



The Scottish Parliament
Pàrlamaid na h-Alba

Economy and Fair Work Committee

Kate Forbes MSP
Deputy First Minister and
Cabinet Secretary for Economy and Gaelic
Scottish Government

7 November 2025

Dear Kate

Pre budget 2026/27 Views

In anticipation of the Scottish Government budget, now due on 13 January, this letter sets out the Committee's views on spending and funding priorities and the key points from evidence that informed our views.

Growing the economy remains one of the Scottish Government's stated four overarching priorities alongside tackling the climate emergency. This Committee's spending priorities remain **supporting business, women's enterprise** and **workforce skills development**. Aligning the Scottish budget with these spending priorities will contribute to the conditions that support economic growth.

Last year, the Committee highlighted two key delivery barriers; the lack of multi-year funding and the need for housing to support jobs. This year, the Committee adds two further potential barriers; pace and consistency of digital upskilling and progress in adapting to new sustainable technologies. The Committee has commenced a short piece of work to consider the economic opportunities of AI for business in Scotland. This work is intended to inform the Scottish Government's work.

As the budget is finalised and anticipation of the Scottish Spending Review and updated Infrastructure Investment Plan, I trust this letter is helpful. The Committee looks forward to your response and then attendance to give evidence in the New Year.

Yours sincerely,

Daniel Johnson MSP
Convener

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Context

The aim of the Scottish Government's ten-year economic strategy (NSET) is to achieve a step change in Scotland's economic performance. The Scottish Government budget – equivalent to nearly 30% of onshore GDP - is one of the primary levers it can pull to deliver this.

Throughout 2025, Scotland's economic performance has been mixed. GDP growth has slowed overall, but this conceals varying performance by different sectors. The services and construction sectors have grown at their fastest pace since 2022, but manufacturing output has contracted. Nevertheless, the Committee is pleased that business optimism has increased, earnings growth continues to outpace inflation, and Scotland remains the UK's top destination for inward investment outside London.

The Cabinet Secretary for Economy and Gaelic's portfolio budget (£1.3bn in 2025-26) is one of the more capital-intensive. Amongst other things, it funds City Region and Growth Deals, Scotland's enterprise agencies and capitalising the Scottish National Investment Bank.

The UK Government's Autumn budget will take place later this month from which there are likely to be UK-wide changes that affect Scottish business. Scotland's Barnett consequential will be confirmed after the UK budget.

The 2025/26 budget for the economic development agencies was:

£ million	Resource budget	Capital budget
SNIB	-	200.0
Scottish Enterprise	132.4	90.1
Highland and Islands Enterprise	28.0	25.2
South of Scotland Enterprise	14.4	14.1
VisitScotland	38.8	2.3

Evidence sessions

This Autumn, the Committee took evidence from the Scottish National Investment Bank (SNIB), the enterprise agencies and VisitScotland. These are the key public spending bodies this Committee has responsibility for scrutinising. Earlier this year, the Committee held evidence sessions on Scotland's skills development landscape and on productivity and regional inequalities.

SNIB has a funding commitment from the Scottish Government of £2bn over 10 years. Its three missions, set by the Scottish Government, are net zero, place-based development and innovation. These focus SNIB's activities and investment strategy intended to create inclusive, long-term economic growth. SNIB told the Committee

that investment in housing was an important element of its place-based mission, it had investor interest in housing across multiple tenures and is working on a number of initiatives.

Key points from SNIB's most recent accounts are that income has increased to £34.5m, more than double its operating costs, £785m in investments has been made since its launch in 2020, crowding in £1.4b from partners, £145.1m was committed during 2024/25 (down 35.4% compared to 2023/24). SNIB recorded an unrealised loss of £76.9m due to the drop in value of investments held. SNIB's current leverage ratio is 1:1.75, a figure it hopes to improve on with increased focus on work with institutional investors, including local government pension schemes. The Committee notes that SNIB, in contrast to the National Wealth Fund, is not permitted to invest into, or alongside, local authorities. Instead, it is creating joint venture companies with the private sector and local authorities.

SNIB's investment portfolio now consists of 43 businesses, however distribution of investment funding remains concentrated in the central belt. This raises questions about regional equity. The Committee also notes that female-led companies only receive a small share of the investment funds available; 4.2% of available investment in 2024. The Committee is pleased that SNIB has a good pipeline of investment opportunities however SNIB told the Committee it has seen evidence of a "significant sliding rightwards" in economic activity related to net zero and a lack of co-investor appetite, due to concerns around broader growth and stability.

SNIB's recent Financial Conduct Authority accreditation is welcome, however SNIB remains reliant on capital received from the Scottish Government. To enable it to raise third party capital, beyond receiving FCA accreditation, it requires a track record. Related to that, is the aim of becoming a perpetual capital institution. As regularly noted, UK Treasury rules prevent SNIB from retaining and re-investing its investment returns or carrying forward unspent capital, but SNIB does now have some flexibility to manage investments at year end. This is to £25m, from the Scottish Reserve.

Parliament's intention was for SNIB to function as a perpetual fund, however public capital funding will continue to be required until the UK Treasury restriction is resolved. SNIB is now on a working group with HMT representatives with a view to demonstrating compliance with new public finance institution framework criteria. But the Committee is disappointed that there has been little progress on perpetual fund status, since this time last year. The Committee will write to HM Treasury about this.

Enterprise agencies

Budgets for Scotland's enterprise agencies have reduced over the last two cycles. This has meant reduced spending power, a need to be more efficient and a greater reliance on other sources of income. The context is the public service reform agenda which requires public bodies, including enterprise agencies, to find efficiency savings, share more back-office functions, exercise pay restraint and reduce their workforces. The Committee welcomes this as having prompted a refocus of enterprise agencies' priorities to better align operations with NSET economic objectives. Scottish Enterprise (SE) stated that it now focuses on activities that will accelerate the energy transition, scale innovation and boost capital investment. SE

also leads the Grangemouth Investment Taskforce on behalf of the Scottish Government, UK Government, Office for Investment, SNIB and the National Wealth Fund.

At the time of last year's pre-budget letter, the Committee sought a progress report from the Scottish Government on improving inter-agency collaboration on common functions and reforming the delivery of economic development support. In your response of December, you advised that an exercise was underway to understand the systems landscape in each organisation and the potential for moving towards more shared systems. During the recent evidence session with SE, the Committee asked again about shared services. SE mentioned existing information systems and a shared audit service, but the Committee was surprised that no further areas had been identified.

Also last year, you advised that the Scottish Government was developing a comprehensive programme to align economic development infrastructure and support mechanisms with best practices from leading European economies. The priorities identified for this work were the design of an efficient and streamlined model for business support, more focus on strategic priorities and measurable returns on investment, revenue-raising reform and structural reform to clarify the roles of different partners and ensure better co-ordination. The Committee is keen to understand the stage that programme is at now.

The Committee asked SE what the distinction is between its work and that of SNIB. SE advised that it provides early-stage support that can create a pipeline of investments that go on to access SNIB or other funding. SE stated that it provides support to companies to trade internationally whereas SNIB is focussed on scale-up funding.

The Committee also questioned SE about the sectors and types of business that feel unable to access SE support. For example, Ceteris which runs the Business Gateway contract for Clackmannanshire, has expressed frustration that some small successful businesses that have outgrown Business Gateway have not been able to secure SE support. In response, SE said it supported companies that are innovating, scaling and growing internationally but, as a national economic development agency, it does not look to replicate its function across Scotland, although it works with regional partners. SE pointed to the business support portal where, in its view, there is plenty of available support. The Committee is concerned that there may be a gap in the business support available from SE, SNIB and Business Gateway.

The Committee asked all the enterprise agencies about their impact, value for money and additionality. In particular, the Committee questioned HIE's statement that it had achieved an average increase in productivity of 54 per cent. The Committee noted that most of the enterprise agencies' headline performance targets had been met or exceeded, although SOSE missed 2024-25 performance targets on some key measures such as value of funding leveraged, value of inward investment opportunities secured, and number of jobs supported. SOSE advised this was due to targets having been set from a low evidence base and that these had since been reviewed. The Committee was advised that work is underway on shared metrics as it had been accepted that there were some anomalies and large inward investments / projects had skewed the stats. The Committee is of the view that there remain

questions about how enterprise agency targets are being set, how appropriate they are and the process whereby performance is measured and reviewed, including those relating to value added and additionality.

Tourism and Hospitality

The Committee also recently took evidence from industry leaders in the hospitality and tourism sectors. The Committee recognises that Scotland's tourism sector is key due to the economic activity generated and the number of jobs supported. Those sectors have the potential to deliver increased productivity and growth. The Committee welcomes that in Q1 2025, Scotland saw an increase in trips, number of nights and spend by people visiting Scotland, compared to the same period in 2024.

However, business concerns about the introduction of the visitor levy cannot be ignored. The Committee has written to the Minister for Public Finance emphasising the importance for the tourism and hospitality sectors of clarity on plans for the levy and timescales for next steps. The Committee awaits the Minister's response.

Women's Enterprise

This Committee regularly asks about the availability of gender-disaggregated data on women's business activity. In December 2022, the then Deputy First Minister said he expected Ana Stewart's review to make recommendations on the collection and reporting of gender-disaggregated data on women's activities in business and access to and uptake of finance and business support. Next steps were to be considered once the review had published.

The Pathways review report did make recommendations about data collection. It recommended that a disaggregated common database should be made accessible to stakeholders within the entrepreneurial ecosystem. The database should combine both public and private sector entrepreneurship/ start-up statistics and be capable of disaggregating data, at least by gender and ethnicity dimensions. The review also recommended that there should be a requirement for organisations receiving financial assistance, and those in co-participation arrangements involving public money, to make data available to this platform. The review also concluded that the Scottish Government should publish an annual analysis of entrepreneurship participation trends, disaggregated by gender and ethnicity dimensions.

In response, the Scottish Government said it would work with delivery and academic partners to improve data collection and develop a dashboard of measures to show how women were supported by business support systems, the actions taken to close the gender gap and to widen participation in entrepreneurship. The Committee notes that the envisaged disaggregated data is still not publicly available.

Workforce Skills development

Concerns about Scotland's skills pipeline and the reduction in workplace learning have featured in much of this Committee's inquiry work. Earlier this year, the Committee took evidence over five meetings from employers and stakeholders to consider progress since the Withers Review and further actions needed to meet

industry demand for skills in Scotland, including green skills. Following this, the Committee wrote to the Minister for Higher and Further Education.

Amongst other things, the Committee asked what actions were being taken to improve provision for older learners to retrain, to address concerns about capacity and flexibility of colleges and others to respond to business need and to make it easier for SMEs to take on more apprentices, for example using a shared apprenticeship model. The Committee also asked the Scottish Government how it would ensure that industry and employers continued to be central to the apprenticeship system. The Committee emphasised that despite significant demand for skills, spending by employers had reduced and it was vital that there should be effective action from both the Scottish Government and employers to reverse this trend.

During the Committee's recent evidence session with you, we were pleased to hear that SDS has recently produced a regionally based, industry-led audit of future skills requirements. At the time of writing, the Committee notes this is still to be launched. The Committee seeks your assurance that investment in employability support and skills development will be demonstrably prioritised in the next budget.

Just Transition Fund

The government has committed £500 million over ten years for the North East and Moray. Previously, the Committee called for this to be a mix of revenue and capital funding to support capacity-building in communities. The Committee notes the independent evaluation of the Fund published in July 2025. The evaluation found that over the first two years of the Fund, £43m had been disbursed and a further £30m private sector funding had been leveraged. The Fund had helped create 110 jobs and safeguard 120 – around £187,000 per job created or safeguarded.

Many projects supported by the Fund are early stage and long-term. The evaluation made 16 recommendations, centred around four themes: strengthening the Fund's administration and disbursement, expanding community and social engagement, supporting workforce transition and skills development and advancing environmental and economic diversification.

These recommendations align with those of the Committee in its report on a Just Transition Inquiry for the North East and Moray. Our recommendations included multi-year funding cycles, clearer and measurable outcomes for the Fund and increased support for community-led initiatives. The Committee seeks confirmation of how the Scottish budget will reflect these.

Consumer Scotland

The Committee recently held a scrutiny session with Consumer Scotland and was disappointed that the 2024-25 annual report had not yet been published. The Committee has requested further information from Consumer Scotland on its activities, performance and impact. The Committee is unclear about Consumer Scotland's focus, what its intended outcomes are and how these are being communicated.

Committee conclusions and recommendations

The Committee notes that little progress has been made towards the objective of SNIB being able to recycle capital as a perpetual fund and as a result SNIB remains wholly reliant on Scottish Government capital funding. What recent discussions has the Scottish Government had with HM Treasury about this?

The Committee notes the capital funding received by SNIB and its current leverage ratio. Looking ahead, the Committee would like to see clear evidence of SNIB's leverage ratio increasing.

The Committee notes that SNIB is keen to work on joint development with local authority pension funds, an example of this could be in the delivery of housing. The Committee recommends that efforts to explore this be accelerated.

The Committee would be grateful for confirmation of the Scottish Government's continued commitment to £200bn over ten years capitalisation of SNIB and that the budget for 2026/27 will include a further £200m.

The Committee acknowledges the enterprise agencies' positive contribution to Scotland's economic development. Nevertheless, the Committee is of the view that there are gaps in the provision of business support, particularly for businesses looking to scale-up.

The Committee has a longstanding interest in scrutinising the outcomes that the enterprise agencies deliver in return for the around £300m of annual funding received. The Committee believes that more should be done to ensure performance targets have a clear rationale, that outcome measures provide stronger evidence of additionality and are subject to greater independent scrutiny. The Committee seeks assurance on how the enterprise agencies ensure the outcomes they deliver are additional.

Improving the economy's productivity performance is one of Scottish Enterprise's missions and the Committee notes that it is using AI to find companies it has not worked with but that have the potential to increase productivity. The Committee asked for more information from SE on this and their criteria for businesses receiving funding to improve their productivity.

The Committee asks the Scottish Government for an update on how the Pathways review recommendations are being implemented and asks the Scottish Government to set out how the budget will facilitate this. The Committee notes that the disaggregated data envisaged in the review is not yet available.

The Committee seeks your assurance that investment in employability support and skills development will be demonstrably prioritised in the next budget.

On the Just Transition Fund, the Committee asks the Scottish Government what the Fund's expected outcomes are and how the Fund fits with the wider strategy for North East and Moray's transition to net zero. Considering last

year's budget allocation of £16m, the Committee seeks confirmation that the Scottish Government's commitment to £500m over 10 years for the Just Transition Fund still stands.

Finally, as already noted, the budget is one of the primary Scottish Government levers it can pull to deliver NSET, the ten-year economic strategy and bring about a step change in Scotland's economic performance. The Committee draws the Scottish Government's attention to the evidence it took in May from the IFS, the Resolution Foundation and the Productivity Institute. The Committee was told that NSET could be clearer on what was being prioritised, it could have a clearer regional focus and metrics were described as "disparate". Two omissions, within devolved competency, from NSET were noted; a focus on intermediate skills (specifically whether the acquisition of skills by those between high school and university levels was being addressed) and how the Scottish Government's tax policy supports NSET. The Scottish Government is asked to respond to these observations.