

Scottish Government Budget 2019/20

Scottish Renewables is the voice of Scotland's renewable energy industry, working to grow the sector and sustain its position at the forefront of the global clean energy industry. We represent around 250 organisations working across the full range of renewable energy technologies in Scotland and around the world, from large suppliers, operators and manufacturers to small developers, installers and community groups - and companies right across the supply chain.

Renewable energy is critical both to Scotland's economy and to meeting the Scottish Government's climate change targets. As Scotland continues to transition to a low-carbon economy, both domestic renewable energy deployment and generation - and the growing industry supply chain providing high-value skills, services, technology and solutions to the global renewables market - are becoming increasingly critical to Scotland's inclusive growth aspirations.

Scotland generated enough renewable electricity to meet the equivalent of 68% of its power needs in 2017, and has more than double the current operational capacity of renewable plant in the development process (in planning or with consent, e.g. seeking a route to market or in construction).

With around three-quarters of our energy used for heat and transport, only around 5%¹ of which is currently supplied by renewables, the transition away from fossil fuels to green heat and transport presents a huge economic opportunity for Scotland over the next few years and out towards 2050.

Scotland's renewable energy sector supports around 16,000 jobs², and the potential for expansion of the sector is vast. Recent analyses of the socio-economic potential of the industry indicate that many thousands more skilled jobs and billions of pounds of investment, with substantial growth in exports, are expected to be delivered if the sector is given the right backing from government, in partnership with industry.³

The Scottish Government's Energy Strategy set out a series of welcome ambitions for the renewable energy sector, culminating in a new target to provide 50% of Scotland's energy needs from renewables by 2030, with a wide range of resulting socio-economic benefits arising from this pipeline of infrastructure investment.

In the Scottish Government's 2019-2020 Budget we would therefore expect to see that Government will use the regulatory and fiscal levers at its disposal to support the realisation of the Energy Strategy's objectives.

In our this response, we detail a series of measures we believe would help achieve this, grouped into three broad themes:

- **Supporting the transition to a low-carbon economy** through investing in the offshore energy skills transition, the decarbonisation of Scotland's heating sector, and developing innovative technologies which play to Scotland's strengths
- **Working to meet local energy ambitions** through creating an environment for small-scale renewables to thrive

¹ <https://www2.gov.scot/Resource/0054/00541525.pdf>

² <https://www.scottishrenewables.com/sectors/renewables-in-numbers/>

³ See e.g. 'OWIC Sector Deal Prospectus' (<https://tinyurl.com/ycryhotd>); ORE-Catapult 'Tidal Stream and Wave Energy Cost Reduction and Industrial Benefit' (<https://tinyurl.com/yc6kpwza>); ORE-Catapult 'Floating Offshore Wind: A Situational Analysis' (<https://tinyurl.com/ycx5for8>) and BVG Associates 'The Power of Offshore Wind' (<https://bvgassociates.com/the-power-of-onshore-wind/>)

- **Ensuring adequate resourcing across government** to enable efficient processes, help local energy development and ensure that Energy Strategy ambitions are met in a timely manner.

With the right framework for development, Scotland's Renewable Energy Sector has huge potential to contribute to Scotland's future energy system and economy. New developments are set to deliver a series of socio-economic benefits, including employment and supply chain development – all of which can help meet Government's wider objectives for Scotland's economic health going forward.

1) DEVELOPING A LOW-CARBON ECONOMY

As is well understood by the Scottish Government, the increased deployment of renewable energy resources is vital to meeting our climate change targets and can also create substantial inclusive and sustainable economic growth opportunities. With current challenges facing Scotland around growth and productivity, and continued economic uncertainty, the need to build on Scotland's economic strengths is clearer than ever. We would like to see this Budget reflect the contribution the renewable energy industry can make in this space and utilise levers to support the sector in realising its full ambitions.

An economy underpinned by renewable energy offers vast opportunities. In utilising domestic demand to build up our skills and knowledge base in renewables, not only can more jobs be created and value added locally, but a world-class export industry can also be developed (as has been shown within the Oil and Gas industry) and used to support low-carbon growth elsewhere in the world. As we set out below, supporting this transition will be vital in enabling these benefits to be delivered.

While we have seen considerable progress in the decarbonisation of our electricity sector, Scotland's heat sector – which accounts for around half of our energy demand – currently still lags behind. As the Energy Strategy clearly articulates, decarbonising our heat sector must be considered a priority, and doing so offers considerable economic opportunity right across Scotland.

Finally, Scotland's particular strengths around innovation must be recognised and built upon in order to maximise the value these technologies can deliver. From marine energy to smart grid management, Scotland has a global lead in a range of technologies. As we set out below, this Budget should grasp the opportunity to nurture these areas to enable them to meet their full potential and fully deliver for Scotland's people, economy and energy system.

Investment in renewables goes beyond investment in this sector alone. Renewables will power the growth of other sectors in a way that will be more sustainable and inclusive by supporting the development of low-carbon assets and energy generation that is more widely distributed than our current energy system. Renewables can help create jobs, rural growth, the cities of tomorrow, and help businesses up and down the country grow in a sustainable and inclusive way.

1.1 Offshore Skills and Supply Chain – and the Oil and Gas Transition

As we look to decarbonise our energy system and deploy further renewable generation, huge opportunities for skills development and employment growth exist right across the renewables industry. The sector is vibrant, diverse and inclusive – with a real 'pull' for people entering the job market. It's a sector offering highly skilled jobs across a range of disciplines, and with job creation throughout the supply chain and services sector and across the length and breadth of the country.

Scotland is extremely well placed to become a global centre of expertise for renewable energy development, test and demonstration. In the case of some technologies, such as tidal stream, wave power and innovative offshore wind technologies, it already is.

Scotland's burgeoning offshore wind sector epitomises this economic potential, and is particularly well positioned in terms of skills to facilitate the transition away from carbon dominated fuel production.

Similarities to the development of the Oil and Gas sector are profound. Sites are driven by resource and planning, leasing and licensing system considerations, but the services supporting these projects are varied geographically. Scotland already hosts world-leading project development expertise in renewables (both onshore and offshore), with expertise spread from the central belt to the north east and the northern isles. Indeed, outside of London, the central belt hosts the biggest UK hub of renewables development expertise. Glasgow and Edinburgh are home to offices of major international renewable energy asset developer/operators like SSE, ScottishPower Renewables, EdF Renewables, EDP Renewables, Red Rock Power-SDIC and Vattenfall – together employing thousands of people - as well as those of a wealth of professional service and supply chain companies supporting projects across the UK, Europe and worldwide. The offshore wind sector also presents substantial opportunities for the existing offshore and subsea engineering supply chain located in and around Aberdeen and the north east of Scotland. The domestic and export market for offshore wind products and services provided by UK-based firms is expected to be worth £4.9bn a year by 2030⁴, and Scotland has a competitive advantage in a number of areas to capitalise on this expansion.

Scottish Renewables is working with key industry and government stakeholders to ensure that the value and potential of Scotland is recognised through the imminent⁵ UK Government's Offshore Wind Sector Deal. One of the key workstreams in this effort is focussed on Skills and People. A recent study by Energy & Utility Skills⁶ identified that the greatest opportunity for jobs growth in the offshore wind sector was in Scotland with the potential to create up to 6,400 direct employment opportunities. The industry's Sector Deal Prospectus⁷ sets out a vision for 2030 where 27,000 skilled jobs (and £48bn investment in UK infrastructure) are provided by the sector across the UK, with Scotland well placed to drive a substantial proportion of that. Looking specifically at the economic potential of floating offshore wind - highly suited to Scotland's deep waters which host the world's first floating offshore wind farm - it is estimated that up to 17,000 jobs and £33.6bn of GVA could be generated by 2050 across the UK⁸, with particular advantages likely for Scotland. A significant number of these opportunities could be taken up by people who currently work in the oil and gas sector or who wish to work across both sectors.

The Transition Training Fund has a £12 million Budget but has to date not reported large numbers of people transitioning, with only 12% of fund users reported on moving into the renewables sector⁹. We ask that the Scottish Government make a similar investment to direct the resources at its disposal to ensure that Scotland can deliver the people and supply chain with the right skills at the right time to take advantage of the opportunities available in the renewables industry.

Scottish Renewables would welcome the opportunity to work with the Scottish Government and others to create a strong public and private sector collaboration to meet skills demand from Scottish offshore wind projects, and indeed those right across the renewables industry.

⁴ <https://www.renewableuk.com/news/420534/UK-companies-urged-to-seize-offshore-wind-opportunities-by-former-F1-boss.htm>

⁵ <https://www.energyvoice.com/otherenergy/186574/offshore-wind-sector-deal-in-final-stages/>

⁶ <https://www.euskills.co.uk/wp-content/uploads/2018/10/Aura-EU-Skills-UK-Offshore-Wind-Skills-Study-Full-Report-October-2018.pdf>

⁷ <https://ore.catapult.org.uk/work-with-us/industry/owic/>

⁸ <http://www.crownstatescotland.com/media-and-notice/news-media-releases-opinion/study-reveals-long-term-uk-floating-wind-potential-17-000-jobs-and-ps33-6bn-by-2050>

⁹ <https://www.euskills.co.uk/wp-content/uploads/2018/10/Aura-EU-Skills-UK-Offshore-Wind-Skills-Study-Full-Report-October-2018.pdf>

1.2) Low-carbon heat

Low-carbon heat currently provides 5% of all heat supplied in Scotland. The Scottish Government's Energy Strategy set an ambition to increase the use of low-carbon heat to c.45% of total heat demand.¹⁰

As well as supporting wider renewables and climate change objectives, investment in low-carbon heat is an opportunity to create new jobs and deliver socio-economic benefit across Scotland, including rural communities as well as urban settings. The sector currently employs over 2,000 people. District heat networks are capital intensive projects which provide significant supply chain opportunities for Scottish and UK organisations. Similarly, biomass and electric heat pumps make use of Scotland's domestic energy resources.

Meeting our targets requires a doubling of activity year-on-year. The Scottish Government's Energy Efficient Scotland Strategy lays encouraging foundations for this sector, but it will need to be adequately funded to deliver on its ambitions. The Scottish Government also supports the deployment of district heat networks through the Low Carbon Infrastructure Transition Programme (LCITP). This stream requires additional funding clarity in order to be perceived as a reliable funding source for operators in this field.

1.3) Scotland's Energy Efficiency Programme

Scotland's energy efficiency programme helps aid the decarbonisation of our existing buildings and tackle fuel poverty. The proposed Local Heat and Energy Efficiency Strategies (LHEES) will be vital in providing a clearer view of the decarbonisation options to be rolled out in specific areas, for example zoning for district heat networks and solutions for rural off-gas grid areas.

However, for the programme to be successful, **local authorities will need ring-fenced funding to carry out the required work**. Funding will also be required to build on the pilot projects and develop deeper consumer engagement with a range of technologies that will appear new to many consumers. We recommend that the following be made available to Scotland's Energy Efficiency Programme in the 2019/20 Budget:

- **£7.5m¹¹ dedicated Local Heat & Energy Efficiency Strategies (LHEES) fund for local authorities to allow them to develop their local plans, which will be the cornerstone of the programme.**
- **A further £15m fund for pilot projects, capacity building and consumer engagement.**

1.4) District Heat Networks

District heat networks are identified as a key low-carbon technology for the near-term in the Energy Strategy, recognising their suitability for built-up areas and capacity to open access to a wider set of low-carbon heat inputs such as waste heat, biomass, river source heat pumps and geothermal. District heat networks are a capital-intensive activity with significant potential for local content for activities such as digging trenches and laying pipes, as well engineering design and development for which Scotland has a good base of expertise. The Scottish Government has provided welcome funding through the LCITP to help develop and build large projects (capable of developing into city-wide infrastructure).

Developing a pipeline of projects will help build the industry in Scotland, reducing costs as the supply chain matures and helping to attract a stronger commercial finance offering into the sector, leading ultimately to its commercialisation. To achieve this, it is necessary to have clarity over funding for the remainder of the Parliament. We recommend moving away from the current two-yearly funding cycle, which creates stop-start conditions for the supply chain, and instead holding annual funding rounds. In addition, the amount of support

¹⁰ <https://www.gov.scot/binaries/content/documents/govscot/publications/publication/2017/12/scottish-energy-strategy-future-energy-scotland-9781788515276/documents/00529523-pdf/00529523-pdf/govscot%3Adocument>

¹¹ Assuming 3xFTE at £40k per annum in each of the 32 Local Authorities, plus overheads

granted per year should be increased to reflect the fact that the decarbonisation of heat needs to be progressing at twice the current speed if climate targets are to be met.

It is worth noting that the UK-wide supply chain is gearing up for the launch of a new scheme (HNIP¹²) run by the UK Government that will see £350m of grant and loan support allocated to district heating projects in England & Wales from 2019 to 2022.

Scotland risks falling behind unless a viable pipeline of projects can be created, with a clear long-term funding envelope made available. We therefore recommend the following measures be implemented in the 2019/20 Scottish Government Budget:

- **Move from two-yearly capital funding awards (through the LCITP) to a yearly cycle, and increase the annual investment to:**
 - **£30m each year in capital support for strategic district heat networks (increase from c.£15m annual spend at present)**
 - **£4m each year for project development support to local authorities via a dedicated fund**

1.5) Low-carbon heat in new buildings

It is cheapest and easiest to incorporate low-carbon heating (like electric heat pumps, biomass or district heat networks) into new buildings, and doing so will significantly reduce their emissions. Today, most buildings constructed in Scotland are fitted with fossil fuel heating systems (oil or gas). This will need to change if Scotland is to meet its climate targets.

Growing markets for electric heat pumps, district heating and biomass in new domestic and commercial buildings could draw on Scotland's existing supply chain strengths in these areas. Mitsubishi manufactures small-scale heat pumps in Livingston, whilst Star Refrigeration manufactures larger-scale units in Glasgow. Scotland also has a large forestry resource that could provide further supply of biomass for heating, building on the existing woodfuel supply chain that exists across a number of Scotland's rural areas.

The Scottish Government currently funds the construction of new homes through various funds (More Homes, Building Scotland). Unfortunately, opportunities to fit homes with lower cost and lower carbon systems are being missed in public sector new-builds, due to the higher up-front cost of these technologies. In many cases these systems will provide tenants with lower bills, and it is therefore justified that public funds be used to help housing associations and councils meet the higher equipment costs.

We recommend that the Scottish Government grants for new housing and other developments provide dedicated funds to enable social housing and public sector buildings to install low-carbon heat as standard.

1.6) Supporting Scotland's Innovation Strengths

Scotland has a proud history of innovation, and we believe that in the context of the Energy Strategy this can be built upon through utilising this Budget to deliver support for our innovative sectors.

Scotland has a global lead in the development of wave and tidal technology. A recent study by the ORE Catapult detailed the socio-economic impact of the full development of these technologies.¹³ It estimates the tidal sector alone is capable of generating a net cumulative benefit across the UK of £1,400m by 2030, with

¹² https://www.gov.uk/government/publications/heat-networks-investment-project-hnip-scheme-overviewhttps://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/748477/hnip-launch.pdf

¹³ <https://s3-eu-west-1.amazonaws.com/media.newore.catapult/app/uploads/2018/05/04120736/Tidal-Stream-and-Wave-Energy-Cost-Reduction-and-Ind-Benefit-FINAL-v03.02.pdf>

the right support in place. Scotland is already a world leader in marine energy technology, testing and demonstration so is perfectly placed to capture a large share of this benefit. The Catapult's analysis also details that up to 60% of the economic benefit in developing the sector is expected to be created in coastal areas – providing a catalyst for economic generation in our peripheral communities, which are often most in need.

Scotland's offshore engineering expertise has been critical to securing our global lead in both technology innovation and deployment of these technologies, but they sit firmly in a global market – with players from France to Canada and further afield expressing a keen interest in the technology and putting in place policy measures to support it. There is a very large and largely untapped export market for these technologies which Scottish businesses can continue to be at the forefront of – but this continues to depend on the development of projects in Scotland, and mechanisms to capture learning and innovation.

In this vein we would encourage Scottish Government to continue to deliver funding – at least at existing levels - to the Wave Energy Scotland Programme, which has been hugely successful in developing a collaborative, targeted and programmed approach to overcoming technical, engineering and operation challenges in wave energy converter devices.

While tidal devices are further along the technology development cycle, and individual developers are pursuing both innovative projects, technologies and business models¹⁴ **we would support Scottish Government working with industry to consider a common approach to cost reduction among tidal technologies.**

The development and management of smart grids is another area where Scotland has developed world-leading strengths, principally due to our geography (islands, remote and islanded networks) and technical considerations we have faced (grid constraints). Again, alongside a clear domestic market for these skills there is a considerable export opportunity associated with overseas smart grids. The growth of renewable generation is both necessitating and facilitating the move towards smart and flexible energy systems and, while Scotland is at the heart of this transition, it will occur globally. Parallels with the network management challenges overcome in Scotland can be found in regions as diverse as Asia and Africa, and keeping Scotland at the forefront of addressing these issues will deliver economic and energy system benefits at home and abroad. organisations such as Smarter Grid Solutions¹⁵ have grown from small university spin outs to companies with global operations.

While we appreciate that electricity network and policy regulation are reserved matters, **we could encourage Scottish Government to support innovation in our energy networks where possible. A crucial part of this is ensuring that innovation funding streams continue to be targeted towards smart networks, and that with each round of innovation funding, previous projects are built upon and rolled out into business as usual rather than simply replicated at a trial level.**

2) WORKING TO MEET LOCAL ENERGY AMBITIONS

Scottish Renewables supports the commitment in the Energy Strategy to developing local and decentralised energy, and we would expect to see measures within this Budget support this ambition. Principally, we believe that this is best achieved through a range of measures designed to support the wider roll-out of small-scale renewable generation, as set out below.

¹⁴ <https://www.novainnovation.com/news/a-world-first-for-nova-innovation-the-holy-grail-of-baseload-tidal-power>

¹⁵ <https://www.smartergridsolutions.com/>

2.1) Small-scale renewable energy development

SME's make up the majority of Scotland's economy. Only 0.7% of private sector businesses operating in Scotland in March 2018 were large (over 250 employees), with SME's providing an estimated 1.2 million jobs and accounting for not only 99.3% of private sector enterprises but 54.9% of private sector employment.¹⁶

This national trend is reflected in the renewable energy industry, with a large proportion of small businesses making up elements of our supply chain and project development community – often involved in developing small, local and community energy projects.

We have therefore welcomed the Scottish Government's Energy Strategy ambition surrounding the development of small-scale renewable energy projects, recognising that, along with providing valuable sources of clean energy, they deliver a wider set of socio-economic benefits to communities around Scotland. These projects are particularly important when considering rural and inclusive growth agendas, through delivering jobs and providing a source of investment in our peripheral regions, where much of our renewable energy resources are centred and investment is often badly needed.

While there remains vast potential for the further development of small-scale renewable energy projects, as is recognised in the 1GW by 2020 and 2GW by 2030 community and locally-owned renewables target set out in the Energy Strategy, this scale of the industry is facing a great deal of uncertainty. The principle market support mechanism delivered by the UK government, the Feed-in Tariff, is set for closure at the end of March 2019. As of November 2018, industry has had no clarity from the UK Government on whether any element of the tariff may continue in any form, and this investment in the sector and project development has largely dried up.

Small-scale projects delivered by small businesses face a particular cash-flow issue around absorbing high CAPEX costs for projects, and sometimes face considerable costs in navigating the planning process and securing an electricity grid connection. These particular sets of project economics make the challenging support landscape all the more difficult to navigate.

With this uncertainty facing small-scale renewable energy technologies, it is vital that the Scottish Government offers its support if we are to grow the sector, meet the ambition set out in the Energy Strategy and deliver the benefits in terms of jobs, inclusive growth and the environment to communities across Scotland.¹⁷

We set out below considerations within this Budget we believe could support small-scale renewables and the ambition set out in the Energy Strategy. These asks centre around ensuring a fair taxation system, developing finance support fit for the economics of the sector, supporting businesses 'go green' by using small-scale renewable technology, enabling innovation, and ensuring that a wider set of Scottish Government mechanisms support the Energy Strategy objectives.

2.2) Creating a fair taxation system for renewable energy assets: non-domestic rates

Non-domestic rates are a key fiscal lever in the Scottish Budget that can be leveraged to create a competitive economic climate in Scotland which supports the objectives set out in the Energy Strategy and can help Scottish businesses.

While we acknowledge that non-domestic rates are a significant element of the Scottish Government's tax take, rates are currently a significant cost to some renewable energy businesses, preventing future investment and threatening existing assets.

¹⁶ <https://www2.gov.scot/Topics/Statistics/Browse/Business/Corporate/KeyFacts>

¹⁷ For more information, please see: <https://www.scottishrenewables.com/publications/consultation-response-feed-tariff-scheme/>

The ratings system will only be effective when it is able to adequately respond to economic change. We have therefore welcomed moves to make the non-domestic ratings system more responsive, such as through increasing the frequency of revaluations.

However, our analysis has shown that following the 2017 revaluation of non-domestic rates, small-scale renewable generators have received disproportionate rates bills – with some seeing increases of 650 per cent. This is widely recognised as being driven by flawed methodologies underpinning the ratings system.

We welcome therefore the establishment of the Tretton Review of hydropower rates, the commitment following the Barclay Review to adopt a wholesale review of the Plant and Machinery order, and we especially welcome efforts by the Scottish Government to implement relief for some parts of this sector.

The Energy Strategy very clearly sets out Scottish Government's ambition surrounding small-scale renewable generation. With a transition to a smart, flexible energy system underway, this ambition offers a particular opportunity for Scotland – which has a recognised lead in local energy networks and community energy projects. This is an area of expertise that can be grown to deliver significant economic benefit across the country. If Scotland is to fully take advantage of this opportunity, not only through meeting the objectives in the Energy Strategy but by maintaining a centre of excellence with the aim of exporting knowledge, a fleet of small-scale renewable energy assets is vital.

Challenges for small renewable energy businesses in the ratings system have been coupled with severe uncertainty following the UK Government's proposed closure of the feed-in tariff, the support mechanism for small-scale renewable energy projects, in March 2019. Small-scale wind, solar and hydro projects are without a route to market, putting the costs of a disproportionate ratings system into ever starker clarity.

We therefore propose that non-domestic rates relief for small-scale (sub-5MW) renewable energy projects is implemented to support Scottish Government's ambition for local energy project development.

2.3) Developing finance support for small-scale renewables

The economics for small-scale renewable energy projects are fundamentally different from large scale renewable energy development. Often these projects are developed by communities, individuals or small enterprises. These groups do not have large balance sheets, portfolios of projects upon which to balance risk, access to low-cost capital, or the same ability to hedge as larger entities often do.

Small-scale renewable projects themselves also have different economic circumstances. Some, such as hydropower, have a particularly high CAPEX cost but have a very long operational lifetime. Often, costs associated with project development, including planning fees and grid connections make up a significant proportion of the capital cost of small-scale renewable projects. Corporate finance can be challenging to leverage in this small-scale environment, and our members report high project finance costs¹⁸.

The vast majority of these projects – across small scale, wind, hydro, solar and others, have relied on the Feed-in Tariff. Given the uncertainty surrounding the future of the tariff, it is vital that Scottish Government considers how its financial support available can be best deployed to support project development at this scale.

We would like to see the Scottish Government make a variety of tweaks to existing financial support mechanisms, such as lowering interest rates on some loans and extending the payback period. We would welcome the opportunity to work with the Scottish Government on a review of existing finance

¹⁸ <https://www.scottishrenewables.com/publications/consultation-response-call-evidence/>

mechanisms and their suitability for supporting the future development of the small-scale renewable energy sector.

2.4) Creating an incentive scheme for business to install on-site renewable generation assets

The benefits of installing renewable generation to businesses are well known, and – with support from the Feed-in Tariff – businesses across Scotland have installed small solar, wind and hydro assets to help meet their energy demand. This gives businesses control of their energy supplies, cost-effective energy sources and helps them meet their own efficiency and corporate social responsibility targets. Where previously supported through the Feed-in Tariff, installation of renewable energy assets often allowed for business diversification and investment with revenue generated from the renewable asset allowing for other opportunities to be explored.

With continued uncertainty over the future of the Feed-in Tariff, and the proposal to close the scheme from March next year, we have significant concern that businesses will lack the incentive to install these assets, particularly as the absence of a tariff removes a pay-back mechanism for the upfront capital costs of installation.

We are aware that the UK Government has proposed in its Budget to create an 'Industrial Energy Transformation Fund, valued at £315 million – in replacement of tax incentives surrounding capital allowances. We understand this scheme is designed to support larger businesses improve their energy use and we look forward to further detail on the scheme. Similarly, we welcome the BEIS proposed call for evidence on the introduction of a new energy efficiency scheme focussed on smaller businesses.

To ensure that Scottish businesses remain incentivised to install renewable generation assets, we call on the Scottish Government to work with industry and businesses to create an incentive scheme for the installation of on-site renewable generation. We would advocate that this scheme operates at around 20 per cent of the proposed UK Transformation fund spend, at £60m.

2.5) Continuing to support innovative small-scale technologies and community projects

As discussed in detail above, Scotland has a renowned reputation for technology innovation. Much of this has been delivered through close academic and industry collaboration. Continued development of these areas will be crucial not just in building our energy sector and supporting moves towards a smart energy system, but in advancing Scotland's economic growth and developing opportunities for export.

We would in general support a commitment for the Scottish Government to work with industry and education institutes to work to ensure the right skills are in place to build upon Scotland's strengths and fully take advantage of the low-carbon energy and economic transition before us.

We would recommend this Budget should offer continued support for industry/academic linkages, in particular the Energy Technology Partnership, with consideration of re-launching the Scottish Energy Laboratory.

3. ENSURING ADEQUATE RESOURCING ACROSS GOVERNMENT

Transitioning to a smart, flexible energy system, and delivering a vibrant low-carbon economy go hand-in-hand, however the scale of this transition should not be underestimated. In many senses, this is our next industrial revolution – and to fully propel us to meet our ambitions while ensuring the maximum benefits are achieved, adequate resourcing from government is required.

3.1) Human Resources

The adequate resourcing of a range of government departments will be crucial to ensuring that we meet the objectives set out in the energy strategy. While we acknowledge a challenging public spending and resourcing environment, it is crucial that in particular planning departments are adequately resourced to properly assess

projects and that local authorities are equipped with the people power necessary to develop the local energy systems that we want to see.

3.2) Resourcing the renewables industry using a range of alternative government mechanisms

Several additional Scottish Government mechanisms could be used to support renewable energy projects.

The Scottish National Investment Bank could play a promising role in supporting Scottish Government's ambitions and we have responded in detail on its future role as part of the consultation process. We see a particularly advantageous role for the Bank in supporting early stage innovation technology investment beyond grant funding – in supporting scale-up of technologies through operating in spaces where the commercial market is lacking or to assess risk differently in order to provide capital at a different cost level.

We understand that the Bank would presumably need to see a return on investments, but if it is operation in the innovation space, there is a risk that some projects may not deliver substantive returns – for example because they are competing globally and other markets deliver a solution faster or because the project becomes part of a learning cycle of a next phase of development. The success rate of these projects may be low, but the overall value and impact of successes may be high. We would like therefore the Bank to take a more flexible approach to innovation projects and display a higher appetite for risk in order to ensure such investments contribute to broader government agendas, whilst being subject to the accountability that goes alongside using public funds. We would argue that this aspiration can in part be delivered through this Budget.

Similarly, we have welcomed the potential of a publicly owned energy company (POEC) with ambitious and clear objectives to support the development of Scotland's renewable energy industry. As set out in our formal consultation response¹⁹, we believe the POEC should seek to:

1. Aggregate Scottish public sector electricity demand, ensuring that this demand is met by electricity from renewable sources
2. Develop a more holistic and consistent approach to the decarbonisation of heat supply
3. Provide support for small-scale, local and community renewable energy projects to help them take control of their energy costs and carbon emissions.

Again, we would like to see these ambitions in part be recognised in the funding allocated to this project within this Budget.

4) Conclusion

Scottish Renewables recommends that the forthcoming Budget take the action necessary to continue the decarbonisation of Scotland's economy and in doing so take advantage of the range of economic opportunities this transition presents.

Scottish Renewables and our members want the renewable energy sector to continue to contribute to Scotland's energy system and economy in a meaningful and sustainable way. We believe that the measures outlined in this document would boost not only Scotland and the UK's renewable energy sectors, but the economy more generally, thus helping make Scotland a thriving, competitive and future-facing economy.

We would be happy to contribute to any additional considerations that may arise throughout this Budget process.

¹⁹ <https://www.scottishrenewables.com/publications/consultation-response-publicly-owned-energy-compan/>