Economy and Fair Work Committee
Wednesday 8 January 2025
1st Meeting, 2025 (Session 6)

Scottish Government Budget 2025/26
Note by the Clerk

Background

1. The Committee will consider the Scottish Government's response to its pre-budget letter and take evidence on the Scottish Government's budget for 2025/26 published on 4 December.

2. In a letter to the Finance and Public Administration Committee, the Cabinet Secretary for Finance and Local Government set out a draft timeline for the Budget Bill. The all-committee debate on the Bill is expected to take place on Thursday 30 January, with the stage 1 debate on the Bill the following week (4 February), both subject to Parliamentary approval).

Pre-budget scrutiny

3. The Committee's agreed focus for pre-budget scrutiny was Scottish National Investment Bank (SNIB), the enterprise agencies, and VisitScotland. The Committee took evidence from Highlands and Islands Enterprise, South of Scotland Enterprise, and Visit Scotland on 11 September 2024, and from Scottish Enterprise and SNIB on 25 September 2024.

4. Following these sessions, the Committee wrote to the Deputy First Minister and Cabinet Secretary for Economy and Gaelic on 6 November 2024 with its pre-budget views. The letter is included at **Annexe A**.

5. The Deputy First Minister and Cabinet Secretary for Economy and Gaelic's response to the Committee's letter is included at **Annexe B**.

Witnesses

6. Today, the Committee will hear from—

   - Kate Forbes, Deputy First Minister and Cabinet Secretary for Economy and Gaelic;
   - Colin Cook, Director of Economic Development;
   - Marcus McPhillips, Deputy Director, Economic Strategy and Delivery Unit; and
   - Kathleen Swift, Head of DG Economy Finance Unit, Scottish Government.

Clerks to the Committee
December 2024

The Scottish Parliament
Pàrlamaid na h-Alba

Economy and Fair Work Committee

Kate Forbes
Deputy First Minister
and Cabinet Secretary for Economy and Gaelic

6 November 2024

Dear Kate,

Economy and Fair Work Committee pre-budget 2025-26 views

In advance of the proposed budget for 2025-26 coming forward next month, please find attached a summary of evidence received by the Committee and our views on spending and associated issues for the coming financial year.

Our pre-budget letter last year emphasised three areas where Scottish Government spend should be maintained: **support for business, support for women's enterprise** and **skills development.** These remain priorities for this Committee. This year, key barriers to delivery were highlighted to the Committee including **the lack of multi-year funding and the availability of housing to support jobs**.

The Committee notes that this year's Programme for Government aims to deliver in four main areas: eradicating child poverty, growing the economy, tackling the climate emergency and ensuring high quality and sustainable public services. Sufficient and effectively deployed capital spend will be essential to meet ambitions for economic growth, net zero and public service delivery.

Attracting and accelerating investment is a key aim of NSET. There are clear opportunities for Scotland's economy from public and private investment in infrastructure, housing, transport, innovation and workforce skills to support economic growth and wellbeing.

Given their roles in supporting economic and business growth, the Committee agreed this year's pre-budget focus would be Scottish National Investment Bank, the enterprise agencies and VisitScotland.

This letter also follows-up points made in the Committee's last pre-budget letter and the Scottish Government responses to them.

I look forward to receiving your response to this Committee's pre-budget views, and to taking evidence from you early in the New Year.

Kind regards

Claire Baker MSP
Convener

Context

Scotland's economy (in common with the rest of the UK and other similar countries) has seen a sustained period of low growth and productivity against a backdrop of rising costs. There have been increased fiscal constraints for governments and households. Scottish Government capital spend funds City Region and Growth Deals, the enterprise agencies and capitalising SNIB. The majority of the Scottish Government's capital budget comes from the UK Government's Block Grant. One source of capital funding is Financial Transactions (FTs), also from the UK Government, for the purposes of equity or loan finance to private enterprises.

The new UK Government recently published its budget. Barnett consequentials have yet to be confirmed by the Scottish Government, but the UK Budget document notes that an additional £3.4 billion will be added to the Scottish budgetary envelope in 2025-26 (£2.8 billion in resource spending and £600 million in capital spending). At the time of writing, the extent of additional consequentials to compensate the devolved public sector for the increased cost of employer National Insurance contributions was unclear. The Committee asks the Scottish Government for clarification on this point as soon as this is available.

Evidence received

The Committee took evidence from SNIB, the enterprise agencies and VisitScotland, during September and October.

Their 2024-25 budget allocations were as follows.

£ million	Resource spending	Capital spending
SNIB	3.11	174
SE	131.8	79
HIE	27.9	23.2
SOSE	14.3	13
VisitScotland	38.6	5.2

Note that SNIB's capital funding consisted entirely of financial transactions.

Both Scottish Enterprise (SE) and SNIB rely heavily on capital funding. Most of SE's early-stage investment work has been funded through FTs. SE said there were no current demands on its capital budget that could not be met, but the position could change next year due to the inward investment pipeline and pace required. It said it would be helpful to have sight over future years' budgets and allocations.

SNIB has a commitment from the Scottish Government for £2 billion over 10 years. FTs have been SNIB's primary capital source. To date, SNIB has committed £650 million and continues to work on the basis that the full £2 billion capitalisation will be received. At the 2024-25 Budget, the Scottish Government assumed no further FT funding in the Block Grant beyond 2024-25, particularly significant for SNIB. The recent UK Budget did not provide any additional Barnett consequentials for FTs. SNIB told the Committee that this year's reduced budget had restricted its ability to invest, slowed pace and caused investment criteria to be tightened. SNIB said further cuts would impact its ability to crowd-in private capital and make a return on investment sufficient to cover its operating costs and that self-sustainability was at a critical point.

SNIB also called for a multi-year settlement to provide more certainty and pointed to a mismatch between annual settlements and the drawdown profiles of its investment commitments.

HIE and SOSE budgets are also capital-intensive; neither has had FT funding this year. HIE said other funding streams were becoming available, and it hoped to receive monies from offshore wind allocations. HIE and SOSE said short-term funding settlements had caused uncertainty and had hampered work. For example, HIE had not been able to support the Sumitomo project from its own budget. It envisaged being in that position more frequently, given budget constraints. HIE highlighted the contrast between capital crowded-in for large-scale renewables projects and capital available for SMEs.

On resource funding, SE suggested that any further reduction would mean only just being able to cover fixed costs, such as salaries and diligence on investments. Further efficiencies would be difficult, and it may need to consider stopping some activities it was legally obliged to undertake. HIE said resource funding reductions meant it was no longer able to provide revenue funding to support large capital projects, something it did previously. It also said it was now doing less evaluation of programme effectiveness.

With regard to VisitScotland, a strategic change programme is underway, including disposal of the iCentre network over the next two years, ending the Quality Assurance schemes for tourism and business events and taking forward a digital-first approach. In September, the Scottish Government confirmed in-year reductions of £0.8m to VisitScotland's marketing budget. VisitScotland told the Committee this in-year reduction had meant it was unable to carry out certain activities during the rest of this year, in particular paid activity, relying instead on in-house resource. It had scaled back activity in growth markets such as Canada, Australia, and China to focus on the core markets of the US, UK, France, and Germany. VisitScotland pointed to the competitive environment in which it operates, and the marketing spend of Ireland, its nearest competitor.

Committee conclusions and recommendations

Give the difficulties caused by short-term funding settlements, the Committee asks the Scottish Government to look further at the possibility of multi-year funding to allow for longer-term planning.

The Committee is supportive of SNIB and its work and recognises that until now it has been heavily reliant on capitalisation from financial transactions. The Committee asks the Scottish Government to confirm how it proposes to capitalise SNIB in future.

The Committee is aware that discussions continue about accounting rules that place restrictions on SNIB's ability to reinvest proceeds. SNIB has said that unless a solution is found, it will always be dependent on state funding, contrary to Parliament's intention. The Committee believes it is imperative that a solution is found. The Scottish Government is asked to set out how it will progress this.

SNIB continues to seek authorisation from the Financial Conduct Authority to manage third party capital alongside capital from the Scottish Government. In June 2023, SNIB told the Committee that its application was "being actively looked at". SNIB recently highlighted the importance of receiving FCA authorisation to enable it to directly allocate private capital to projects it finances, alongside the capital it receives from the Scottish Government.

The Scottish Government is asked what assistance it is providing with efforts to secure necessary authorisation.

The Committee was previously advised of discussions between enterprise agencies to identify potential opportunities for greater interagency collaboration on common functions. Given current funding constraints, the Committee believes this work is vital. The Scottish Government is asked for a progress update on this work and how next year's budget will support efforts in this area.

The Committee was also advised last year that work was underway to reform delivery of economic development support in Scotland, including considering of the role of the Scottish Government, enterprise agencies and other partners. The Committee would be grateful for an update on this work and how next year's budget will support this work.

The Withers review recommended that enterprise agencies should take responsibility for supporting businesses with skills and workforce planning. This would require enterprise agencies to broaden their approach. Given the importance of an appropriately skilled workforce to Scotland's economy, the Committee calls for skills development and workforce planning to be sufficiently funded to enable this vital work to be undertaken at a scale and pace required. What is the Scottish Government's current thinking on the recommendation that enterprise agencies taken on the responsibility for supporting businesses? To what extent will next year's budget support and resource changes to the skills development and delivery landscape?

In the report following its Town Centre and Retail inquiry, the Committee highlighted the importance of support to businesses to build digital capabilities. The Committee asks the Scottish Government to make clear in next year's budget the specific provisions intended to deliver this support and what outcomes this spend is expected to achieve.

The Programme for Government pledges to implement key recommendations from Ana Stewart and Mark Logan's review of gender equality in entrepreneurship. The Committee again requests that the Scottish Government disaggregates monies for women's business support in the budget, sets out what the monies will be used for and confirms the size and profile of the Pathways Fund.

The Scottish Government has said it remains committed to the £500 million 10-year Just Transition Fund programme for the North East and Moray. In its inquiry report, the Committee queried the Fund's future sustainability and asked the Scottish Government to look further at the possibility of multi-year funding to allow for longer-term planning. The Committee also called for a mix of sustained revenue and capital funding for the Fund, with sufficient revenue to support capacity-building in communities and to ensure small businesses and community-based initiatives could be supported. The Committee requests that next year's budget makes this provision.

Tourism is vital to Scotland's economy and sustainable tourism has been identified by the Scottish Government as a growth sector, with comparative advantage and potential to deliver increased productivity and growth. The Committee recognises that the impact of removing VisitScotland marketing campaigns, due to funding withdrawal is felt immediately.

The Committee has previously called on the Scottish Government to protect VisitScotland's international promotional spend and was disappointed with this year's in-year budget cut. The Committee would be concerned to see further cuts to the VisitScotland budget.

The Committee recently completed an inquiry into the disability employment gap highlighting that budget cuts had strained employability resources and contributed to funding delays for local authorities. This had impacted on service delivery. The Committee expects next year's budget to re-prioritise employability spend.

SE told the Committee it makes a return of £25 gross value added for every £1 invested. HIE estimated that tax revenue generated over three years was two and half times its budget. The Committee notes this but emphasises that particularly in times of tight financial settlements, it is critical to be able to evidence what is being achieved by public investment and expenditure.

Being able to evidence what is achieved by public funding will be important for measuring the success of the Scottish Government's National Strategy for Economic Transformation. The Auditor General for Scotland has said there should be a clear link between NSET and the budget, with NSET driving budget decisions across Government. The Committee calls for more coherence across Scottish Government portfolios and expects to see much clearer links between NSET and all other Scottish Government strategies and the Scottish Government's budget documents.

Contact: Economy and Fair Work Committee, The Scottish Parliament, Edinburgh, EH99 1SP. Email: economyandfairwork.committee@parliament.scot. We welcome calls through Relay UK and in BSL through Contact Scotland BSL.

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Colin Smyth MSP,
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04 December 2024

Dear Colin,

Economy and Fair Work Committee pre-budget 2025-26 views

Thank you for the Committee's letter dated 6 November 2024 to share your views in relation to the Scottish Budget 2025-26. This summarised the evidence you received and highlighted key issues for the coming financial year; I note your continued focus on support for business, support for women's enterprise and skills development, and your new focus on the importance of multi-year funding and the availability of housing to support jobs.

Please find within the Annex to this letter responses to the questions and requests for information raised within your report. I trust you will find this information useful. I would also like to take this opportunity to thank the outgoing convener Claire Baker MSP and the Committee for their recommendations shared as part of the pre-budget scrutiny work. I look forward to engaging with you further on these when I give evidence in January.

Yours sincerely,

KATE FORBES

ANNEX

1. **At the time of writing, the extent of additional consequentials to compensate the devolved public sector for the increased cost of employer National Insurance contributions was unclear. The Committee asks the Scottish Government for clarification on this point as soon as this is available.**

The UK Government Budget still leaves us facing significant cost pressures going forwards. The great unknown is the impact of the increase in employer National Insurance contributions. We estimate this change could add around £500 million in costs for the public sector unless it is fully reimbursed. We have a range of public sector employers, including the NHS, police and local authorities, who need clarity on this to inform their spending decisions.

The Treasury must fully fund the actual costs for Scotland's public sector, and not just give a much lower value Barnett share of spending in England. This funding must also recognise the full extent of organisations delivering public services, including GPs and dentists. Given the potential impact for charities, the health sector and businesses, the UK Government should have looked across the range of tax powers at their disposal before pushing through this increase to employer NICs.

The Cabinet Secretary for Finance and Local Government has written to the Treasury seeking urgent clarification on these issues and discussions with the Treasury are ongoing.

2. **Given the difficulties caused by short-term funding settlements, the Committee asks the Scottish Government to look further at the possibility of multi-year funding to allow for longer-term planning.**

We intend to publish the 2025 Medium Term Fiscal Strategy (MTFS) after the conclusion of the UK Government's multi-year spending review, due to conclude in Spring 2025. Our 2025 MTFS will be accompanied by a five-year fiscal sustainability delivery plan which will outline the specific actions being undertaken under each of the three pillars to deliver sustainable finances. The Delivery Plan will build off the opportunity we have with the upcoming UK Spending Review, and could help support a future Scottish Government Spending Review.
The Scottish Government is currently reviewing its options for a Scottish Spending Review and will update Parliament in due course

3. **The Committee is supportive of SNIB and its work and recognises that until now it has been heavily reliant on capitalisation from financial transactions. The Committee asks the Scottish Government to confirm how it proposes to capitalise SNIB in future.**

To date, the Scottish National Investment Bank has been wholly capitalised through Financial Transactions (FTs). Although the future of FT allocations from the UK Government remains uncertain, we have been able to allocate £167m of FTs to the Bank *for 2025/26 and a further £33m in CDEL. As part of future budget processes, we will consider the most appropriate way to continue the capitalisation of the Bank.*

4. **The Committee is aware that discussions continue about accounting rules that place restrictions on SNIB's ability to reinvest proceeds. SNIB has said that unless a solution is found, it will always be dependent on state funding, contrary to Parliament's intention. The Committee believes it is imperative that a solution is found. The Scottish Government is asked to set out how it will progress this.**

The Scottish Government notes the Committee's interest in this issue and notes the interaction between the Bank's ability to reinvest gains and its long-term financial strategy. When the Bank was set up, the Scottish Government approached the UK Government seeking a derogation from the rules which control spending by non-departmental public bodies, but this request was declined. The Scottish Government is working with SNIB to identify solutions that are within the gift of Scottish Ministers and aligned with the Scottish Public Finance Manual.

The Scottish Government is also now engaging with the UK Government regarding the arrangements that are being designed for the UK National Wealth Fund which will face similar challenges to SNIB, it is hoped these discussions might yield some solutions which can also be applied to SNIB.

5. **SNIB continues to seek authorisation from the Financial Conduct Authority to manage third party capital alongside capital from the Scottish Government. In June 2023, SNIB told the Committee that its application was "being actively looked at". SNIB recently highlighted the importance of receiving FCA authorisation to enable it to directly allocate private capital to projects it finances, alongside the capital it receives from the Scottish Government. The Scottish Government is asked what assistance it is providing with efforts to secure necessary authorisation.**

The Bank is leading the application process and Scottish Government has provided input as and when required. In July 2022, as the Bank's sole shareholder, Scottish Government provided a letter to the FCA to support the Bank's application. In November 2024, Scottish Government agreed to the Bank's request to increase the minimum amount of cash the Bank can hold from £3.5m to £5m to meet the FCA's regulatory capital requirements. We stand ready to provide further assistance as and when it is required.

6. **The Committee was previously advised of discussions between enterprise agencies to identify potential opportunities for greater interagency collaboration on common functions. Given current funding constraints, the Committee believes this work is vital. The Scottish Government is asked for a progress update on this work and how next year's budget will support efforts in this area.**

The enterprise agencies are identifying opportunities for greater interagency collaboration on common functions. For example, they continue to work together and with Skills Development Scotland on the Enterprise Information Systems (EIS) shared service. A recent strategic review recommended further alignment of core systems and that the shared services seek potential new partners. An exercise is currently underway to understand the systems landscape in each organisation and the potential for moving towards more shared systems.

The Business Support Partnership (BSP) has delivered the [Find Business Support] website and created a Master Customer Record which is in the final stage of development and will provide enhanced data and a single 360-degree view of every business in Scotland. BSP partners are working together to identify opportunities to accelerate progress through the use of data to target priority areas to stimulate and support growth and drive better customer experience and outcomes.

The Scottish Government agrees with the Committee's assessment that interagency collaboration on common functions is vital and will continue to work with the agencies to support further progress as part of Public Service Reform activity.

7. **The Committee was also advised last year that work was underway to reform delivery of economic development support in Scotland, including considering of the role of the Scottish Government, enterprise agencies and other partners. The Committee would be grateful for an update on this work and how next year's budget will support this work.**

The Scottish Government is currently developing a comprehensive programme to reform economic development support in Scotland, working in partnership with our enterprise agencies and other key stakeholders.

The aim of this reform programme is to ensure that Scotland's economic development infrastructure and support mechanisms are aligned with best practices from leading European economies, both in terms of impact and efficiency.

Our three key priorities for this work are:

1. ***Business Support Reform**: Designing a more efficient and streamlined model for delivering business support, with an enhanced use of technology and AI, and a sharper focus on strategic priorities and measurable return on investment.*
2. ***Revenue-Raising Reform**: Establishing a self-sustaining model for supporting entrepreneurship and innovation, centred around our universities. This includes increasing flexibility for agencies to reinvest returns and ensure long-term sustainability.*
3. ***Structural Reform**: Strengthening accountability and oversight across the economic development system, ensuring that support and investment align with government priorities. This will clarify the roles of different partner organisations,*

including the Scottish Government, and ensure better coordination for a more effective system.

The reform programme is expected to be implemented within existing funding levels, with a small allocation for a CivTech project focused on the reform of business support.

8. **The Withers review recommended that enterprise agencies should take responsibility for supporting businesses with skills and workforce planning. This would require enterprise agencies to broaden their approach. Given the importance of an appropriately skilled workforce to Scotland's economy, the Committee calls for skills development and workforce planning to be sufficiently funded to enable this vital work to be undertaken at a scale and pace required. What is the Scottish Government's current thinking on the recommendation that enterprise agencies take on the responsibility for supporting businesses?**

This recommendation will be considered as part of the post school education and skills reform programme. This will involve work to map the services that are currently provided to support employers with workforce planning, consider how they sit within the wider business support landscape and develop and agree any changes to current services and structures.

To what extent will next year's budget support and resource changes to the skills development and delivery landscape?

The Scottish Government continues to face the most challenging financial situation since devolution, as a result of unprecedented economic pressures following the pandemic and the cost of living crisis. Despite the financial constraints, the Government continues to focus on building a more inclusive Scotland for all, investing in services and support that will help our communities during these difficult times.

During this period Scottish Government will continue to maintain their strong commitment to funding and supporting colleges, and students. Despite continuing financial challenges, the 2025-26 Budget invests over £2bn in post school education, supporting the delivery of high-quality education, training, and research. This includes important increases in resource funding to both the university and college sectors.

This will maintain Scotland's reputation for world leading research, provide vital financial assistance to students to support them in completing their studies in the face of significant cost of living pressures, and provide opportunities for our young people to have access to skills and learning opportunities that enable them to successfully enter the world of work. It will also support adult learners, including parents, to enter, sustain and progress in work, which is critical to our mission of eradicating child poverty.

Next year's budget will also support and resource changes to the skills development and delivery landscape. Our programme of reform includes leading a new national approach to skills planning, reform of the education and skills funding system so it is easier to navigate and more responsive to learners and skills priorities and improving careers support.

9. **In the report following its Town Centre and Retail inquiry, the Committee highlighted the importance of support to businesses to build digital capabilities. The Committee asks the Scottish Government to make clear in next year's budget the specific provisions intended to deliver this support and what outcomes this spend is expected to achieve.**

As confirmed in the letter from Mr Arthur, Minister for Employment and Investment, on 24 October the support delivered through the four named schemes related to 'DigitalBoost' remains on pause.

It may be helpful to explain that the DigitalBoost programme was a £1.6m programme that operated on a relatively small scale compared to the very substantial range of programmes, institutions and funding opportunities that exist across the broader public sector to support businesses to digitalise and innovate. Examples include:

- *The £16m national Business Gateway programme which provides advice and grants on all aspects of business development, including digitalisation.*
- *The £10m Techscaler programme which provides promising start-ups with world class commercial education and mentorship.*
- *The innovation centre programme funded by the Scottish Funding Council which supports skills and business innovation across domains such as digital health, data and AI.*
- *Institutions such as the National Robotarium, the National Manufacturing Institute for Scotland and the Medicines Manufacturing Innovation Centre which provide support for businesses to innovate with cutting edge technologies.*
- *Funding programmes such as Scottish Edge and the broader funding schemes offered by local authorities and enterprise agencies, all of which can be used by businesses to invest in digital innovation.*

10. **The Programme for Government pledges to implement key recommendations from Ana Stewart and Mark Logan's review of gender equality in entrepreneurship. The Committee again requests that the Scottish Government disaggregates monies for women's business support in the budget, sets out what the monies will be used for and confirms the size and profile of the Pathways Fund.**

This is a Budget which puts money behind our PfG commitments on entrepreneurship and innovation, substantially increasing total funding to £34.7m.

We are expanding funding for the Enterprise Package by £15 million to expand support for female entrepreneurs, boost the economic impact of universities, and funding the development of business clusters in advanced manufacturing and deeptech.

While the Budget document includes this full package within the same line, this £15m package will include at least £4m for Pathways. Having received starting funding of around £1.1m in 2024-25, this is a significant uplift for this important support.

11. **The Scottish Government has said it remains committed to the £500 million 10-year Just Transition Fund programme for the North East and Moray. In its inquiry report, the Committee queried the Fund's future sustainability and asked the Scottish Government to look further at the possibility of multi-year funding to allow for longer-term planning. The Committee also called for a mix of sustained revenue and capital funding for the Fund, with sufficient revenue to support capacity-building in communities and to ensure small businesses and community-based initiatives could be supported. The Committee requests that next year's budget makes this provision.**

The Just Transition Fund will receive a capital budget allocation of £15.9 million for the 2025-26 financial year, as well as £1m resource. This will allow us to complete ongoing projects and open a new bidding round, as well as continue our commitment of £1 million to the Fund's existing participatory budgeting programme.

Through the Just Transition Fund for the North East and Moray, the Scottish Government has already allocated £75 million since 2022, supporting projects and communities across the region to create jobs, support innovation, and secure the highly skilled workforce of the future.

This includes the successful allocation of £25 million in FY 2023-24 from the Just Transition Fund to the Scottish National Investment Bank, to be invested in the region on a commercial basis in line with the Bank's Investment Strategy and key missions, including to support a just transition to net zero. The Bank have used this allocation of financial transitions to co-invest on 3 projects which will help accelerate just transition in the region through training and upskilling and investments in low carbon technology.

Alongside this allocation, we remain focused on maximising the impact of the projects supported by our investments in the region to deliver benefits for businesses and communities. This includes the provision of direct support to communities through our Participatory Budgeting Fund which we will continue every year over the lifetime of this parliament. We are also supporting businesses and the energy supply chain through our Energy Transition Challenge Fund, funding research designed to enable the offshore production of green hydrogen and supporting construction of a Just Transition Hub with a focus on land use and agriculture at the James Hutton Institute in Aberdeen.

With a view to assessing value for public money and impact of investment to date, we have commissioned an independent evaluation of the Just Transition Fund. The purpose of the evaluation will be to assess value for public money and impact of investment made through the Fund. The evaluation commenced in November 2024 and will conclude by March 2025.

12. **Tourism is vital to Scotland's economy and sustainable tourism has been identified by the Scottish Government as a growth sector, with comparative advantage and potential to deliver increased productivity and growth. The Committee recognises that the impact of removing VisitScotland marketing campaigns, due to funding withdrawal is felt immediately. The Committee has previously called on the Scottish Government to protect VisitScotland's**

international promotional spend and was disappointed with this year's in-year budget cut. The Committee would be concerned to see further cuts to the VisitScotland budget.

The Scottish Government recognises the important role and expertise that VisitScotland has in driving the value of the Scotland's economy as a whole. Tourism creates jobs, sustains communities and makes a significant contribution to the ambitions of NSET.

The 2025-26 Budget maintains VisitScotland's core budget allocations and in addition is allocating £4m to a revitalised Rural Tourism Infrastructure Fund. It is also allocating up to £2 million to VisitScotland to support activity that encourages visitors to consider lesser-known destinations and allows VisitScotland to continue to work with airlines and airports to further grow direct international connectivity.

13. **The Committee recently completed an inquiry into the disability employment gap highlighting that budget cuts had strained employability resources and contributed to funding delays for local authorities. This had impacted on service delivery. The Committee expects next year's budget to re-prioritise employability spend.**

We recognise the important role Employability has to play in contributing to a number of Government ambitions, including supporting economic growth, ending child poverty, and halving the disability employment gap. In line with the committee's recommendation, this year's Budget is protecting funding for Employability at £90m.

This will enable delivery of Specialist Employability Support to disabled people and people with long term health conditions across the country by Summer of 2025 in line with our Programme for Government. We also recognise that delays to funding can negatively impact delivery of services. We will continue to ensure employability services are available in all 32 local authority areas in 2025-26 as we work with local government and wider partners to deliver the priorities set out in our recent Strategic Plan.

14. **SE told the Committee it makes a return of £25 gross value added for every £1 invested. HIE estimated that tax revenue generated over three years was two and half times its budget. The Committee notes this but emphasises that particularly in times of tight financial settlements, it is critical to be able to evidence what is being achieved by public investment and expenditure.**

Each of the enterprise agencies has a performance measurement framework in place. Performance targets are agreed for primary measures as part of the agencies' annual business planning process, and they report on performance in their annual reports and accounts.

The agencies also evaluate the programmes they deliver to ensure that they achieve the intended aims. This is done through a mix of internal and independent evaluation The evaluation, and lessons learned, are then used to inform future decision-making.

As discussed with the Committee, the agencies undertake modelling to demonstrate the return on investment and longer-term impact of their interventions. This modelling incorporates consideration of jobs created, wages, and income tax take, alongside Gross Value Added, amongst others.

South of Scotland Enterprise is also exploring how to capture and quantify less-tangible benefits from its investment, for example long-term generational return and the social, wellbeing and community benefit return.

15. **Being able to evidence what is achieved by public funding will be important for measuring the success of the Scottish Government's National Strategy for Economic Transformation. The Auditor General for Scotland has said there should be a clear link between NSET and the budget, with NSET driving budget decisions across Government. The Committee calls for more coherence across Scottish Government portfolios and expects to see much clearer links between NSET and all other Scottish Government strategies and the Scottish Government's budget documents.**

NSET is the Scottish Government's flagship economic strategy, providing the framework for other strategies and plans and driving the action we are taking across government to deliver the FM's objective of a growing economy. The Programme for Government sets out our priorities for delivering NSET over the next 12-18 months, and this Budget is putting money squarely behind these priorities. NSET is therefore a central driver of budget decision-making.

We agree that being able to evidence the impact of public funding is important and have listened to Audit Scotland's recommendations on metrics and evaluation. We are in the process of identifying additional metrics that can be used to better track our outputs and medium-term delivery and are looking at ways to use new corporate systems to better track spend on prioritised actions. Audit Scotland recognised that it is too early to assess the impact of NSET, but in the most recent NSET Annual Report an additional section was added to discuss the results of early evaluation work, which in some areas (such as employability support) is now well advanced. We continue to use our measurement framework and evaluation to develop our approach.