Finance and Public Administration Committee
36th Meeting, 2024 (Session 6)
Tuesday 17 December 2024

Scottish Budget 2025-26: growing the economy

Purpose

1. The Committee is invited to take evidence from the following witnesses in roundtable format in relation to the Scottish Budget 2025-26, with a focus on growing the economy—

    - Andy Witty, Director of Strategic Policy and Corporate Governance, Colleges Scotland,
    - Reuben Aitken, Managing Director, Scottish Development International,
    - Sandy Begbie, Chief Executive, Scottish Financial Enterprise,
    - Gordon McGuinness, Director of Industry and Enterprise Networks, Skills Development Scotland,
    - Dr Alastair McInroy, Chief Executive Officer, Technology Scotland,
    - Professor Alastair Florence, Director, University of Strathclyde Continuous Manufacturing and Crystallisation Centre (CMAC), and
    - Claire Mack, Chief Executive Officer, Scottish Renewables.

2. This paper sets out relevant aspects of the Scottish Fiscal Commission's (SFC's) Economic and Fiscal Forecasts – December 2024, the Scottish Budget 2025-26, the Committee's pre-budget 2025-26 report and the Scottish Government's response to it. Annexe A of this paper sets out the UK context to the Scottish Budget 2025-26 and Annexe B provides further information on the Scottish Government's Tax Strategy: Building on our Tax Principles, which was published alongside the Scottish Budget 2025-26.

3. Written submissions have been received from Skills Development Scotland, Technology Scotland, CMAC, Colleges Scotland, Scottish Renewables and Scottish Development International, which are attached at Annexe C.

4. A SPICe briefing on the Scottish Budget 2025-26 was published on 6 December.

5. The Official Report of the Committee's evidence session with the SFC on its December 2024 Forecasts, which took place on 10 December, is available on the Committee's web pages.

Economic and fiscal context

6. The SFC states in its December 2024 Economic and Fiscal Forecasts that "the outlook for the Scottish economy is higher GDP growth in 2025-26 than in 2024-25, in part as a result of the UK Government fiscal expansion, and inflation is also expected to be slightly higher in 2025-26 than in 2024-25". It goes on to explain that although UK decisions have resulted in additional funding for the Scottish Government through the Block Grant in both 2024-25 and 2025-26, "… the

working of the fiscal framework and larger upward revisions to UK income tax revenue forecasts than our Scottish forecasts mean the income tax net position used to set the Scottish Budget has reduced funding by £575 million between 2024-25 and 2025-26". It adds "this means that the overall changes in the Scottish Budget are more modest". The SFC further notes that—

- Over the past year, "the Scottish economy and labour market have performed slightly better than we expected in December 2023, but are broadly on track with our last forecast".
- GDP has increased marginally after being flat since early 2022, and "nominal earnings growth has remained relatively strong in a still tight labour market". The SFC's Forecasts show GDP growth rising to 1.6% in 2025-26, before returning to its trend rate of 1.4% by 2027-28, "which reflects our higher migration and population assumption".
- Stronger earnings growth, combined with lower inflation than expected a year ago, has resulted in living standards recovering more rapidly from their fall in 2022-23.
- Consumer Price Index (CPI) inflation is expected to rise to 2.6% across the UK in 2025-26, revised up from 1.6% in the SFC's last forecast, which "feeds through to higher nominal earnings growth in both Scotland and the UK in 2025-26".
- The SFC's view is that the labour market in Scotland is still tighter than in the UK, consistent with regional data on job vacancies and worker shortages. This, it suggests, implies faster earnings growth in Scotland compared to the UK in 2025-26. In addition, it expects "the extra demand from the fiscal expansion will have a greater effect on earnings in Scotland, providing a small additional boost to Scottish earnings growth in 2025-26".

7. In relation to funding for the Scottish Government, the SFC highlights that—

- Overall funding for 2025-26 is now £58,772 million (m), a real terms increase of 2.1% on 2024-25 (ABR figures). Resource funding is forecast to be £51,429m in 2025-26, a real terms increase of 0.8%.
- Capital funding in 2025-26 is forecast to be £7,344m, a 12% increase in real terms on 2024-25. The Scottish Government plans to borrow the maximum amount possible in 2025-26 of £472m, and use £326m of ScotWind proceeds to support capital investment on green projects for the first time.
- While UK Government capital spending is set to rise in the next two years before flattening off at a higher level, Scottish Government capital funding peaks in 2025-26 before falling in 2026-27 and then broadly staying flat. The SFC explains the reason for this is that the Scottish Government plans to borrow less in 2026-27 than in 2025-26, and there is no planned use of ScotWind proceeds in 2026-27.
- The tax net position positively contributes to 2025-26 funding but less so than it did in 2024-25, and less so than expected in December 2023, when the SFC last forecast funding in 2025-26. The tax net position for 2025-26 is £1,175m which is £549m or 32% lower than in 2024-25. This,

the SFC explains, is mostly because of improved forecasts of UK income tax revenues[1].

Scottish taxation and spending plans

Background

8. In its December 2024 Forecasts, the SFC explains that the Scottish Government has seen some large increases in funding as a result of the UK Autumn Budget 2024, "in particular there is more capital funding in real terms in 2025-26 than in previous years". However, it goes on to state that "after accounting for the working of the fiscal framework the increase is more modest for day-to-day (resource) spending which is the majority of the budget". It goes on to say that "existing and new social security commitments mean funding for other areas is lower in real terms in 2025-26 than in 2024-25".

9. The Cabinet Secretary for Finance and Local Government explained in her Foreword to the Scottish Budget 2025-26 that "this is a Budget by Scotland, for Scotland", suggesting that decisions are informed by views gathered through widespread engagement, including with opposition members. The Scottish Government states that "we can only build a more productive and innovative economy if we invest in infrastructure that delivers high quality public services, build more affordable homes for the families of children living below the poverty line and make decarbonisation a reality". It goes on to say that the Budget therefore "prioritises major investment in the foundations of our economy, such as housing, transport, digital connectivity, and delivering critical infrastructure for a green and growing economy".

Taxation

10. The Scottish Government states in the Scottish Budget 2025-26 that "our policy decisions at this budget will continue to deliver our progressive approach in Scotland, while raising substantial revenue to support the delivery of our public services", adding "this means we are asking those with the broadest shoulders to contribute more". Key tax decisions in the Scottish Budget 2025-26 include—

    - **A commitment not to increase the number of bands, or rates, of Scottish income tax for the remainder of this parliamentary session**[2]. The SFC forecasts that, in 2025-26, this measure will raise £76m in revenues, rising to £244m at the end of the forecast period. The SFC estimates that the behavioural response reduces the overall yield of this policy by £10m in 2025-26, reaching £31m by 2029-30.
    - **Increasing the basic and immediate thresholds for income tax in 2025-26**. The SFC forecasts that these "above inflation" increases to

[1] The latest OBR forecasts suggest larger UK revenues in 2024-25 which would reduce the tax net position in the current year.

[2] This is in line with the Scottish Government's Tax Strategy published alongside the Scottish Budget 2025-26.

thresholds will lower revenue by £24m in 2025-26, and that there is minimal expected behavioural response from the policy.
The SFC states that income tax policy decisions taken together will raise additional revenue of £52m in 2025-26. It further estimates that "because of decisions on Scottish tax rates and thresholds, an additional £1,676m income tax will be raised in 2025-26 than would be the case if tax rates and thresholds from the rest of the UK were applied in Scotland". However, it explains that the income tax net position is only expected to be £838m, largely because of slower economic growth in Scotland since income tax was devolved. It notes, therefore, in return for Scottish income taxpayers paying £1,676m more in income tax, the Scottish Budget is only benefitting by £838m. The SFC describe this as an "economic performance gap".

- **A commitment to work with businesses across Scotland "to understand the cumulative impacts of tax on competitiveness".**
- **Maintaining current residential and non-residential rates and bands of Land and Buildings Transaction Tax (LBTT) at current levels**, while continuing first-time buyer reliefs. Additional Dwelling Supplement (ADS) rates will increase from 6 to 8% from 5 December 2024, which the SFC forecasts will raise £32m in additional revenue in 2025-26. In total, LBTT is forecast to raise £1,019m in 2025-26.
- **Increasing Scottish Landfill Tax (SLfT) rates in line with those in the rest of the UK**, to £126.15 per tonne for the standard rate, and £4.05 per tonne for the lower rate. Revenues from SLfT are forecast to reduce after the biodegradable municipal waste ban is introduced at the end of 2025, from £54m in 2024-25 to £40m in 2025-26.
- **Non-Domestic Rates (NDR) policy changes include freezing the Basic Property Rate and extending hospitality reliefs**. This includes maintaining the 100% relief for hospitality premises on islands, which was introduced in 2024-25, along with a new 40% relief, which will be available for "the 92% of hospitality premises liable for the Basic Property Rate, capped at £110,000 per business", as well as for grassroots music venues with a capacity of below 1,500. The SFC estimates that this new 40% relief will cost £22m in 2025-26, in addition to the £5m cost of hospitality relief for the islands.
- **No cap on how much local authorities can raise council tax by next year**, although the Cabinet Secretary has suggested that there is "no reason for large increases" in council tax.

11. The SFC forecasts that, after taking account of behavioural changes, the combined effect of all the Scottish Government's tax policies amount to an extra £54m in 2025-26 and that devolved taxes[3] will raise a total of £24.6 billion (bn) in revenues in 2025-26.

[3] Scottish income tax, Land and Buildings Transaction Tax, Scottish Landfill Tax and Non-Domestic Rates.

Spending policies

Overview

12. The Scottish Government states in its Scottish Budget 2025-26 that it will focus resources across its four priorities, including growing the economy, delivering "almost £64bn of funding in 2025-26 towards these and to ensuring that we continue to protect the policies at the heart of our social contract[4], including delivering funding for a universal Pension Age Winter Heating Payment". Key spending decisions across all portfolios include—

    - A "record investment" of £21bn in health and social care, including an increase in capital spending of £139m from 2024-25, to increase capacity and access to primary care "to shift the balance of care to preventative and community-based support and substantially reduce delayed discharge".
    - A "record" £15bn in funding for local government,
    - Providing £768m for affordable homes, "enabling over 8000 new properties for social rent, mid-market rent and low-cost home ownership to be built this coming year".
    - Restoring a universal winter heating payment to all pensioners. The SFC estimates this new policy will cost £69m more than associated funding from the UK Government in 2025-26.
    - Developing systems necessary to "effectively scrap the impact of the two-child cap in 2026" (further details below).
    - Uprating all benefits in line with September 2024 CPI inflation and investing in a package of benefits and payments only available in Scotland totalling £644m in 2025-26. The SFC explains that social security spending is forecast to account for 13.5% of day-to-day spending in 2025-26, £1,334m higher than the corresponding funding provided by the UK Government[5].
    - Allocating £25m to increase the number of jobs available in the green energy supply chain.
    - Providing £3m for a Bright Start Breakfasts pilot, while continuing to invest in early learning, and
    - Delivering a £34m uplift to the culture budget.

13. The Budget document notes that "as a result of the progress made to reach a balanced budget in 2024-25, this total investment will include over £300 million of ScotWind revenues in 2025-26 … on a range of projects for longer term benefits for Scotland – to deliver our ambitions to tackle climate change, invest in growing the economy and to create jobs, and to drive forward reform". It also confirms that it no longer expects to draw down around £424m of ScotWind funding in 2024-25

[4] The Scottish Budget 2025-26 states that the Scottish Government will "protect the social contract at the heart of this Government's approach: continuing free prescriptions; ensuring that no Scotland student pays tuition fees; access to free bus travel for almost 2.3 million people".
[5] The SFC notes that this has grown significantly since 2022-23 when social security accounted for 9.7 per cent of day-to-day spending and was £481 million above UK funding.

to meet resource funding demands. This figure has, following the UK Autumn Budget, been reduced to £160m.

14. On public service reform, the Scottish Government indicates that it will deliver an Invest to Save fund in 2025-26 of up to £30m, “recognising the need to catalyse efficiency, effectiveness and productivity projects as part of the public service reform programme”. It also notes that progress on public service reform will be integrated into the forthcoming Fiscal Sustainability Delivery Plan. This plan will, the Scottish Government explains, “support fiscal transparency and contribute towards providing stable ground for longer term financial planning.”

Growing the economy

15. As one of the Scottish Government’s four key priorities, the Scottish Budget 2025-26 includes a section on ‘growing the economy’ which can be found at pages 5 to 8. This section states that—

> “We are focused on Scotland’s long term growth and prosperity, with our investments targeted to enable us to make the most of our nation’s many economic opportunities. This is a Budget that will set us up to prosper over these coming years, with public money used to support and encourage higher levels of private investment in key sectors, including energy. We are backing entrepreneurs and innovators, emerging tech including Artificial Intelligence (AI) and robotics and investing specifically to support growth in local economies.”

16. The Scottish Government goes on to state that “our strategic investment in offshore wind in 2025-26 is designed to catalyse private investment in the infrastructure and manufacturing facilities critical to the growth of the sector, as part of our total investment of up to £500 million over five years which is expected to leverage £1.5 billion in private sector investment, supporting thousands of jobs, and helping deliver a sustainable supply chain”. It further states that “a stable tax system provides businesses with the confidence to plan and make investment decisions, supporting the conditions needed for a growing economy”, adding “in line with our tax strategy, for the remainder of this Parliament, we will provide certainty on our largest source of tax revenue and will not increase the number of bands, or the rates, of Scottish Income Tax”. Specific spending commitments include—

- Providing “a further £200m (net) to the Scottish National Investment Bank, to ensure continuation and advancement of work to create jobs, support innovation and attract investment”.
- Providing over £7bn in investment in infrastructure, including £150m for offshore wind, expanding regeneration funding to £62m to invest in communities across Scotland, £100m for continued rollout of digital connectivity programmes across Scotland, almost £1.1bn for rail services and infrastructure and maintenance of the rail network, over £237m investment in maintaining ports, harbours and ferry fleets, and £550m investment in safety, maintenance and improvements in the trunk road network.

- Continuing to invest over £2bn in Scotland's colleges, universities, and skills development programmes.
- Providing £321m for the enterprise agencies to support Scottish businesses "to start and scale, be more productive, and access finance and attract investment".
- Providing £15m to "expand support for female entrepreneurs and boost the economic impact of universities and fund the development of business clusters in advanced manufacturing and deeptech".
- A "revitalised multi-million Rural Tourism Infrastructure Fund".

17. The SFC notes in its Forecasts that capital funding is around 10% of the Scottish Budget and covers investment in assets such as roads and hospitals, and financial assets, adding that "after accounting for inflation, it is forecast to rise by 12% in 2025-26, before dropping in 2026-27 and remaining broadly flat". It is unclear if and how this profile of capital spending will align with the Scottish Government's infrastructure projects when its Infrastructure Investment Plan (IiP) pipeline reset is not intended to be published until after the UK Spending Review due to conclude in late Spring.

Public Sector Pay Policy

18. In addition to the Budget document and Tax Strategy, the Scottish Government published its Public Sector Pay Policy which sets "pay metrics that are fair, sustainable and realistic within a multi-year pay envelope of 9% over 2025-26, 2026-27 and 2027-28 set against an expected inflation forecast of 7%, ensuring a level of pay restoration". Flexibility is being provided for employers to configure three-year proposals within the 9% pay envelope, "provided they have a fiscally sustainable approach". Any employer that does not agree a three-year pay deal will be restricted to a maximum 3% pay uplift for 2025-26.

19. The SFC states that "although the Scottish Government has been clearer this year in setting out its pay policy, risks remain that paybill growth may be larger than planned either as a result of pay pressures or workforce changes". It went on to say that—

> "There may also be other factors which affect pay pressures such as pay progression within pay-bands, changes in the structure of grades within the public sector, vacancies and turnover which will also need to be accommodated by portfolios within their allocations as the Scottish Government has not made provision for increases in the paybill other than the 3 per cent pay award. The size of the workforce is also an important lever to manage the paybill. The Scottish Government has indicated that it will set out further detail on what this means for the public sector in Scotland as part of a Fiscal Sustainability Delivery Plan published alongside the MTFS, noting protection for frontline staffing, such as in the NHS."

20. The SFC has therefore, in addition to the 3% basic pay award, assumed that "the other factors such as pay progress add, based on historical data, an additional 1.5 percentage points to average pay growth, summing to 4.5% average pay

growth in total in 2025-26". It goes on to say that "while there have been improvements in the information provided by the Scottish Government, there is still a need for greater clarity and monitoring of pay costs and workforce plans in the Scottish Budget".

The Committee's pre-budget 2025-26 scrutiny

21. The Committee has agreed to focus its scrutiny of the Scottish Budget 2025-26 on three themes from its pre-budget 2025-26 report published on 7 November 2024. One of those themes is growing the economy[6], including how capital expenditure should best be used to stimulate economic growth, innovation, and productivity. The Scottish Government provided its response to this report on 4 December. A summary of recommendations in the Committee's report relevant to growing the economy are set out below, along with key aspects of the Scottish Government's response to them (in italics). In its report, the Committee —

- Welcomed the Cabinet Secretary's commitment to consider what more the Scottish Government can do to support research and development, recognising the important role that universities play in attracting investment, supporting Scotland's world-leading sectors, and building a highly skilled workforce. *In response, the Scottish Government states that it has prioritised funding to continue to support high-quality research and knowledge exchange across Scotland, increasing investment in higher education capital to over £350m for 2024-25. It also highlights that it "continues to fund innovation centres, interface and alliances for research challenges (ARCs) and enterprise agencies also invest in the commercialisation of research, economic infrastructure on university campuses and providing risk capital to promising university spinouts".*
- Welcomed the commitment to 'join up' the Tax Strategy with the National Strategy for Economic Transformation (NSET), while noting concerns of Audit Scotland that NSET "currently lacks collective political leadership and clear targets" and sought an update on progress with addressing these concerns. *The Scottish Government's response highlights that a Cabinet Sub-Committee on Investment and the Economy has been set up, chaired by the Deputy First Minister, to "help create a business environment that drives investment and growth", by identifying opportunities/critical blockers/threats to investment across portfolios, making progress in the Green Industrial Strategy, ensuring budget decisions are consistent with the Medium Term Financial Strategy, and demonstrating its commitment to prioritise growth and investment.*
- Asked the Scottish Government to set out its ambitions for increasing labour market participation and productivity levels in the workforce in Scotland, with a view to growing the tax base, including the steps it will take to meet those ambitions. *The Scottish Government's response states that it is committed to improving access to health services, introducing enhanced specialist employability support, and investing up to £90m in 2024-25 for the delivering of devolved employability services.*

[6] The other two areas of focus are the Scottish Government's Tax Strategy and tax policies for 2025-26 and progress with the Scottish Government's public service reform programme.

In addition, it makes commitments in relation to improving careers support and skills planning, and funding for early learning and childcare, public transport and affordable housing.

- Sought details of how the Scottish Government will apply more widely the learning from the Marmot Place Approach given its reported success in improving health, with a view to addressing some of the causes of economic inactivity in the working age population. *The Scottish Government states that it is looking to apply the learning of this approach more widely. It is also developing a Population Health Framework with COSLA, including "finalising a health and work action plan that will focus on key actions that government, public agencies and business will take to support people in-work with ill health to sustain employment, and to support healthier workplaces, and will be published in 2025".*
- Requested clarification on how the Scottish Government plans to use any increase in capital expenditure arising from the UK Autumn Budget 2024, including to maximise opportunities for investment in areas that stimulate economic growth in Scotland. *The Scottish Government responded that it "will focus future capital spend to meet our priorities of eradicating child poverty, growing the economy, tackling the climate emergency and improving public services".*
- Continued to press for the IiP pipeline reset to be published as early as possible. *In its response, the Scottish Government indicates that "the reset pipeline is intended to give certainty to the construction sector and other stakeholders on the Government's infrastructure plans and it would not be helpful to publish something ahead of the UK Spending Review, based on only partial information".*

22. On taxation, the Committee asked the Scottish Government to consider how it might learn from Estonia's 'simple and competitive tax system', and to work closely with the UK Government to address current anomalies relating to marginal tax rates in Scotland. It further recommended that the Scottish Government's upcoming Tax Strategy provides a framework within which tax policies are designed to contribute to the longer-term sustainability of Scotland's public finances. *The Scottish Government responded that it has begun research to explore international tax policy and that the Tax Strategy outlines its intention to broaden evidence on "how the tax environment impacts on the competitiveness and attractiveness of Scotland's economy". It states that it continues to press the UK Government for the devolution of full powers of income tax and national insurance to be devolved to Scotland "so that the decisions affecting the people who live and work here are decided by this Parliament".*

Next steps

23. The Committee will continue taking evidence in relation to the Scottish Budget 2025-26 on 7 January 2025.

Committee Clerking Team
December 2024

ANNEXE A

Background to the Scottish Budget 2025-26

UK Government's public spending audit 2024-25

1. The UK Government published the outcomes of HM Treasury's Fixing the foundations: public spending audit 2024-25 on 29 July 2024, which "shows that the forecast overspend on departmental spending is expected to be £21.9 billion above the resource departmental expenditure limit totals set by HM Treasury in the Spring Budget 2024". The document set out "savings that have been identified [which …] together … will deliver £5.5 billion savings in 2024-25 rising to £8.1 billion in 2025-26", including departments absorbing public sector pay pressures and reducing consultancy and marketing spend. In addition, winter fuel payments would be targeted from this year.

2. The Chancellor of the Exchequer further announced that a multi-year Spending Review will conclude in Spring 2025[7] which will set spending plans for a minimum of three years of the five-year forecast period and "departmental expenditure limits for 2025-26 will be set out alongside the Budget in October, which will also confirm control totals for 2024-25". The Guardian reported on 28 November that the Spending Review would be delayed due to "drawn out and complex negotiations" and will now be published in June 2025. However, the same report states that Government officials have indicated there is no delay and the Review was always intended to be published between May and July.

3. The Cabinet Secretary for Finance and Local Government, Shona Robison MSP, confirmed in a letter to the Committee on 23 August 2024 that "… additional measures are now necessary following the UK Treasury's recent audit of public spending and lack of clarity over whether their decision to deliver Pay Review Body recommendations will be fully funded".[9] She advised that the Scottish Government has "introduced a set of spending controls with the intention of further reducing spend in 2024-25" and that it will replicate in Scotland the UK Government's decision to target winter fuel payments. In her fiscal statement to the Scottish Parliament on 3 September, the Cabinet Secretary outlined up to £500 million of further savings measures including resuming peak train fares and not progressing the concessionary fares extension to the asylum seekers' pilot. At that time, she was also planning on using up to £460 million of ScotWind money to plug funding gaps.

4. The Committee took evidence from the Minister for Public Finance on 12 November 2024 in relation to the Autumn Budget Revision which includes some of these changes to spending plans for 2024-25.

[7] The UK Autumn Budget 2024 confirmed that the UK Government would be carrying out a Spending Review to conclude in **late** Spring 2025.

UK Autumn Budget 2024

5. In the UK Autumn Budget 2024 published on 30 October 2024, the Chancellor announced significant increases in public spending, financed by a combination of tax rises and higher borrowing. Public spending is set to increase by £70 billion per year over the next five years, with two-thirds going to day-to-day resource spending, and one-third to capital spend, such as transport, housing and research and development. The Chancellor suggested that this rise in capital spending will "keep public investment broadly flat at around 2.5% of GDP over the next five years, rather than dropping to the 1.7% assumed in the previous Government's plans"[8]. The national minimum wage will increase to £12.24 an hour from April 2025 (an increase of 6.7%); the rate for 18–20-year-olds will increase from £8.60 to £10 per hour and the minimum wage for apprentices will rise from £6.40 to £7.55 per hour. In addition, extra funds have been allocated for the infected blood and Post Office horizon compensation schemes.

6. Key tax measures announced by the Chancellor include—

   - Employer **National Insurance Contributions** (NICs) will rise by 1.2% to 15% from 6 April 2025. The level at which employers will start paying NICs for each employee is to fall from £9,100 to £5,000. This measure is forecast to raise £25.7 billion per year by 2029-30.
   - **Capital gains tax** will rise on disposals made on or after 30 October 2024 (the lower rate from 10% to 18%, and the higher rate from 20% to 24%).
   - The freezing of **inheritance tax** thresholds will be extended to 2030[9]. From April 2026, inheritance tax relief for business and agricultural assets will be capped at £1 million, with a new reduced rate of 20% being charged on assets above that.
   - **Value-added Tax** (VAT) will be charged on private school fees across the UK.
   - The temporary 5p cut in **fuel duty** announced by the previous Government will be extended for one year to 2025-26.
   - The freeze in **income tax** thresholds will end in 2028-29, at which point thresholds will increase in line with inflation (England only).

7. The Chancellor also announced increases in borrowing, averaging around £32 billion per annum higher than the previous Government's plans over the forecast period. To allow space for this extra borrowing, the Chancellor changed the definition of debt in her fiscal rules. The Office for Budget Responsibility (OBR) has explained that the UK Government intends "to target Public Sector Net Financial Liabilities (PSNFL) as the main balance sheet aggregate in its fiscal rules". PSNFL is a wider measure of debt which includes financial assets and liabilities (such as the Student Loan Book and funded public sector pension schemes), meaning interest rates may take longer to fall[10].

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[8] Autumn budget 2024: Key announcements and analysis - House of Lords Library
[9] The previous UK Government had announced that this freeze would continue until 2028.
[10] Report on Pre-Budget Scrutiny 2025-26 - Managing Scotland's Public Finances: A Strategic Approach

8. Decisions in the UK Autumn Budget have led to additional consequential funding for the Scottish Budget, with £1.5 billion added to this year's budget[11] (2024-25), rising to £3.4 billion for 2025-26[12]. During evidence to the Committee on the Autumn Budget Revision on 12 November 2024, the Minister for Public Finance said that "we welcome the additional funding, but that funding is necessary to correct for persistent underinvestment in public services and to address the cost pressures that we face". He went on to explain that "the amounts provided by way of consequentials arising from the UK autumn budget are broadly consistent with what has been factored into our planning and we are therefore not in a position to reverse the savings that were previously announced".[13]

9. While public sector employers are expected to be compensated by HM Treasury for higher costs resulting from the NICs increase, it has yet to be confirmed what level of compensation will apply to Scotland, which has a larger proportion of its working population employed in the public sector than in England. In October 2024, the Scottish Government estimated that the UK Government's increase in NICs would add £500 million to Scottish public sector costs.[14]

10. On 20 November 2024, the Scottish Government published the indicative costs of the policy to the Scottish public sector based on newly collected data, gathered by the Scottish Government between 8 November and 15 November 2024 from estimates provided by portfolios and organisations. Key findings include that "the static increase in employer NICs might cost between £520 million and £580 million in financial year 2025 to 2026 for directly employed public sector employees in Scotland's devolved public sector, with a central estimate of £550 million". The Scottish Government also notes the latest estimates on potential Barnett consequentials of up to £380 million, suggesting a potential shortfall of around £140 million to £200 million. However, it adds that this estimate of up to £380 million is subject to a high degree of uncertainty and could be much lower if, for example, some of the additional funding does not generate consequentials, or higher if HM Treasury chooses to increase the overall sum available outside the normal operation of the Barnett formula.

11. The OBR observes in its October 2024 Economic and Fiscal Outlook that "the cancellation of the SFC's May forecast due to the announcement of the General Election means that its most recent forecast was published in December last year". It goes on to suggest that "the gap between this previous SFC forecast and ours means that making a detailed comparison and analysing differences between the forecasts is less informative than usual at this stage".

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[11] The Scottish Budget 2024-25 approved by Parliament earlier this year amounted to approximately £60 billion.

[12] £1.5 billion baselined into the 2024-25 Budget, and an additional £1.9 billion added for 2025-26, totals £3.4 billion.

[13] Official Report

[14] What's in the UK Budget? Ask Reeves. – SPICe Spotlight | Solas air SPICe

ANNEXE B

Scottish Budget 2025-26 – Scottish Government's Tax Strategy

Background

1. Since the devolution of tax powers in the Scotland Act 2012, the Scottish Government's approach to tax has been based around Adam Smith's four principles of taxation: Certainty, Proportionality, Convenience and Efficiency. The Scottish Government's Framework for Tax (2021) added two additional principles intended to guide the approach to tax policymaking: Engagement and Effectiveness.

2. The Scottish Government published Scotland's Tax Strategy: Building on our Tax Principles ("the Strategy") on 4 December 2024, alongside the Scottish Budget 2025-26. The 2025-26 Budget document explains that the Strategy is intended to expand on the Scottish Government's Framework for Tax sets out the Scottish Government's approach to tax over the medium term across the devolved and local tax system.

Pre-Budget Scrutiny 2025-26

3. As noted earlier in this paper, one of the themes of the Committee's Pre-Budget 2025-26 Scrutiny on Managing Scotland's Public Finances: A Strategic Approach was on the Scottish Government's approach to taxation[15]. During this scrutiny, witnesses expressed a range of views regarding what the Strategy should include. The Committee heard that the Strategy should move beyond the 'theory' set out in the 2021 Framework for Tax and should provide a clear direction on tax policy. The Committee also heard that the Strategy should focus on the main revenue raisers – Scottish income tax, non-domestic rates, and council tax.

4. In its Pre-Budget Scrutiny 2025-26 report, the Committee recommended that the Strategy should provide a framework within which tax policies are designed to contribute to the longer-term sustainability of Scotland's public finances. The report also recommended that the Strategy should specify that, when developing future tax policy, the Scottish Government should assess how individual rates and bands in Scotland would interact with the UK-wide tax system, to avoid issues associated with anomalies relating to marginal tax rates in Scotland arising.

[15] The other two themes were on how the Scottish Government is using its capital expenditure to achieve innovation, productivity, and growth, and progress with the Scottish Government's public service reform programme.

5. The report further noted the Committee’s intention to examine, as part of Budget 2025-26 scrutiny, the Scottish Government’s Tax Strategy.

The Tax Strategy

6. As noted above, the Scottish Government published Scotland’s Tax Strategy: Building on our Tax Principles (“the Strategy”) on 4 December 2024, alongside the Scottish Budget 2025-26.

7. In the Ministerial foreword to the Strategy, the Cabinet Secretary for Finance and Local Government explains that the Strategy is intended to set out “the steps that will underpin this government’s approach to developing tax policy; ensure the tax system raises the revenue needed to achieve our priorities; and support our growing economy”.

8. The Scottish Government explains that the Strategy sets out the Scottish Government’s medium-term ambitions for how the tax system will develop to support the delivery of its four priorities: eradicating child poverty, growing the economy, tackling the climate emergency, and ensuring high quality and sustainable public services.

9. The Scottish Government’s 2023 Medium Term Financial Strategy (MTFS) set out a three-pillar approach that the Government is taking to ensure that the public finances are on a sustainable trajectory. The Strategy, the Scottish Government explains, intends to deliver on the pillar, set out in the MTFS, “to maintain and develop our strategic approach to tax.”

10. The Strategy outlines Scotland’s fiscal and economic context, noting that, in recent years, “Scotland has faced significant economic and fiscal challenges which have also been seen across the UK and which have created lasting pressures on our public finances.” It states that “the strategic, fiscal, and economic challenges that Scotland faces clearly go beyond a single budget cycle and require longer term policy responses.”

11. The Strategy also states that the Scottish Government’s priority is to support economic growth that “increases employment and earnings, lifts people out of poverty, and raises living standards. It notes that the Scottish Government is focused on interventions to support a more productive and competitive economy and that, as a result, it is taking action to grow Scotland’s tax base by maximising potential Income Tax and other tax revenues.

12. The Scottish Government explains that the Strategy was informed by Scottish Government engagement with stakeholders, including businesses, think tanks, academics, civic society groups and tax professionals. It also undertook a pre-budget engagement event with stakeholders, the outcomes of which are

summarised in Scottish Budget 2025 to 2026: Public Attitudes to Tax, which was published alongside the Budget document on 4 December 2024.

Priorities

13. The Strategy outlines the Scottish Government's priorities for Scotland's existing tax system, setting out its intention not to introduce any new bands or increase the rates of Scottish Income Tax for the remainder of the Parliamentary session, explaining that "signalling a period of stability for our largest source of tax revenue will allow us to assess the impacts of recent policy changes, and support the conditions needed for a growing economy."

14. The Strategy also states that, for the remainder of the Parliamentary session, the Scottish Government will:

    - Maintain its commitment that over half of Scottish taxpayers will pay less Income Tax than they do in the rest of the UK.
    - Uprate the Starter and Basic rate bands by at least inflation.
    - Maintain the Scottish Higher, Advanced and Top rate thresholds at current levels in nominal terms in light of the UK Government context of a freeze to UK Higher rate thresholds to 2027-28. This will be reviewed annually at the Budget.

15. These commitments are also set out in more detail in the Scottish Budget 2025-26 document.

16. The Strategy notes that the Scottish Government is committed to working in partnership with Local Government "to ensure that local taxes are fair and sustainable and to explore the creation of more revenue generating powers for local authorities." It states that, to do this, the Scottish Government will:

    - "Begin the next phase of work of the Joint Working Group on Sources of Local Government Funding and Council Tax Reform (JWG) with a process of engagement in 2025 to build consensus on the way forward for Council Tax Reform." The outcome of this will be published by the end of this Parliamentary term.
    - Support open dialogue and engagement through forums including the sub-group on Non-Domestic Rates (NDR) established under the New Deal for Business.
    - Explore how NDR legislation might be consolidated and simplified.
    - Consider the outcome of the UK Government's consultation on 'Transforming Business Rates', including its impact on the block grant for Scotland, and noting the differences in the NDR tax base between Scotland and England.

17. Another priority outlined in the Strategy is the completion of the devolution of the remaining taxes the Scottish Government has committed to delivering. It highlights the delivery of the Scottish Aggregates Tax and the Air Departure Tax as “a key strategic priority for the Scottish Government” and notes the Scottish Government’s intention to introduce a Scottish Building Safety Levy Bill within the current Parliamentary term.

18. To achieve its priority of completing the devolution of the remaining taxes the Scottish Government has committed to delivering, the Strategy explains that the Scottish Government intends to:

    - Introduce the necessary secondary legislation for the Scottish Aggregates Tax to the Scottish Parliament and work with the UK Government to ensure that the new tax can be introduced on 1 April 2026.
    - Work with the UK Government to resolve subsidy control issues with the current Highlands and Islands exemption to enable the implementation of Air Departure Tax.

19. Regarding VAT assignment, the Strategy states that the Scottish Government “must protect the Scottish Budget from unnecessary levels of risk. This applies to the assignment of VAT, where concerns remain around the levels of uncertainty and volatility associated with the proposed assignment methodology, without appropriate fiscal or policy levers to help manage that risk.” The Strategy notes that, following the 2023 Fiscal Framework Review, and in light of these concerns, the Scottish and UK Government jointly agreed to consider the options for the future of VAT Assignment.

The economy and tax system

20. The Strategy states that the Scottish Government is “focused on creating the conditions for growth by bringing more people to Scotland, supporting our people into work, and raising wages for those working here. We also recognise the need for our tax environment to support private investment as well as to fund the public services which underpin a competitive economy.” The Scottish Government will “drive forward a renewed focus on expanding the tax base and tax revenues by progressing specific economic activities with the potential to grow the economy and get more people into work.” Actions the Scottish Government is taking to grow the economy are also outlined in the Strategy, including:

    - Measures to maximise the potential of Scotland’s workforce.
    - Provision of Employability Support.
    - Continuing to deliver Scotland’s Migration Service.

21. The Strategy explains that the Scottish Government intends to broaden its understanding on how the competitiveness and attractiveness of Scotland’s economy is impacted by the tax environment by:

- Assessing the links between tax policy and the economy in greater detail through a programme of evidence development, initially focusing on income tax.
- Engaging with businesses and organisations to contribute to the assessment of the cumulative impacts of Scottish, UK and local tax policies on the competitiveness of the economy.

Administration of Scotland’s taxes

22. The Strategy notes that the Scottish Government’s intention is to deliver a “fair, efficient and effective tax system in Scotland”, which will be guided by the Framework for Tax principles. To achieve this, the Strategy states that the Scottish Government will:

    - Increase public understanding of tax in order to make it easier for Scottish taxpayers to understand and navigate the tax system.
    - Strengthen its approach to compliance in collaboration with HMRC and Revenue Scotland.
    - Work with tax administrators to ensure mechanisms for efficient tax collection, including increasing the digitalisation of the Scottish tax system.
    - Renew considerations concerning changes to the legislative processes for the fully devolved taxes.

Evidence and evaluation

23. The Strategy sets out the Scottish Government’s commitment to enhancing its evidence base to “inform tax policymaking and support evaluation of tax changes.” This, it states, will “improve transparency around tax decisions and their impacts; provide evidence on cumulative effects across the whole tax system; and support debate on the existing tax system and future reform.”

24. The Strategy outlines that the Scottish Government will:

    - Publish its Areas of Research Interest (ARIs) on tax and set out the available exploratory funding to support the development of the ARIs. Figure 3 of the Strategy sets out the Scottish Government’s key tax research areas for the next five years.
    - Develop a “systematic and regular programme of appraisal and evaluation across the Scottish tax system.”

25. The Strategy notes that the Scottish Government recognises “the need to build evaluation across the devolved and local tax system, ensuring that significant policy decisions are transparently monitored and assessed as further data and evidence emerges.” It further states that, to achieve this, the Scottish Government intends to:

- Formally evaluate the impact of changes to income tax in 2023-24 and 2024-25 once outturn data is available, and “closely monitor behavioural impacts on different groups of taxpayers, business, and the economy using a range of economic evidence and stakeholder engagement.”
- Conduct its first five-year LBTT review by the end of the Parliamentary session in order to support an evaluation of key aspects of the tax legislation.

Future priorities

26. Regarding future priorities, the Strategy sets out that the Scottish Government will “explore the reforms needed to continue to deliver sustainable and growing tax revenues in the future.” It states that, guided by the principles outlined in the Framework for Tax, the Scottish Government will begin a programme of work focused on:

- Reserved tax powers (the Scottish Government will “consider the tax landscape in the round as we plan our next steps on tax devolution”).
- Balance of taxes across labour, income and wealth.
- Tax as a lever to encourage positive behavioural change.

27. The Strategy states that the Scottish Government will set out a detailed programme of work on future priorities alongside the next MTFS in 2025, and that an update on progress against the Strategy will be published in early 2026.

Initial reactions to the Strategy

28. On 4 December 2024, the Institute for Fiscal Studies (IFS) published an initial reaction to the Scottish Budget 2025-26 and the Tax Strategy. The IFS welcomed the intention set out in the Strategy not to introduce any new tax bands for the remainder of the Parliamentary session. However, it noted that, while the Strategy’s plan for income tax rates and thresholds for the remainder of the Parliamentary session provides helpful guidance to taxpayers, it will severely limit the Scottish Government’s options should additional revenue need to be raised.

29. The IFS also highlighted concerns about the depth of the Strategy’s content, stating that—

> “The Tax Strategy provides little sense of direction on tax policy beyond income tax. On council tax and business rates, for example, there is merely an intention to continue dialogue and engagement. It does not inspire confidence that much-needed reform will actually happen. There is welcome recognition of the value of more systematic evaluation of the effects of tax policy, and plans to improve the administration of the tax system and taxpayers’ understanding of it. It remains to be seen what will be achieved in practice.”

Finance and Public Administration Committee
25/26 Budget Scrutiny: Growing Scotland's Economy
Skills Development Scotland Evidence Submission

We thank the Committee for the opportunity to give evidence to support its budget scrutiny focused on Growing the Economy. With a remit for skills, Skills Development Scotland's submission focuses on the supply of people into Scotland's workforce as a predominant issue impacting Scotland's short, medium and long-term economic performance.

In summary

In the next decade, Scotland has a generational economic opportunity, driven by a projected £230bn investment in key sectors. If this investment is to deliver lasting benefit for the Scottish economy, there is an urgent need for action to significantly grow Scotland's workforce.

The SDS Board believes this requires a decisive shift in policy priorities to enable demand-led, industry responsive, co-investment delivery. Focusing primarily on college provision, this approach requires a significant expansion of industry led, technical & vocational training, apprenticeships and upskilling/reskilling leading a powerful renewal in vocational and technical education to unlock economic potential.

The opportunity

Based on our analysis, in the next decade Scotland stands to benefit from a combined investment in excess of £230bn across key sectors including; energy and utilities, offshore/onshore wind (ScotWind), the decommissioning of oil and gas, shipbuilding, advanced manufacturing and construction.

Moreover, the scale and pace of this investment will be boosted by the joint commitment of the UK and Scottish governments to delivering a clean power system by 2030.

This represents a generational opportunity to maximise every '£ value' of investment to deliver economic growth, developing and expanding Scottish industries and businesses while at the same time providing good jobs for Scottish workers.

We believe that unlocking this economic opportunity is critically dependent on addressing a number of challenges including;

i. The scale and pace is unprecedented, and action is required to ensure that Scottish industries and their supply chains maximise the returns from this economic opportunity
ii. Urgent action is required to rapidly grow and expand Scotland's workforce in order to unlock this economic opportunity
iii. The crisis in public finances calls for a new type of deep collaboration with Scottish employers to lead and co-invest in the development of Scotland's workforce
iv. Workforce development and training must be employer-led and rebalanced towards the skills that industry needs including; technical/vocational provision; expanding apprenticeships; upskilling/retraining of Scottish workers

The challenges

Growing Scotland industries & supply chains
Scotland's combined enterprise agencies and investment bodies (Scottish Enterprise, Highlands & Islands Enterprise, South of Scotland Enterprise, Scottish National Investment Bank) are

undertaking significant work to exploit the economic benefits and maximise the returns to Scotland from the planned investment from the planned investments across a range of strategic activities, including:

- **Inward investment** – attracting new manufacturing facilities to Scotland so that product/service procurement is sourced from Scottish-based industries
- **Scale up** – growing indigenous businesses to exploit new market and new contract opportunities
- **Sectors** – building clusters of competence & capability. This includes initiatives such as the Scottish Manufacturing Advisory Service, which works with manufacturing businesses on diversifying and scaling-up manufacturing operations. The agencies also support the National Manufacturing Institute for Scotland, which provides support for digital automation adoption and other emerging technology and innovation needs for manufacturing
- **Supply chain development** – growing the number and diversity of Scotland's business base to service the demands arising from investment growth
- **Strategic place-based initiatives** – there is a continued focus on strategic place-based development (examples include Green Free Ports at Cromarty and Leith). Work on Regional Transformational Opportunities also considers infrastructure planning, investment and implementation to support economic opportunities

Growing and expanding Scotland's workforce

A rapid contraction in Scotland's workforce arising from demographic trends, a shrinking working age population, high and persistent rates of economic inactivity, and the post-Brexit impact of policy changes on migration represent major risks to Scotland's sustained economic growth.

The latest census in 2022 highlighted there were 1,090,600 people aged 65+ in Scotland, and for the first time, this age group was larger than the 16-and-under population. The working-age population (16-64-years-old) declined between 2011 and 2022, reducing by 1% to 3,458,000[1]. This trend of a declining working-age population and growing dependent population is projected to continue; a 3% decline in the working-age population is anticipated from 2020 to mid-2045[2].

Projections suggest that over the next decade, Scotland needs 1.1million people to fill job openings driven by economic growth and the need to replace workers leaving the labour market[3] – this is around 40% of the total current workforce.

Almost all key sectors have a critical need for skilled people, including health and social care, energy and utilities, engineering and manufacturing and construction. Recent estimates from the Commission on the Future of Employment Support suggest that a contraction in the UK labour force is costing the UK economy £25billion per year and adds £16bn of fiscal pressure to public finances.[4]

The crisis in public finances

Scotland has a proud record of investing in post-school education. At over £3bn[5], Scotland's investment is in the upper quartile of OECD countries[6]. Our population is highly educated and when

[1] Scottish Government (2023). Scotland's Census.
[2] ONS (2023). 2020-based interim national population projections: year ending June 2022 estimated international migration variant.
[3] Oxford Economics (2024).
[4] Working for the Future (2024).
[5] Purpose and Principles (2023).
[6] OECD (2024). OECD Data Explorer

compared to EU countries, Scotland has the highest share of the population aged 25 to 64 years (50.4%) with at least tertiary education[7].

Against the backdrop of recent reports from the Scottish Fiscal Commission and Audit Scotland around the precarious nature of public finances, many are questioning if the current funding policy is sustainable.

At an institutional level colleges and universities are trying to manage an inexorable rise in business, energy and wage costs which is leading to budget deficits, redundancies and a reduction in some provision.

Acknowledging the crisis in public finances, the SDS Board believes there is an imperative for a deeper, more intensive collaboration with Scottish employers and industry, ensuring convergence between the annual £4.1bn employer investment in workforce development[8] and public funding, to build the skilled workforce needed to unlock Scotland's full economic potential.

Buoyed by a generational investment in Scotland's infrastructure, there is both an opportunity and an imperative to drive greater convergence between employer investment in workforce development with public sector funding to deliver a new, more sustainable, industry-led, co-investment model.

Employer led workforce development & training

Scotland's high value university sector is world-leading, with four of our universities amongst the top one per cent of the world's universities. Our universities are a major asset in the continued success of the Scottish and UK economy.

Our colleges are anchor institutions and important hubs for people locally, helping to mitigate poverty, and provide social benefits to many. They work across their regions to support businesses including small to medium enterprises and they contribute to the wider economy. Many have substantial estates and high-quality facilities.

Scotland's apprenticeship programme currently supports around 25,000 new starts per year, is powered by more than 11,000 businesses (over 90% SMEs) and represents a combined public/employer annual investment of c.£1bn (with employers investing £10 for every £1 of public funding)[9].

We rightly celebrate the achievements of our institutions and apprenticeship programmes however looking forward there is broad recognition that we need to focus more of our resources towards growing and expanding Scotland's workforce.

There is no doubting the positive impact of widening access policies and the significant growth in learners transitioning from Scotland's schools and colleges into university. Over time policies have successfully intensified Scotland's investment in higher education pathways.

Recent years have seen Scotland's highest ever volume of students enrolled in higher education at 346,000 in 2021-22[10]. In 2021/22, 21.3% of college qualifiers entered the labour market on completion of their studies, with the vast majority going onto further study at college or university.[11]

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[7] Scottish Government (2022). NSET Evidence paper
[8] Department for Education; Scottish Government (2023). Employer Skills Survey 2022.
[9] SDS accounts, BEIS Apprenticeship Pay Survey 2018/19 – Scotland. Includes leverage on wages and recruitment and training costs. Note that not all leveraged employer spend is fully additional - some employers may still recruit apprentices even if there was no support from government.
[10] Higher Education Students and Qualifiers at Scottish Institutions 2021-2022 (2023)
[11] Scottish Funding Council – College Leaver Destinations (2024).

Despite growing levels of investment in qualifications, our nation's productivity has remained low and stagnant for many years. Moreover, the Office for National Statistics (ONS) report that 41.8% of graduates who left full-time education within the last five years in Scotland worked in a non-graduate role.[12]

Taking into account the workforce required to support the £230bn investment outlined earlier in this paper, the SDS Board believes urgent policy action is required to prioritise the growth and expansion of Scotland's workforce.

Given the scale of opportunity and challenges within the current labour market, we believe there is a critical need to direct policies priorities towards an action-oriented, co-investment approach to developing Scotland's workforce.

The SDS Board believes this requires a decisive shift in policy priorities to enable a demand-led, industry responsive, co-investment delivery. Focusing primarily on college provision, this approach requires a significant expansion of industry-led, technical & vocational training, apprenticeships and upskilling/reskilling leading a powerful renewal in vocational and technical education to unlock economic potential.

Policy priorities need to drive out simplified and demand-led provision which better balances the needs of the learners, workers and the economy.

This simple policy shift could create the potential for a new, more powerful funding model, creating the conditions to secure much needed private sector co-investment in our colleges and through expanded apprenticeship provision.

This co-investment will only be possible if post-school education policy decisively shifts college provision towards the needs of industry and pathways into good jobs. Businesses will not step in to fund a status quo which does not currently deliver the needs of its workforce.

Through the Convention of Highlands and Islands, SDS has been asked to lead some rapid pilot work in the region that will test this approach. We will be happy to provide the Committee with further updates on the progress of this work as it develops in the months ahead.

Outcomes

In summary, there is an opportunity to anchor policy priorities in a set of practical, measurable and tangible actions to:

- build the capacity, capability and competitiveness of Scotland's workforce
- increase the rate and flow of skilled workers into the Scottish economy
- enable workers to transition from carbon intensive jobs to low carbon jobs
- reduce the percentage of people who are economically inactive
- increase the percentage of Scottish graduates in graduate level jobs
- increase the rate of positive in-migration of skilled workers to Scotland
- leverage industry co-investment into Scotland's workforce development
- reduce the cost and administrative burden in the delivery of public services.

[12] ONS (2023) A graduate is defined as a person who is aged between 16 and 64 (inclusive), not currently enrolled on any educational course and whose highest level of qualification is above A-level or equivalent.

Annex 1: About Skills Development Scotland

Skills Development Scotland (SDS) is Scotland's national skills agency.

The organisation was established with a primary function to act as a catalyst for real and positive change in Scotland's skills performance.

Today, SDS aims to help build a Scotland in which an agile, dynamic, and employer-led skills and careers ecosystem enables all people to develop the skills, adaptive resilience, and personal agency to thrive in a vibrant and inclusive labour market.

With a budget of c.£200m, SDS employs over 1,200 highly-skilled staff with the competence and capabilities to achieve this aim, and deliver integrated, multi-faceted services that seek to understand and meet the current and future skills needs of learners, employers and Scottish industry.

These include the UK's only national career service, Modern and Foundation Apprenticeships, a rich intelligence base for use by SDS and its partners, skills planning products and shared expertise, and services to support employer investment in Scotland and its workforce.

Over the past fifteen years the Chair and Board of SDS have overseen transformational service developments across highly integrated services, which is evidenced in SDS recognition as an EFQM 7-star organisation, awarded for excellence and continuous improvement.

Briefing document prepared by Technology Scotland in response to invitation to give evidence to Finance and Public Administration Committee's Budget Scrutiny 2025-26

Session Date – Tuesday 17th December 2024

Technology Scotland

This submission has been prepared by Technology Scotland, the industry association and cluster management organisation supporting Scotland's critical technologies sector. We represent a vibrant community of innovative industrial and academic organisations developing technologies that are a critical part of the supply chain in a range of markets; from healthcare and communications to manufacturing and mobility. Our goal is to deliver clear business value to members, providing a catalyst for innovation and growth and supporting the community through networking, representation and thought leadership. In doing so, we support the economic development of a growing and internationalised sector.

Formed in 2015, Technology Scotland has grown to become a recognised and respected partner within Scotland's technology sector. Our membership has grown to 130 organisations across our three primary clusters – Photonics Scotland, MaaS Scotland and Product Design Scotland.

Scotland's Critical Technologies Supercluster

Scotland is home to a Supercluster in Critical Technologies, a constellation of overlapping and mutually supporting technology sub sectors - photonics, quantum, semiconductors, and wireless and sensing technologies.

Although these technologies remain largely invisible to the general public, they form an important base for critical supply chains in life sciences, space, future automotive, energy, communications and defence and security. They will also be essential in our efforts to tackle the climate emergency and meet our collective net zero ambitions. It is also worth noting that, if adopted, future innovation in the critical technologies will lead to productivity improvements elsewhere in the economy – perhaps even in the public sector.

The Supercluster currently generates £4.2bn in revenues for Scotland, with over 150 companies supporting nearly 11,000 jobs at salaries well above the Scottish average. This aggregation of expertise, unparalleled anywhere else in the UK, has been recognised by both Scottish and UK Governments and has been identified as one of Scotland's Key Strategic Industry Clusters.

A recent initiative, developed in partnership between Technology Scotland, Scottish Government, Scottish Enterprise, University of Glasgow and University of Strathclyde, sets out an ambition to grow the supercluster beyond £10bn in revenues by 2035, adding a further 6,600 jobs. This strategy is built around an action plan which will include activities relating to skills development, investment and internationalisation.

CHALLENGES TO GROWTH

Scotland stands in a great position to exploit burgeoning global markets in critical technologies over the coming decade, reflected in the growth ambitions stated above. However, clear challenges to this growth remain and it is likely that the pathway to this ambition will not be straightforward, influenced by decisions made both domestically and internationally.

It is perhaps beneficial to consider these challenges across 3 key themes - skills, investment and infrastructure, and internationalisation.

Skills

In any technology sector, access to highly skilled talent is a key enabler for growth. Each technology sub-sector, including the critical technologies, will have its own skills pyramid, with highly specific, highly skilled functions at the top of this pyramid and broader technical and engineering skills near the bottom. We need to ensure that our universities and colleges are producing sufficient talent to build these pyramids and fuel the growth of these industries

The top of this pyramid requires a constant conveyor belt of **highly educated talent coming through our university system (undergraduate and postgraduate courses)**. Efforts must be made to ensure that the higher education system is producing this talent in the required numbers across critical areas like physics, engineering and software. This pool will need to be further enriched through attraction of **highly skilled international talent**. As well as reducing barriers to access this talent, there will need to be greater effort to coordinate our marketing efforts to attract this talent to the UK.

There will be much more overlap across sectors when considering the middle and base of the skills pyramid. This requires significant efforts to increase our broader technology and engineering skills pool. This should include increased focus on:

- **Relevant apprenticeship programmes** in technology/engineering, built around forecasted industry demand and leveraging our excellent FE sector.
- Opportunities for **upskilling and reskilling**, through direct provision *e.g.* through relevant national institutes etc., or through funding support for industry to develop internal training mechanisms.
- Many important technical/engineering sub-sectors suffer from a lack of wider public visibility. This is especially true of ‘horizontal’ technology clusters which are often invisible enablers of more high-profile sectors (such as life sciences, space, etc.). Critical technologies would be a classic example of this. Government must work with and support industry to increase awareness of our important technology sectors, through **STEM programmes, public outreach and schools' engagement**. Crucially, we must work with schools to support pupils in making the direct link between learning in the classroom to potential career opportunities. We need strong consumer facing marketing campaigns that talk to the people in the street in the manner of top consumer brands

Finally, it is vital that we increase our efforts **to create attractive management teams** for investment. We must develop more people with the combination of technical and commercial skills required to grow high tech businesses. Some radical thought is required on how we achieve this at various points of the educational and career ladder.

Investment and infrastructure

As a manufacturing sector, the critical technologies sector has very different investment demands to those operating purely in the digital technologies space. They are capital intensive, requiring larger infrastructure investments and longer return times. This makes them more challenging investment prospects than, for example, software companies.

Start-ups and SMEs find it difficult to secure investment – especially for equipment, as VC money would rather fund staff and operational expenses. Also, while the UK provides a lot of support for R&D costs and many SMEs have benefitted from Innovate UK collaborative R&D grants, for example, these grants do not cover capital costs. To address this, we need to increase the size and pace of investments in young critical technologies companies. Perhaps Government partnering with specialist VCs in these focus areas could address this, but it must be done without creating additional layers of bureaucracy that would slow the allocation of capital – speed is critical to success. For pre-revenue companies close to product launch, a government-secured loan may be appropriate.

Critical technologies companies need access to world class infrastructure that enables them to undertake product development and produce proof of concept products they can put into customer hands to generate demand. Without access to such infrastructure, companies struggle to make the case to raise the capital they require to become world leading product companies. Some of this infrastructure already exists, often within our large academic institutions, but their cost base means that SMEs often cannot afford to use them. Some form of subsidy to address this could be useful.

Investment in shared infrastructure – to expand capacity and upgrade facilities - should also be considered and the Deep Tech Cluster Review announced in the 2024 Programme for Government, should provide the evidence base for this. Consideration must be given to investment in existing infrastructure, rather than, for example, significant capital expenditure in new facilities that may not have the commercial demand.

In order to fully exploit our world leading academic research in critical technologies, we need to ensure that there is a path of support all the way from the university lab to the factory floor. This isn't necessarily grants all the way, but critical technologies presents cash flow challenges that are probably greater than in any other industry and the private sector alone will not solve this.

Established manufacturers in critical technologies have frequent and expensive capital investment cycles needed to maintain state of the art and allow them to continue to sell world class products to a global customer base. As well as being expensive, the time from placing the downpayment on new capital equipment to generating income from it is lengthy due to long lead times, commissioning time, integration into workflows, staff training etc. To compete internationally, given international Chips Acts and similar, Scotland (and the UK) needs to offer more support for capital investment through some combination of grant and soft loan provision. We have world-class divisions of global companies (often acquired when they were SMEs) whose future is now in doubt due to this imbalance in subsidies driving capital investment elsewhere.

There is also a reported shortage of modern buildings suitable for advanced manufacturing in Critical technologies. We lose some scaling businesses as a result and fail to attract some FDI we could otherwise win. Some incentives for private developers to address the market for accommodation suitable for small, scaling companies in advanced manufacturing are required. There is very little speculative build, but units suitable for scaling companies to use as their first manufacturing site would be particularly useful and may see use by successive generations of growing companies as they scale and move to larger bespoke accommodation. Best sites would be within short travel time of the better engineering universities supplying the workforce.

Internationalisation

Scotland's Critical Technologies Supercluster is largely export driven, with over 80% of revenues (£3.4bn) generated from sales outside of the UK. All companies in this sector, from large scale multi-nationals to brand new spin outs, must navigate complex international supply chains and markets. In addition, the sector has benefitted from significant FDI over the last two decades and remains reliant on international talent to enrich our domestic pool.

As a result, our growth ambitions in critical technologies will hinge on our ability to compete on the global stage, in particular our ability to:

- Access international export markets.
- Attract international investment.
- Identify global supply chain partners.
- Attract international talent.

These objectives require a coordinated approach to our internationalisation activities, and it is vital that the correct supporting mechanisms are in place. These will include:

- Increased support from Scottish Government and its agencies to coordinate and enhance Scottish presence at key international events.
- Formal trade missions to maximise the value of key global events, including Ministerial support to show Government commitment to the sector.
- Government incentives to attract collaboration and increased foreign direct investment e.g. tax rates, tax credits, co-investment programmes, skills subsidy.
- Bilateral demand-led innovation, where connections are made across the supply chain with a selected partner region with potential for resulting R&D to be supported by a grant contribution.
- Implement efforts aimed at reducing barriers to access international talent, this will include greater efforts to coordinate our marketing efforts to attract this talent to the UK.

A Medicines Manufacturing Research Institute – Anchoring World Class Impact in Scotland

Prof Alastair Florence FRPharmS, Director, CMAC, distinguished professor of Pharmaceutical Sciences, University of Strathclyde. 11/12/24

1. Overview: Secure access to affordable, safe, effective, sustainable and quality medicines that can save and enhance lives, is a fundamental societal need. Yet the pharmaceutical industry must also manage the urgent 21st-century challenges of rising costs, an ageing population, fragile and inflexible global supply chains, volatile demand, pandemic preparedness as well as climate change whilst also accelerating the pace with which new and increasingly complex medicines can be delivered to patients. The creation and application of new knowledge is the lifeblood of innovation. This demands urgent research, development and innovation in the science and technologies underpinning product and process development.

2. Life Science and Medicines Manufacturing: Scotland has a life sciences sector that is rich in drug discovery, biotech, personalised medicines and medical devices spin-outs and start-ups building on the vibrant academic research track record in these fields. To keep pace with the accelerating rate at which potentially life saving new treatments are being discovered, innovation in the steps involved in the development and manufacturing of drug substances and formulated medicines is required. Over the last 13 years the University of Strathclyde has with a range of academic and industry partners established and grown a world leading medicines manufacturing research, training and translation centre: CMAC. The centre currently has ca. 140 academics, researchers, staff and doctoral students working to transform the way medicines are developed and made. The centre supports a suite of high value, leading edge basic and applied projects, training and technology demonstrators within dedicated facilities at the University's Technology Innovation Centre. Sustained partnership and investment in CMAC's research portfolio over this time by leading international industry partners highlights the outstanding capabilities and expertise that have been established.

3. Medicines Manufacturing Research, Skills and Translation for Impact:
Internationally, industry is making large investments in new capacity and technology for manufacturing medicines. In 2023 Eli Lilly announced a $2.1Bn investment in Indiana and a $450M expansion of its manufacturing in North Carolina. In 2024 Lilly also announced a $1.8Bn investment to expand its manufacturing capabilities in Ireland including $1Bn for a new facility in Limerick and $800M to enhance its existing site in Kinsale to increase production of Alzheimer's and obesity treatments. Pfizer is also investing $1.2Bn in Ireland to double production capacity there whilst AstraZenca are investing $360M in a new drug substance manufacturing plant in Dublin. Newer companies are also expanding with APC, an Irish pharmaceutical R&D spin out from UC Dublin, is developing the Medicine Accelerator Campus in Cherrywood, Dublin. This €100 million expansion will create 300 new R&D jobs. Singapore has also seen the recent announcement of $1.5Bn investment by AstraZeneca to create a new antibody-drug conjugate manufacturing site. Notably, these investments align with locations where governments have made strategic investments in strategic national manufacturing research infrastructure enabling countries to drive innovation and develop homegrown talent to support advanced manufacturing modernisation e.g. Singapore (PIPS, A-Star, NUS, NTU, SIT, S$34M), Ireland (SSPC, University of Limerick, €~80M), Canada (Accelerate Consortium, University of Toronto, C$200M) and the USA (Phlow Consortium, $354M; Purdue University; Young Institute for Advanced Manufacturing of Pharmaceuticals, Purdue University, $50M). If we are to realise the ambition to be a global superpower in sustainable medicines development and manufacturing and compete internationally for new manufacturing investments, a different approach to funding is proposed. Current competitive funding seeks to promote excellence however leads to a lack of continuity, increased administrative burden on groups 'chasing'

multiple funding calls to avoid cliff edges, high uncertainty for researchers' careers and can bias activities towards short-term outcomes at the expense of longer-term transformative ideas.

UK regions that can provide straightforward access for companies to well organised and resourced academic researchers will succeed in both creating and anchoring companies to grow manufacturing and healthcare clusters. The University of Strathclyde's CMAC, situated in the heart of the Glasgow City Innovation District (GCID) and complemented by links to the Advanced Manufacturing Innovation District for Scotland (AMIDS) is well placed to deliver the necessary partnership for prosperity between life sciences, healthcare companies, NHS, medicines manufacturers, technology providers and the strong academic base across the region, nationally and internationally.

4. A Strategic National Medicines Manufacturing Research Institute: By securing stable, strategic funding for medicines manufacturing research we can better support the sector's long-term ambitions, fostering systemic and national advancement and support high-risk research on transformative projects. Crucially, such investment can build a stronger, coherent ecosystem with the correct infrastructure, talent, and partnerships necessary to foster success. We propose the formation of a national Institute for Medicines Manufacturing Research with core strategic funding that will anchor the impacts from past and future research in the West of Scotland creating a Medicines Valley cluster ecosystem.

An initial estimated investment of £66M over 5 years, a scale similar to other UK strategic centres such as the Royce, Turing, or Rosalind Franklin institutes, would establish a global-scale hub able to compete with the best centres in the world. This institute would allow investment in infrastructure, new technology, multi-disciplinary research and the associated operational and business engagement functions engage effectively with partners. The institute will contribute to growing the sector's economic contribution in terms of turnover, exports and GVA whilst also contributing to Net Zero targets. Analysis by UKRI of prior critical mass investments in manufacturing research estimated that £63 is generated for the wider economy for every £1 spent. On this basis a total ROI of over £4Bn of economic return could be realised from the proposed institute investment.

This will be achieved by: establishing a global scale advanced manufacturing cluster for sustainable medicines development and manufacturing; attracting large scale inward R&D and manufacturing investments; enabling SMEs and start-ups to access manufacturing and innovate earlier in development; providing the skilled workforce to drive innovation; enhancing export competitiveness through more sustainable production; driving economic and social benefits through faster access to new medicines and enabling more resilient, innovative and affordable healthcare.

The following table summarises some key challenges and opportunities for Scotland and the UK to lead the world in accelerating the adoption of advanced process and digital technologies to drive faster, cost effective and sustainable medicines manufacturing.

Overview of Context and Opportunities for Medicines Manufacturing Research in Scotland	
Situation Analysis	Scotland's pharmaceutical manufacturing sector achieved £1.65Bn turnover in 2022, contributing £1.5 billion in GVA to the economy and supporting 11,350 direct jobs but faces global competition and regulatory challenges.

	• Productivity in pharmaceutical manufacturing is among the highest in Scotland, with a GVA per head of £200,700. • Excellent track record of medicines manufacturing research. Challenges: • Slow adoption of innovative manufacturing technologies and industrial digital technologies, lack of cost-effective early demonstrators to de-risk technology • Scarcity of access to high quality lab space for early development and pre-spin out companies. • Lack of agile funding for 'sprint projects' and technology evaluation • Skills gap in digital technologies for medicines manufacturing. • Regulatory hurdles, including capacity and predictability issues with the MHRA but opportunities from digital transformation to lead standardisation. • Global competition for research and inward manufacturing investment. Opportunities: • Consolidate Scotland's research strengths in digital and advanced medicines manufacturing to build an integrated ecosystem to engage industry and NHS. • Growing global demand for sustainable manufacturing and digital technology solutions for increasingly complex drugs and products.
Target Vision & Goals	Position Scotland as a leader in medicines development and manufacturing innovation through strategic investment supporting research, state-of-the-art infrastructure, digital manufacturing skills and translation to industry. • Enhance Scotland's attractiveness as a global hub for medicines manufacturing research and innovation: create and anchor Medicines Valley ecosystem cluster. • Develop a skilled workforce to support advanced manufacturing technologies and R&D. • Establish Scotland as a key player in global supply chains for new medicines: secure significant inward investment of £500M for new pharma manufacturing sites creating at least 1500 new high value manufacturing jobs. • Foster collaborations between academia, industry, and public bodies to be responsive to emerging supply needs (e.g. pandemic preparedness) and healthcare opportunities (e.g. personalised medicines). • Enable world leading integrated digital supply chain from patient needs, healthcare providers, clinical trials, development, manufacturing and supply. • Democratise technology access for start-ups and SMEs to generate value to their offering through manufacturing • Enhance opportunities for onshoring essential medicines production for security of supply. • Lead sustainable manufacturing innovations to address Net Zero goals by integrating green manufacturing technologies. • Lead regulatory innovation by addressing standardisation and exploiting novel digital approaches
Proposal for	Building on the critical mass of medicines manufacturing research in Strathclyde University's CMAC, invest in a national Medicines

Strategic Investment	Manufacturing Research Institute to support a long term demand-led R&D strategy with global reach and anchor impacts from research in Scotland. The investment will: • Grow portfolio of advanced manufacturing technologies, digital transformation and skills to attract global companies, foster start-ups and enhance competitiveness. • Embed support as single entry point for companies to R&D ecosystem for industry engagement, early stage technology demonstration. Investment in R&D: • Allocate funding for cutting-edge research in systems-level manufacturing innovation for digital CMC, advanced technology and personalised medicine connecting innovation to end user needs in industry and NHS. • Tackle ambitious transformational manufacturing challenges • Deliver technology demonstrators to allow industry to evaluate innovations rapidly and accelerate adoption • Enable on-demand, distributed manufacturing to support clinical trial innovation in Scotland and address patient needs. • Integrate within programme initiatives for green and sustainable manufacturing to align with global environmental goals. Regulatory Improvements: • Engage the MHRA to streamline regulatory processes e.g. digital submission and enhance capacity for timely application reviews. Infrastructure Development: • Expand specialised facilities for medicines development and manufacturing to maintain state-of-the-art technology, data infrastructure and demonstrators. Workforce Development: • Attract leading academic talent to the region to enhance capacity for growth in R&D. • Launch training programs to re-/up-skill workers and deliver the talent pipeline in areas including automation, digitalisation, and advanced manufacturing. • Target social mobility in STEM workforce Incentivise Investments: • Provide access to feasibility project funding, demonstrators, lab space, grants and/or tax incentives to attract global pharmaceutical companies and supply chain partners to invest in Scotland. Enable start-ups to thrive and stay in region through access to technology, skills, trouble-shooting and innovation.

Scottish Draft Budget 2025/26 Briefing for Finance and Public Administration Committee – December 2024

The Scottish Government published its Draft Budget 2025/26 on Wednesday, 4 December 2024.

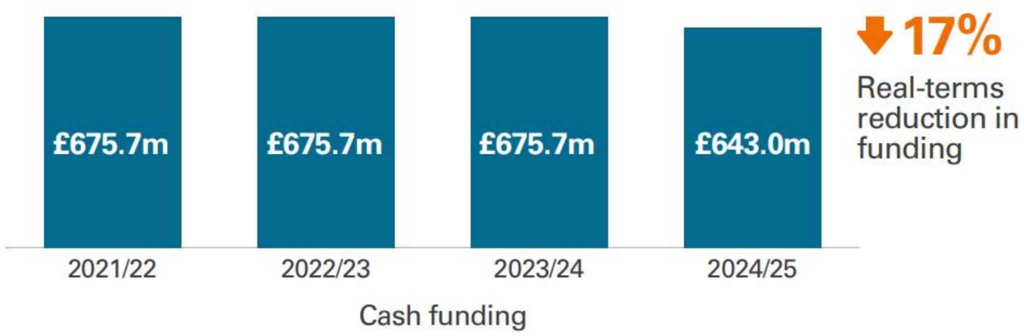
In Parliament, the Cabinet Secretary for Finance and Local Government announced a 3% above-inflation increase for Education and Skills. However, the allocation for college investment shows only a 1.9% increase, as outlined in the budget documents. With current inflation at 3.2%, this represents a real-terms funding reduction for Scotland's college sector.

This announcement is deeply disappointing for Scotland's 24 colleges. Despite compelling evidence of the vital contributions made by college graduates to the economy, the role of colleges as anchor institutions in communities, and their essential function in supplying a skilled workforce, the sector's call for greater investment has been overlooked.

This shortfall will have far-reaching implications for Scotland's economic recovery, its ability to attract and retain industries, and the country's over-reliance on imported labor, which hampers efforts to upskill Scotland's workforce. The result will be an enduring prevalence of low-paid jobs, leaving many citizens trapped in poverty.

For college leaders, this funding cut poses significant challenges. Providing high-quality opportunities for the people of Scotland becomes increasingly difficult as college funding has already been reduced by 17% in real terms since 2021/22, as evidenced by Audit Scotland. This continued erosion of resources jeopardizes the sector's capacity to meet Scotland's needs, undermining efforts to build a prosperous and equitable future.

Exhibit 2.
Cash and real-terms resource funding for the college sector 2021/22 to 2024/25
Cash and real-terms funding have reduced since 2021/22.



Source: Audit Scotland analysis of Scottish Government budgets

Government Spending on Colleges

- The Scottish Government has set out that the draft Budget will **increase revenue funding by £12.3m** for the college sector to **£656.2m, an increase equivalent to 1.9%**. Funding for 2024/25 was **£643.9m**.

- The Scottish Government has **reduced** current levels of **capital funding** for the college sector with the Draft Budget to **£64.8m.** This represents **a reduction of £20.1m, or equivalent to 23.7%,** against the Budget for 2024/25.

Below is the Level 3 breakdown of spending for the college sector in relation to the SFC:

	2024/25 (ABR) £m	**2025/26 £m**
College Operational Expenditure	833.9	846.2
College Operational Income	(190.0)	(190.0)
Net College Resource	643.9	656.2
College NPD Expenditure	29.3	31.6
Net College Capital	84.9	64.8

Key Issues

On 6 December, Colleges Scotland wrote to the Cabinet Secretary for Finance and Local Government to raise the following points on behalf of our members.

Unsustainable Revenue Funding

The Scottish Government's announcement of a 1.9% increase in College Resource funding, equating to £12.3 million, is deeply concerning. This uplift falls significantly short of current inflation, which stands at 3.2%. Such a settlement imposes an unsustainable financial burden on the college sector, creating a substantial risk of curriculum reductions, campus closures and reduced opportunities for learners.

Continued Disinvestment in Capital

The announcement of a £20.1 million (23.7%) cut in Capital funding for 2025/26, reducing it to £64.8 million, is alarming. We must advise the Committee that the failure to increase investment in college estates and address critical digital infrastructure needs is unacceptable.

Many college buildings are in a state of disrepair, with some containing Reinforced Autoclaved Aerated Concrete (RAAC) that remains unaddressed. Students and staff are expected to work and learn in substandard and deteriorating conditions. This situation demands immediate attention.

Pay

The Public Sector Pay Policy published alongside the Draft Budget raises further questions. While lecturing staff have an agreed multi-year pay deal in place until September 2026, it is essential to highlight that this settlement relied on a £4.5 million commitment from the Scottish Government for 2025/26. This is funding that is included in the settlement figure and erodes any uplift in spending power.

Support staff, whose pay deal extends to September 2025, have a reasonable expectation of parity of treatment with lecturing staff. The Scottish Government has yet to clarify whether additional funding will be provided to resolve this issue.

Education Reform Funding

We would welcome immediate clarification on the Budget allocation for Education Reform, as outlined in Table 6.01 of the Budget document, and suggest the Committee considers this particular point.

This funding is listed as £53.5 million for 2024/25, rising to £84.8 million in 2025/26. College leaders, who have actively supported the Scottish Government's education reform agenda, require transparency on how this funding is allocated and its implications for the sector.

Statement in the Scottish Parliament

Colleges Scotland has expressed disappointment around the Education and Skills section of the draft Budget announcement in the Scottish Parliament on Wednesday 4 December. Those listening would have heard that the Education and Skills budget increased at 3% above inflation.

However, colleges were notably absent from this section of the announcement. There is a sense of inequity for college students who receive the lowest level of funding. Key Scottish Government initiatives, including the country's ability to meet the upskilling demands of the green economy and the NHS, depend on college graduates to contribute to economic productivity. Ensuring Scottish workers are at the forefront of the upskilling agenda is vital for driving economic growth and strengthening the Scottish economy and reducing poverty.

The future of Scotland's learners, workforce, and wider economy depends on urgent and decisive action to support the stability and sustainability of the college sector in Scotland.

Colleges Scotland
Thursday 12 December 2024

Kenneth Gibson MSP
Convener - Finance and Public Administration Committee
The Scottish Parliament
Edinburgh
EH99 1SP

December 12, 2024

Dear Convener

DRAFT SCOTTISH BUDGET 2025/26

Can I begin by offering my thanks for the invitation to provide both written and oral evidence to the Finance and Public Administration Committee's scrutiny of the draft Scottish Budget 2025/26. In advance of my attendance to the Committee on December 17, I am writing to provide a short written submission as requested.

Scottish Renewables is the leading voice of Scotland's £10.1 billion renewable energy industry and supply chain which supports more than 42,000 jobs. We represent over 350 organisations working across all renewable energy technologies and services. In representing them, we aim to lead and inform the debate on how the growth of renewable energy can provide solutions to help sustainably heat and power Scotland's homes and businesses.

At a time of constrained public finances, we welcome that the Scottish Government has prioritised investment in renewable energy given it is our greatest opportunity to create sustainable economic growth which will deliver benefits for our entire society. Ultimately, the First Minister's top priorities of growing the economy and tackling the climate emergency, in addition to tackling poverty and investing in public services, are inextricably linked.

We are particularly pleased to see continued investment in Scotland's offshore wind supply chain with a commitment to more valuable effectively utilise the valuable revenues from ScotWind. Audit Scotland were right to recognise in their recent fiscal sustainability and reform report that the intention to draw down funding sources from ScotWind would present some significant risks to the long-term sustainability of the budget. Moreover, it would miss an opportunity to effectively, and rightly, utilise this one-off funding to create lasting benefits to Scotland.

With a commitment to now do that, it is essential that this funding is protected and used as part of the wider investment landscape to secure the flow of significant private capital into infrastructure and manufacturing facilities that will help Scotland optimise the opportunity brought by offshore wind. We do note, however, that the Fraser of Allander Institute has identified that there is a remaining balance of £219 million from ScotWind to support capital or resource spending in future years. This should be explicitly set aside for investment spending for net-zero.

In its recent advice to the UK Government for the achievement of clean power by 2030, the National Energy System Operator (NESO) stated that "policy certainty and swift funding decisions are needed to ensure developers can mobilise the supply chains and workforce needed." NESO also warned that "acute supply chain and workforce challenges must be overcome across nearly all generation, storage and network projects". Both these messages are equally as pertinent to the Scottish and UK Governments.

We welcome the allocation of £150 million in the draft budget to offshore wind, as part of the commitment of up to £500 million over the next five years to anchor our offshore wind supply chain in Scotland. However, with detail remaining light on what capital funding may be accessible to our industry and supply chain from GB Energy and the National Wealth Fund, we would encourage the Scottish Government to play its part to shore up industry and investor confidence by providing greater detail on how the £150 million allocation will be fully utilised. A clearer demonstration of how the £67 million committed for this financial year has been utilised would also be welcome.

There has been strong progress this year to anchor the offshore wind supply chain in Scotland through the funding package to secure the development of a purpose-built factory for high-voltage cables by Sumitomo Electric Industries Ltd at the Port of Nigg and the credit facility for the Port of Ardersier. Both demonstrate the clear strength of joint investment. We continue to encourage strategic alignment between the Scottish and UK Governments, including all investment and enterprise agencies, to unlock the full potential of public-private partnerships. With extra borrowing and investment powers committed to The Crown Estate Scotland by the UK Government, we believe it is essential that the Scottish Government ensures there is parity for Crown Estate Scotland given that the UK's offshore wind pipeline largely sits in Scotland through the vital ScotWind and INTOG Leasing Rounds.

On planning, we welcome the commitment in the draft budget to treble the number of bursaries offered to planning students. This complements welcome extra resourcing into the Energy Consents Unit this year. We also welcome the establishment of a Planning Hub in September 2024 to support planning authorities to improve their resourcing, skills and capacity to deliver planning determinations promptly for hydrogen developments. Whilst this will help address the shortage of planners in the longer term, there is still an immediate lack of capacity across all statutory consultees in the planning authorities. We would recommend the Scottish Government to further explore extra resourcing for all statutory consultees given the highly anticipated increase in clean energy planning applications. The Planning Hub should also be expanded to include all renewable energy and energy storage developments.

On skills, we believe reforms to post-school education and skills planning delivery, as committed in the Programme for Government 2024/25, need to be accelerated and more effectively aligned to the workforce needs of the transition to net-zero. By rebalancing funding support towards lifelong learners and college-led, vocational pathways alongside necessary reforms to the Apprenticeship Levy, we can better enable employers and learners to grasp green growth opportunities. We would also recommend a consideration of options to create a more sustainable funding model for universities and colleges to better leverage funding and build on the strong contribution already made by industry and the wider private sector.

Finally, the draft budget is right to recognise that investments in energy efficiency and clean heat technologies will reduce energy bills for households and businesses on a lasting basis. We welcome that a £300 million investment has been committed for the Heat in Buildings Programme which maintains the level of investment from 2024/25.

Scottish Renewables recently published our Vision for National Heat Networks which recognises that district heat networks are the most cost-effective solution for providing affordable, low-carbon heating in cities and towns. The report calls for the establishment of nationwide Heat Networks Vision, accompanied by a comprehensive delivery strategy which should be overseen by an independent National Heat Networks Commission.

It also recommends the Scottish Government to:

- Deliver on proposals in the Heat in Buildings Bill for capturing and mandating waste heat and obligating all building owners to connect to heat networks. The Heat in Buildings Bill should also be adapted to drive greater heat network connections for public sector buildings.

- Publish the Local Authorities Cost Strategy as soon as possible, as opposed to waiting until the Heat Networks (Scotland) Act 2021 is fully operational. A heat network connections plan should also be mandated as part of the project development process to futureproof all future heat networks.

- Fully implement the Heat Networks (Scotland) Act 2021, including the permitting regulations, and ensure it is integrated with the Energy Act 2023 and associated consumer protection. Heat networks should also be defined as a utility and more effectively aligned with broader renewable energy generation plans.

To ensure the £300 million investment delivers maximum impact, we recommend the Scottish Government to commit a further two funding rounds, beyond the existing funding round which ends in 2025, for Scotland's Heat Network Fund (SHNF) to provide vital project lead capital support and overcome acute barriers to deployment for heat networks. There should also be closer consideration of how the Home Energy Scotland Loan and Grant Scheme can be fully maximised given that solar PV and energy storage systems had to be removed from the scheme in June this year despite a demand for energy efficiency and clean heat installation assistance for both consumers and suppliers.

I hope this provides a helpful overview of some of the key issues we are continuing to actively explore with our members at this time. If Scottish Renewables can provide any further information on these issues or anything of interest to the Committee, please don't hesitate to get in touch.

Yours sincerely

Claire Mack
Chief Executive

Scottish Enterprise

Apex 1
99 Haymarket Terrace
Edinburgh
EH12 5HD
Telephone 0300 013 3385
www.scottish-enterprise.com

Kenneth Gibson
Convener
Finance & Public Administration Committee
Scottish Parliament
EH99 1SP

Dear Convener,

Scottish Enterprise (SE) welcomes the opportunity to contribute to the Committee's budget scrutiny 2025/26 and participate in their round-table discussions on 17 December. This document summarises some key information we hope is useful in assisting the Committee's discussions.

SE is Scotland's national economic development agency. Our purpose is to support businesses to innovate and scale to transform Scotland's economy. We focus on the areas where we make the biggest difference - innovation, investment and internationalisation. SE's international ambitions are driven by the National Strategy for Economic Transformation (NSET). We want Scotland to win an even greater share of international opportunities, within markets and sectors which offer the greatest growth opportunities.

Earlier this year we launched a new approach, entitled '**Our Future Focus**' which outlines how we will focus on transformative opportunities within the framework of the National Strategy for Economic Transformation that will create high-value jobs, boost productivity and create wealth for Scotland's businesses and people. Our international activities will play a pivotal role in delivering our vision for transformational change and are central to our missions to:

- Create an internationally competitive energy transition industry in Scotland by 2030
- Drive capital investment to deliver a step-change in Scotland's productivity
- Scale Scotland's innovation strengths into the high-growth industries of the future.

Delivery and Impact
In 2023/24, SE supported over 960 companies and partners with 1,340 projects. The companies and partners expect over the next 3 years that this support will safeguard and create 16,782 jobs, generate £2.15bn in export sales, realise £356m in growth funding and deliver 468,000 tonnes in CO_2e savings. The support will also lever £1.9bn in capital expenditure and £449m investment in R&D and innovation.

Taking into account wider economic benefits and potential additional jobs through supply chain spending in Scotland and the economy from worker spending, we estimate that SE's 23/24 activity could result in c.22,300 net additional jobs in Scotland. Over a five-year period, these jobs could generate over £500m Scottish income tax, equivalent to £1.65 income tax per £1 of SE investment.

SE International Operations
The role of SE's International Operations is to help grow Scotland's exports, increase inward investment in Scotland and secure new capital investment to fund a just transition to net zero. We provide international support to businesses across Scotland, including on behalf of Highlands & Islands Enterprise (HIE), and South of Scotland Enterprise (SOSE). As part of a Team Scotland approach, we work in partnership with a

ISO 14001 ENVIRONMENTAL MANAGEMENT UKAS MANAGEMENT SYSTEMS 0015 range of organisations, including Skills Development Scotland, the Department for Business & Trade, Visit Scotland, Scottish Funding Council, Business Gateway, Local Authorities, and Industry bodies. Our overseas team works in close partnership with UK Government teams within the respective embassies and high commissions, where we are often co-located.

Our international team is based in Scotland and overseas with approximately 270 staff in total. Over 100 staff are based overseas across 23 different countries from 32 different offices - six in the Americas, ten in Asia Pacific and 16 in EMEA. We are co-located with Scottish Government colleagues in USA, China, Canada, Denmark, France, Germany, Ireland, Belgium, and England where the teams work together to support joint aims around trade and investment objectives.

The Scottish Government's 10-year Export Growth Strategy, A Trading Nation (ATN) sets the strategic direction for growing Scotland's exports alongside Scotland's Vision for Trade, which sets out the principles and values for the trading relationships we want Scotland to have in the future. Our Inward Investment approach is also guided by Scottish Government policy, Scotland's Inward Investment Plan (2020) which sets out the ambition "*for Scotland to be a leading destination for inward investment that aligns with our values as a nation*". Our International Delivery Plan sets out our contribution to the National Strategy for Economic Contribution (NSET).

Trade and Inward Investment Delivery and Impact
In the year ending March 2024 (FY23/24), trade support we provided to companies across Scotland resulted in £2.15bn of planned international sales growth expected over the next 3 years, an increase of 24% on FY22/23 (£1.73bn). We have worked closely with Scottish exporters, successfully facilitating entry into almost 270 new markets, with over 300 products and services from Scotland launching in markets such as USA, Germany, United Arab Emirates, Spain, Australia, Japan and France.

In 23/24, our efforts in attracting inward investment delivered over 9000 Real Living Wage jobs, from 91 successful inward investment projects (7% increase from last year) and trade projects (primarily domestic jobs). The number of new jobs from new inward investment is the highest in the last 5 years, with 60% of all new jobs coming from the energy transition sector – demonstrating the scale of opportunity and potential transformational growth in this area.

Foreign Direct Investment (FDI) projects in Scotland have enjoyed continuous growth for the fourth consecutive year, increasing by 3.3%, against a background of total UK projects declining by 6.4%. Scotland now also holds a record UK market share of 13.6% of inward investment projects attracted by the UK. Encouragingly, when surveyed as part of the E&Y survey almost 70% of companies said they plan to invest in the UK in the next year, with 26% of these saying they will invest in Scotland. This represents a 7% increase in investor perception over the last year.

Opportunities for Growth – Trade
Team Scotland is working towards A Trading Nation's ambitious targets to increase international exports from 20% to 25% of GDP by 2029. Our role is to support companies to build capacity and capability to scale and access international markets to grow Scottish exports. We are focused on priority markets and the following priority sectors to drive the greatest impact:

- **Energy transition:** Key areas of international opportunity include offshore wind, marine (wave and tidal), low carbon heat (Including geothermal) hydrogen. With Scotland's world class subsea skills and expertise, Scottish exporters are securing opportunities within the global offshore wind sector in particular. The Global Wind Energy Council project 28% growth in Offshore wind in the next 5 years, with c.27GW of offshore wind expected to be built across the Globe as a result. Scottish companies are proving competitive in international offshore wind markets, with key successes in project management, surveys and marine services, and cables. Scotland also excels in the areas of design, operations and maintenance, installation and commissioning, and consultancy work, where we expect more wins to be secured in the coming years. Our focus is working with more companies in this sector and delivering bespoke products and services to ensure Scotland optimises this global opportunity, across multiple markets.

- **Consumer Industries:** There is significant demand for premium Scottish food and drink and luxury consumer goods in export markets, and the opportunity to drive up exports in this sector further across key markets. For example, drink remains Scotland's top export, accounting for around a fifth (22%) of the value of Scotland's international goods exports in the year ending March 2024. APAC is the largest region for Scotch whisky exports and one that provides tremendous growth opportunity, with Euromonitor predicting the whisky market in China will grow at around five times the rate seen globally. SE works in collaboration with the Scottish Government, the food and drink industry leadership body and 5 industry partners. This partnership co-funds a network of 12 in market food and drink specialists, helping connect exporters to the people and information they require to grow internationally and building a strong network of food and drink buyers and decision makers in priority markets. Since 2014 when the project was established, the value of Scottish food and drink exports has increased by 46%, from £4.9bn to £7.2bn in 2023. An example of this is Dean's of Huntly who anticipates export sales into the US of £5.6m over the next three years, with our trade support.

- **Science and Technology:** Scotland has key strengths and opportunities in Industrial Biotech, Fintech, Data and Digital, Life Sciences, Advanced manufacturing and Space. Scotland's life sciences sector alone has one of the largest clusters in Europe and our companies, universities and research centres have an international reputation for excellence. This ecosystem has been the foundation for a successful life sciences sector that makes a significant contribution to Scotland's economy and has ensured global success for its products and services. The most recent economic analysis (2024) shows the life sciences sector now contributes almost £10.5bn to the Scottish economy, with exports worth £4.3bn. The sector is forecast to continue growing much of this will be driven by increased exports. The Space industry is one of Scotland's fastest growing technology sectors, which can be largely attributed to the innovative and collaborative nature of the industry, focussing on the delivery of commercially driven solutions from space. Scotland has a larger manufacturing base than that of the UK and our company base is largely SMEs. The broad capability across several engineering and technology disciplines enables an agile and responsive approach to new market opportunities. Scotland's technology capabilities will also ensure that Scotland can gain from the economic opportunity the net zero transition represents. Companies such as Fennex and Home - KRUCIAL are examples of companies that are gaining international success overseas in this growing area of opportunity.

Opportunities for Growth - Inward Investment
Guided by the National Strategy for Economic Transformation (2022) and Scotland's Inward Investment Plan (2020) there are some key opportunities for the Inward Investment team: Energy transition, Decarbonisation of transport, Software and IT, Digital Financial/Digital Services, Space, Healthtech, Transformation of Chemical Industries and Food & Drink Innovation. Within these we work with both existing investors across the economy as well as proactively targeting companies within a smaller number of defined opportunities including:

- **Offshore Wind**: Our offshore wind resources, including ScotWind presents Scotland with a major proposition for inward investment. With 3.5GW of offshore wind already operational or under construction, 6.5GW in the pipeline and 27.6GW of Development Rights awarded, we are keen to build as much of the supply chain as possible here in Scotland.

- **Hydrogen**: Consistent with the Scottish Government's Hydrogen Action Plan to have up to 25GW of Hydrogen Production by 2045, we are working with potential inward investors to assist with this target, as well as marketing the opportunity to domestic companies including the transition from Oil and Gas.

- **Space:** The Scottish Government's Space Strategy (2021) sets out an ambitious target of creating up to 20,000 jobs and recognises the need for targeted inward investment as fundamental to helping to achieve this targeting specific capabilities. We have specific capabilities including launch, small satellite manufacturing and downstream data and analytics.

- **Fintech:** Financial Services is a cornerstone of the Scottish economy increasingly dependent on the application of technology to ensure both compliance/ regulation and to improve competitiveness/ efficiency. We target both innovative Fintech companies and engage with traditional Financial Services firms on in-house technology operations.

We will continue to target large and fast-growing international companies across priority opportunity areas to secure their presence in Scotland, building resilience and growth across our company-base, sectors and supply chain, and attract inward investors that share our values and support our vision for good, sustainable and well-paid jobs.

For example, XLCC, the UK's first High-Voltage Direct Current (HVDC) subsea cable manufacturer, is creating a dedicated training facility for its apprentices bringing jobs for the local community and wider investment as the area becomes a key hub for Net Zero.

Celestia a European satellite ground business, invested in Scotland's world-class space expertise and highly skilled talent pool to expand its R&D operations, and Smart Green Shipping chose Scotland's extensive maritime infrastructure, talent and innovative spirit as the deciding factors to locate its emission reduction technology.

We already have a strong track record as a partner in developing transformative projects across the country that support and encourage future investment. From Aberdeen Harbour – now the largest port in Scotland and critical to the energy sector transition, to the National Manufacturing Institute Scotland in Renfrewshire which is driving the future of manufacturing through innovation, to the Bioquarter in Edinburgh – a world-leading health innovation district.

As Scotland's national economic development agency, we will continue, alongside partners, to drive Scottish exports and look to develop transformative projects that allow us to build on Scotland's reputation for excellence, innovation, and encourage investment.

Yours sincerely,

REUBEN AITKEN
MANAGING DIRECTOR - Energy Transition and International Operations