024. This will provide statistics on the numbers of recipients and values of Non-Domestic Rates reliefs in Scotland as at a snapshot date in 2023, including breakdowns by relief and property type, and the date of publication will be announced as soon as it is available at Official statistics: forthcoming publications - gov.scot (www.gov.scot). It should be noted that this only provides a snapshot of data and does not necessarily represent the total number of beneficiaries of a given relief in the whole financial year.

In response to the Fraser of Allander's Evaluation of SBBS, a short-term working group was established to consider in particular the recommendation "that the Scottish Government begins to collect new information that will make a more robust assessment of the SBBS (and potentially other reliefs) possible in the future".

Members of the group, which included representatives from a range of business organisations as well as local authorities and economic researchers, were clear that SBBS relief is of great benefit to many small businesses, but concerns were raised about the additional burden that the collection of any additional information would entail. The group also stressed the importance of maximising the use of business data that is already available to the public sector before considering further data collection. Recognising this, the Scottish Government did not introduce additional information-sharing requirements when it reformed SBBS at revaluation on 1 April 2023.

Under the New Deal for Business Group, which was set up to reset the relationship between government and business, a consultative sub-group was established, chaired by the Minister for Community Wealth and Public Finance to advise on further enhancements to the non-domestic rates system. The main priorities identified by this sub-group, the full recommendations of which can be found in the New Deal for Business Group Report on progress and recommendations, were that NDR policy reforms must be kept under review to ensure that the system delivers the most competitive environment to do business, whilst supporting our communities, and that the design of the administrative and digital processes of the Non-Domestic Rates system should be reviewed to ensure a more productive and efficient environment for all. This latter recommendation supports a commitment made by government in the Resource Spending Review to explore further with COSLA, Digital Office and Revenue Scotland how best to transform the digital administration of the Non-Domestic Rates system. Work is ongoing within the Local Government and Digital Office on a landscaping review of councils' NDR systems.

The New Deal for Business Group's Implementation Plan, published on 19 October, outlines how the report recommendations will be taken forward and the NDR sub-group will continue to meet to consider progress on the recommendations, and discuss any emerging issues.

3. The Committee welcomes the Scottish Government's commitment to consider where our public bodies could take a more collaborative approach to service delivery. Scottish Enterprise has said there have been "early conversations across the enterprise agencies to identify potential opportunities for greater interagency collaboration on shared approaches to common functions". It referenced collaboration through back-office and information technology systems shared with Skills Development Scotland**. The Committee asks how next year's budget will support progress in the area of shared costs between public bodies.**

As part of the Public Service Reform programme, the agencies have been engaged in work to identify options for greater inter-agency collaboration, more collaborative and shared approaches to common functions, collaborative procurement, shared delivery and shared services.

In communicating budget allocations to the agencies for 2023-24, we asked that they continue to work with partner agencies and the Scottish Government to consider options in a *number of specific areas, including options to: realign activities across agency/Scottish Government boundaries; streamline the products and services available, removing any duplication between the agencies; and transform their operating models through the wider use of digital technology and better data sharing. We intend to take the same approach in communicating budget allocations to the agencies for 2024-25.*

As the Committee is aware, Enterprise Information Services (EIS) acts on behalf of the shared service partners – Skills Development Scotland, Scottish Enterprise, Highlands and Islands Enterprise and South of Scotland Enterprise – to manage multiple IT delivery services, including the partner's technology delivery, IT operational and cyber security needs. It sits as part of Skills Development Scotland and includes staff who have been seconded from Scottish Enterprise.

EIS is a manging function which oversees the process of contracting with external commercial service providers to deliver services on behalf of the partners. The contract management approach is under constant review with the aim of maximising value for money. The EIS model has evolved from a single source contract with Atos from 2010 to 2015, transitioning to a multi-source tower-based SIAM model where today each service tower is contracted under regular competitive tendering via private providers and within the Scottish Government's procurement framework.

The Shared Services approach has enabled a more flexible, cost-effective, and dependable ICT service, alongside collaboration with partners to develop innovative practices, exploiting opportunities to rationalise or re-use systems and sharing benefits across SG agencies and procurement framework efficiencies. Best value for public funds is at the heart of the shared service arrangement and the agencies continue to explore further opportunities for realising benefits from the EIS partnership.

The agencies are exploring the potential for enhancing collaboration in areas such as: legal services; procurement; health and safety; HR systems and processes; research and evaluation; and organisational learning.

In addition, work is underway to scope a programme to reform the way in which economic development support is delivered in Scotland. This will examine the role of the Scottish Government, enterprise agencies and other partners and consider options for delivering sustainable operating efficiencies. It will align fully to the broader work on Public Service Reform led by DG Communities.

4. When looking at how support for business is delivered, the range of different funds available and now the presence of SNIB, there is the potential for confusion and overlap. The Committee asks what action the Scottish Government is taking to address this.

The Scottish Government publishes information and guidance on non-domestic rates including the range of reliefs available at mygov.scot - non-domestic rates and www.gov.scot - non-domestic rates. Local authorities are responsible for the administration and collection of non-domestic rates, including billing and award of reliefs, and council websites also include information on non-domestic rates, including how to apply for reliefs.

The National Strategy for Economic Transformation includes a commitment to radically transform the way in which the public sector in Scotland provides support for workers and businesses. Through the Business Support Partnership, Scottish Government is working with its agencies and local authorities to provide businesses with greater clarity on the support they can expect, and to improve the way we collect and hold data about businesses across the public sector so we can target support better and make it easier for businesses across Scotland to access the support available to them.

5. The Committee notes that SNIB does not expect to be self-sufficient until 2025-26. Scottish Government resource funding will be required until then. Although not directly related to next year's budget, the Committee highlights the importance of SNIB balancing its investments with the financial return. ***As required in the 2020 Act, Scottish Ministers must set a target rate of return for SNIB. The Committee asks when the target rate of return will be set.***

Following extensive analytical and benchmarking work by the Bank and consideration by the Scottish Government, Ministers have set a target rate of return for the bank over the long term. It is important that the TRR is communicated to parliament, the business and investment community and wider stakeholders in a considered way which puts it in the context of the Bank's role as a development bank and which sets out the depth of work underpinning it. I have therefore asked the Bank to publish a related short insights paper, including the TRR, in the new year. I also know that the Bank would be happy to discuss in depth their approach with the committee in private if that would be helpful.

Support for Women's Enterprise

6. The Committee asks the Scottish Government to now set out how the £50m budget for the Women's Business Centre is being allocated

Following this commitment, the Scottish Government listened to the many stakeholders calling for a more detailed examination of the barriers impacting the ability of women to start and scale businesses in Scotland. Ana Stewart was subsequently commissioned to conduct such a review and worked for more than a year with the Chief Entrepreneur, Mark Logan, to produce the widely acclaimed 'Pathways' report. The report was informed by over 200 interviews, surveys, focus groups and international comparisons, which revealed little demand for a women's business centre or evidence of a gap in business support provision that would be most effectively addressed by a single institution or programme.

Instead, the report provides a systematic, evidence-based analysis of the interventions required to transform the participation of women in entrepreneurship, spanning ideation, incubation, financial support, caring responsibilities, investment and skills. In addition, many of the aims of the proposed women's business centre would be met by Ms Stewart's alternative recommendation for a national network of 'Pre-Start Centres'. For these reasons, the Scottish Government's view is that the quality and ambition of the Pathways report is such that its recommendations should supersede the earlier commitment to a Women's Business Centre. The Cabinet Secretary for Wellbeing Economy, Fair Work and Energy committed the Scottish Government to implementing the report immediately prior to summer recess. The 2024/25 budget provides the resources necessary to make early progress on delivery.

Skills Development

7. James Withers recently concluded his review into the future of the skills landscape in Scotland. The Scottish Government's response is awaited. One of the recommendations is for enterprise agencies to take on responsibility for supporting businesses with skills and workforce planning. This will require enterprise agencies to broaden their approach and is likely to require additional resource. **The Scottish Government is asked to set out how next year's budget will support the necessary changes to the skills development and delivery landscape.**

The Scottish Government published the Purpose and Principles for Post–School Education, Skills and Research, *including our* Initial Priorities *in June 2023. The Purpose and Principles accepts the premise of many of the recommendations made by James Withers in his review and sets out in the Initial Priorities where there is further work to be done, including engagement with Enterprise Agencies and other partners and stakeholders.*

The Minister for Higher Education, Further Education and Veterans has been undertaking an extensive programme of engagement with stakeholders across the skills delivery landscape in the months since publication of the Purpose and Principles and updated Parliament on 5 December. The budgetary implications of any changes to existing structures will be a key consideration as this programme is developed and we will keep engaging with agencies on this.

8. At the start of this year, the Committee was told that the biggest challenge facing the renewables sector is attracting and developing talent and that investment in the long-term pipeline of skills development was needed. **The Scottish Government is asked to confirm when the updated Climate Emergency Skills Action Plan will be brought forward and how next year's budget will support the development of the required skills pipeline.**

Our Education and Skills system is already adapting to the transition to Net Zero and institutions like colleges and universities are key anchors for the transition to net zero, including in the renewables sector.

The Climate Emergency Skills Action Plan (CESAP) published in 2020 provided an important springboard for net zero skills planning and we have made good progress since its publication.

The recent CESAP Pathfinder publication highlights that investment in net zero is progressing, with nearly £90 billion in green investments currently underway or planned in the next three years. This progress in building a strong skills base and creating green jobs is underpinned by the findings in the PwC Green Barometer. The Pathfinder also provides a strong evidential underpinning across apprenticeships, further education, and higher education that will inform next steps.

It is important that our education and skills landscape is flexible, adaptable, and easier to navigate for employers, learners, and training providers. The Scottish Government intends to fully align green skills policy and planning behind its wider net zero priorities and we will therefore integrate the next phase of our work on green skills into the Just Transition Plans, Green Industrial Strategy and Rural Delivery Plan, rather than through a separate CESAP update.

The CESAP Implementation Steering Group, chaired by the Minister for Green Skills, will continue to play a critical role in informing our net zero transition, sending strong signals to the education and skills system on the need for urgent action to tackle net zero, and supporting the development of relevant strategies, including the Just Transition Plans, Green Industrial Strategy and Rural Delivery Plan.

9. The Scottish Government receives a share of Apprenticeship Levy monies from the UK Government. The Scottish Government subsumes these monies in its general skills budget. **The Scottish Government is asked what Scotland's share of the annual apprenticeship levy monies was in the last financial year, and the detail of how this funding was distributed within the skills budget.**

Scotland receives a proportionate share of tax revenues via the block grant as per the Fiscal Framework agreement with UK Treasury. We do not receive a separate allocation of apprenticeship levy revenue from UK Government.

In November 2016, the UK Government announced the Scottish Government's settlement from the UK Apprenticeship Levy based on a population share of projected revenue for the first three years only. From 2020-21, the normal operation of the Barnett Formula has applied. As a result, the Scottish Government has no direct control or responsibility for its operation, and we have not had a breakdown of Levy funding for Scotland since 2020-21.

This means that we cannot link funds from the apprenticeship levy to our investment in education and skills.

10. The Scottish Government uses Apprenticeship Levy funds for the Flexible Workforce Development Fund (FWDF). It is understood that SMEs can access up to £5,000 to upskill their staff through the FWDF, accessed through local colleges, the Open University or independent training providers. Findings of an independent evaluation of the FWDF were published earlier this year**. The Committee notes that in response, the Scottish Government said it had ensured, from this year, that all training strands of the FWDF would be open to all employers and that other recommendations were under review. The Committee would be grateful for an update on the other recommendations and this work.**

Due to the extremely challenging pressures on the Scottish Government and agencies' budget, the funding for FWDF has been taken as a saving this year and there is no budget provision for 2024/25. We recognise that the many businesses of all sizes who benefit from FWDF each year will be concerned at the loss of this support. However, we will continue to invest around £3bn in post-school education and skills annually and, as the Minister for Higher Education, Further Education and Veterans set out in his recent statement in parliament regarding post school reform, we remain committed to reforming post-school education system to support people throughout their lives to fulfil their potential and enable the economy to thrive.

11. For some charity and third sector delivery partners, funding decision delays and problems due to a lack of multi-year funding, were challenging and limiting their capacity to delivery. **The Scottish Government is asked whether any such issues persisted into this financial year and how confident it is that next year's budget will provide greater certainty and stability for charity and third sector delivery partners.**

The unprecedented events of recent years have strained our budgets and resources resulting in a £1.2bn cut in the Scottish Governments budget for 2023/24. Last year was particularly challenging given the financial volatility we faced. That meant unavoidable delays as we had to review budgets rapidly and make tough decisions.

The continued economic constraint into this year has meant that we have not been able to progress a Fairer Funding approach to third sector grants as quickly or as comprehensively as we and the sector would have wanted to.

In review of past practice of grant making processes, the Scottish Government fully appreciates that financial challenges faced meant that the standard has not been good enough. The First Minister and the Cabinet Secretary for Social Justice and have instructed officials to review our current processes and make improvements to practice whilst ensuring value for money in grant making.

This will begin with ensuring prompt notification of funding in advance of the new financial year and a review of grant conditions. Once work on the budget is completed, the Scottish Government will be able to advise on where and to what extent multi-year funding can be extended including a greater number of two-year grant agreements.