This briefing provides an overview of Scotland’s Economic Strategy and how economic strategies have evolved since devolution. The briefing considers the four central themes of the strategy of inclusive growth, investment, innovation and internationalisation.
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EXECUTIVE SUMMARY

Scotland’s Economic Strategy was launched earlier this year setting out the Scottish Government’s vision for Scotland’s economy and society. The new strategy focuses on two objectives, boosting competitiveness and tackling inequality and marks a change of emphasis.

The previous economic strategy outlined how cutting corporation tax would promote growth (were the powers to be devolved). The new strategy adopts a different approach with “no intention to engage in a ‘race to the bottom’”. Instead, the strategy suggests that a targeted approach to tax changes could help rebalance Scotland’s economy.

Promoting growth and reducing inequality is the “central theme” of the new strategy. The strategy describes these goals as complementary and suggests that moving towards a more equal society has the potential to strengthen economic performance.

There have been eight strategies, plans and frameworks to develop Scotland’s economy since 1999. This amounts to a new strategy, plan or update every other year since devolution. Inequality was not mentioned in the first strategy but more frequently cited in consecutive strategies, 135 times in the new strategy.

Successive economic strategies have set out a range of different priorities but all have consistently pointed to the need to improve Scotland’s productivity relative to other competing countries.

It is difficult to show how strategies may have influenced economic performance. It can take several years for policies to take full effect and any impact on Scotland’s economy is likely to straddle different administrations and other economic strategies.

The new strategy does not introduce any SMART targets and in some areas targets will be developed at a later date. Given the lack of SMART targets, and with many targets to be developed at a later date, it is not possible to assess whether the National Performance Framework will be able to measure the success of the new strategy.

The strategy also highlights that the highest earners in Scotland have seen the largest increases in income in recent years while nearly one in five employees (18%) earn less than the living wage.

The strategy emphasises the “One Scotland” approach including all public sector agencies, private sector, the third sector and universities and colleges. Scottish Enterprise was the first delivery partner to publish their business plan showing how their £321 million planned activities (2015-16) will support the new strategy.

The breakdown of Scottish Enterprise’s planned activities by theme sets the standard for other delivery partners. However, of the four themes in the business plan, inclusive growth accounts for just 10% of the Scottish Enterprise budget. Furthermore it is difficult to link Scottish Enterprise’s inclusive growth activities to inclusive growth as described in Scotland’s Economic Strategy.
SCOTLAND’S ECONOMIC STRATEGY (SES)

OVERVIEW

Scotland’s Economic Strategy sets out the Scottish Government’s vision for Scotland’s economy and society. The strategy outlines an ambition “to make Scotland a more successful country, with opportunities for all to flourish, through increasing sustainable economic growth.” (Scottish Government, 2015).

The same ambition lay behind the Government Economic Strategy (GES) published in 2007 and the refreshed GES in 2011 (Scottish Government, 2007b and 2011a). While the ambition remains the same the new strategy focuses on two objectives, boosting competitiveness and tackling inequality.

The strategy suggests boosting competitiveness and tackling inequality are “mutually reinforcing goals.” The twin goals will be achieved by focusing on four priorities (the four i’s) as follows:

- **Investing** in our people and our infrastructure in a sustainable way;
- Fostering a culture of **innovation** and research and development;
- Promoting **inclusive growth** and creating opportunity through a fair and inclusive jobs market and regional cohesion
- Promoting Scotland on the **international** stage to boost our trade and investment, influence and networks

The Scottish Government states that a fairer and more equitable society underpinning a strong economy is the central theme of the new strategy. The purpose of the Scottish Government has remained the same since the first Government Economic Strategy.

NEW INITIATIVES IN THE NEW STRATEGY

Scotland’s Economic Strategy has a number of new or evolved elements. The previous economic strategy focused on corporation tax as a key lever to promote growth, investment and jobs. The GES (2011a) included an example of a three percentage point cut in corporation tax and suggested Scotland “could operate a more competitive corporation tax policy”.

Scotland’s Economic Strategy maintains the call for “greater responsibility for business taxes”. However, a different approach is outlined by the Scottish Government with “no intention to engage in a ‘race to the bottom’”. Instead the new strategy suggests a targeted approach to tax changes could help rebalance Scotland’s economy, particularly in manufacturing.

Scotland’s Economic Strategy focuses on tackling inequality. Promoting growth and reducing inequality is the “central theme” of the new strategy. The strategy describes these goals as complementary and suggests moving towards a more equal society has the potential to strengthen economic performance.
The new strategy states the Scottish Government will establish a Scottish Business Development Bank to support Small and Medium sized Enterprises (SMEs) with high growth potential. This initiative was outlined in the Government’s Programme for Scotland 2014-15 (Scottish Government, 2014b).

Some aspects of the strategy are being taken forward in more detail. The Scotland’s Economic Strategy website will host links to forthcoming policies, updates to the National Performance Framework (NPF) and other updates related to the strategy.

HOW HAS SCOTLAND’S ECONOMIC STRATEGY EVOLVED?

Since devolution, there have been eight strategies, plans and frameworks to develop Scotland’s economy. Excluding annual updates this amounts to a new strategy, plan or update every other year since devolution.

The first of the five economic strategies for Scotland since devolution was outlined in A Smart, Successful Scotland (Scottish Executive, 2001) which drew on the Framework for Economic Development in Scotland (Scottish Executive, 2000). The aforementioned strategy and framework were refreshed three years later (Scottish Executive 2004a, 2004b).


COMPARING PREVIOUS STRATEGIES

A Smart Successful Scotland set out direction and priorities for Scotland’s enterprise networks through Scottish Enterprise and Highlands and Islands Enterprise. The strategy described four challenges:

- Closing the productivity gap between Scotland and leading competitor nations
- Raising the rate of new firm formation where Scotland lags behind the rest of the UK
- Better matching of skills and opportunities through more active labour market policies
- Embracing the digital age and the revolution in digital telecommunications

To address these challenges the strategy set out policy levers within the three themes of growing businesses, global connections and learning and skills. The strategy also outlined a streamlined approach to partnership working between the enterprise networks and delivery partners (for example, local authorities).

A Smart Successful Scotland was refreshed (Scottish Executive, 2004a). The strategy still contained the strategic direction for the enterprise networks but was farther reaching than its predecessor in setting out an enterprise strategy for Scotland. The strategy cited businesses, universities, colleges, trade unions and local authorities playing a full and active part in delivering A Smart, Successful Scotland.

The Government Economic Strategy (Scottish Government, 2007b) set the focus of the Scottish Government and public services with the aim of increasing sustainable economic growth. The strategy outlined five challenges including:
• Scotland’s economic growth was lower than that of the UK, and other small European countries, in recent decades

• Labour productivity in Scotland lagged the UK and was significantly behind a number of competitor countries including the US, France, Ireland and Norway

• Scotland lagged behind the strong regional economies in terms of participation (rates of employment and unemployment)

• Scotland’s population growth lagged significantly behind the UK and some small European countries (including Ireland and Iceland) over the last ten years

• In terms of Solidarity, Cohesion and Sustainability the “arc of prosperity countries”\(^1\) were both wealthier per person and had lower levels of income inequality than the UK

To address the above challenges the Government Economic Strategy set out strategic priorities within the five themes of learning, skills and well-being, supportive business environment, infrastructure development and place, effective government and equity.

The Government Economic Strategy was refreshed in 2011 (Scottish Government, 2011a) when a sixth strategic priority was added, transition to a low carbon economy. Further challenges were identified including the challenging fiscal position, securing economic recovery and restructuring the economy to deliver sustainable economic growth.

Table 1 summarises strategies to develop Scotland’s economy since devolution, including the number of references to inequality\(^2\). Inequality was not mentioned in the first strategy but has been increasingly referenced in consecutive strategies since devolution. Inequality was referenced 135 times in Scotland’s Economic Strategy\(^3\).

To provide a comparison there are 16 references to renewable(s) in Scotland’s Economic Strategy compared to the 135 references to inequality. In the previous economic strategy (Scottish Government, 2011a) there were only 26 references to inequality and 37 references to renewables\(^4\).

The coverage of Scotland’s economic strategies has widened with each iteration. The first strategy, following devolution, started out as direction for the enterprise networks. Successive strategies gradually tackled wider social challenges and offered direction for the wider public sector eventually arriving at the “One Scotland Approach” in Scotland’s Economic Strategy.

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\(^1\) The Government Economic Strategy identified an arc of prosperity including Norway, Finland, Iceland, Ireland and Denmark.

\(^2\) This includes references to inequality, equality, inequalities and equalities.

\(^3\) Although the number of references to inequality has increased, the strategies have become more voluminous over time. A Smart Successful Scotland in 2001 stood at 24 pages expanding to 39 pages in 2004. The Government Economic Strategy was 54 pages in 2007 expanding to 78 pages in 2011. Scotland’s Economic Strategy is 84 pages.

\(^4\) Issues addressed in the latest economic strategy include sustainability, the transition to a low carbon economy and resource efficiency. These issues may not reference the word renewable.
Table 1 – Overview of economic strategies since devolution

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Year</th>
<th>Coverage</th>
<th>Priorities</th>
<th>Number of references to (inequality</th>
<th>renewables</th>
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<tr>
<td>A Smart Successful Scotland</td>
<td>2000</td>
<td>Scotland’s enterprise networks.</td>
<td>Growing businesses, Global connections, Learning and skills</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>2004</td>
<td>Scotland’s enterprise networks and an enterprise strategy for Scotland.</td>
<td>As above</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Government Economic Strategy</td>
<td>2007</td>
<td>Central government and wider public sector.</td>
<td>Learning, skills and well-being, Supportive business environment, Infrastructure development and place, Effective government, Equity</td>
<td>18</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>2011</td>
<td>Scottish Government and public services.</td>
<td>As above plus Transition to a low carbon economy</td>
<td>26</td>
<td>37</td>
</tr>
<tr>
<td>Scotland’s Economic Strategy</td>
<td>2015</td>
<td>One Scotland Approach, all public sector agencies, private sector, the third sector and universities and colleges.</td>
<td>Investing Innovation, Inclusive growth, Internationalisation</td>
<td>135</td>
<td>16</td>
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This table is summarised in the figure on the next page.
Economic Strategies since Devolution

Coverage
- Scottish National Party
- Labour & Liberal Democrat coalition
- One Scotland Approach

Priorities
- Business Growth
- Global connections
- Learning & skills
- Public Services
- Scottish Government
- Enterprise Networks

2000
- A Smart Successful Scotland
  - As 2000
  - Learning, skills and well-being
  - Supportive business environment
  - Infrastructure development and place
  - Effective government

2005
- Government Economic Strategy

2007
- Government Economic Strategy
  - As 2007
  - Transition to a low carbon economy

2011
- Scotland’s Economic Strategy
  - Transition to a low carbon economy

2015
- Scotland’s Economic Strategy
  - Investing
  - Innovation
  - Inclusive Growth
  - Internationalisation

Public Services Agencies
- Private Sector
- Third Sector
- Universities and colleges

Labour & Liberal Democrat coalition
- Scottish National Party
DO ECONOMIC STRATEGIES MAKE A DIFFERENCE?

It is difficult to show how economic strategies may have influenced economic performance. Scotland’s small and open economy is strongly influenced by global economic conditions. It is challenging to separate out the impact of economic strategies and policies from developments outside of Scotland.

It is also difficult to identify whether a new economic strategy has led to direct changes in the nature or mix of public sector interventions. For example, if the current strategy is to make a difference it must first have an influence on the type of activities undertaken by the relevant partners. These activities, in turn, must be shown to be having an impact on the measures that they are designed to influence. A new strategy should result in more than ‘re-badging’ of existing activities.

Even if the nature and mix of activities change, it can take several years for economic development policies to be fully realised in terms of improved economic performance. Any impact on the Scottish economy is likely to straddle different administrations and other economic strategies for Scotland.

Since devolution successive economic strategies have set out a range of different priorities. One challenge consistent throughout all the economic strategies has been the need to improve Scotland’s productivity relative to other competing countries.

The first economic strategy following devolution (Scottish Executive, 2000) identified a significant and longstanding productivity gap with other leading competitor nations. Scotland’s Economic Strategy (Scottish Government, 2015) identifies “a clear need to improve Scotland’s economic performance” when compared with other developed economies.

MEASURING SUCCESS

The Economic Recovery Plan (Scottish Government, 2009a) is an example where an indicative employment impact was estimated. Employment supported by the plan was estimated at around 15,000 jobs (Scottish Government 2009b). Of this total, the Scottish Government attributed 5,000 jobs to the accelerated capital programme.

Measuring economic impact is complicated given the diverse range of support in the recovery plan. Furthermore, the plan involved reallocating spending to support employment but there was insufficient detail in the plan to establish whether job creation or safeguarding would have occurred anyway.

The previous Government Economic Strategy (Scottish Government, 2007b) included nine targets. The targets were Specific, Measurable, Achievable, Relevant and Time-Constrained (SMART). A full description of the SMART targets from the strategy is outlined in the appendix.

For example the growth rate targets were specific and can be measured with economic data. They were potentially achievable and relevant to the purpose of increasing sustainable economic growth. The targets included the time by which the each of the targets would be met (by the year 2017).

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5 Further details are available in the SPICe briefing on the Scottish Economic Recovery Plan.
The Smart, Successful Scotland strategy was measured through annual progress reports (Scottish Executive, 2002). The reports included progress indicators covering each of the strategies priorities, benchmarked against OECD countries where possible. A target was set to move Scotland into the upper quartile of OECD countries but no clear timescale was set.

Scotland’s Economic Strategy does not introduce any SMART targets. In some priority areas targets will be developed at a later date. For example, under the innovation priority, the strategy says an innovation forum will be created led by the Deputy First Minister. The forum will set innovation objectives, outcomes and monitor progress.

Under the priority area of promoting inclusive growth the new strategy states that the Scottish Government intends to develop the Scottish Business Pledge. The pledge supports businesses in return for a commitment to a range of business and social policies including the living wage.

The business pledge was launched in May 2015 with details available on the Scottish Business Pledge website. Also under the priority of inclusive growth the Scottish Government “intend to introduce a target for participation in higher education to drive further and faster progress.”

The strategy states that the National Performance Framework (NPF) will be “central to monitoring our progress against the objectives set out in this strategy”. The framework is currently being updated and a revised framework will be published later this year that reflects the new economic strategy.

Given the inclusive and broad nature of the strategy, it could be argued that any number of the current national indicators from the NPF are relevant to monitoring Scotland’s Economic Strategy. Among those that are directly relevant to the strategy are the following:

- Increase the number of businesses
- Increase exports
- Improve digital infrastructure
- Reduce traffic congestion
- Improve Scotland's reputation
- Increase research and development spending
- Improve knowledge exchange from university research
- Improve the skill profile of the population
- Improve levels of educational attainment
- Increase the proportion of young people in learning, training or work
- Increase the proportion of graduates in positive destinations

Given the lack of SMART targets, and with many targets to be developed at a later date, it is not possible to assess whether the NPF will be able to measure the success of the new strategy. The NPF will be revised later this year possibly with new indicators reflecting the new strategy’s focus on tackling inequality. It is not clear how the NPF will link with the objectives and outcomes produced by the innovation forum, or the business pledge and participation targets for higher education.
The previous economic strategy set out SMART targets upon which the measurement framework was first established (Scottish Government, 2007b) and then updated (Scottish Government, 2011a). As Scotland’s Economic Strategy does not set out any new SMART targets it is implied that the continuing purpose of the Scottish Government will be measured, at least in the interim, by the current NPF national indicators.

SMART targets could cover, for example, reductions in inequality, economic growth and productivity. The NPF will be updated later this year, with the Scottish Government working in conjunction with the new Council of Economic Advisers, and it is expected this will enable the success of the economic strategy to be measured.

**HOW WILL THE STRATEGY MAKE A DIFFERENCE?**

Scotland’s Economic Strategy supports the Scottish Government’s purpose to create “a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth”. This is shown in Figure 1 below:

**Figure 1: Scotland’s Economic Framework**

![Scotland's Economic Framework Diagram](source: Scotland's Economic Strategy (Scottish Government, 2015))
INCLUSIVE GROWTH

CHALLENGES

Scotland’s Economic Strategy states that sharing the benefits of economic growth more equally is as important as increasing growth. The strategy outlines that poverty levels in Scotland are too high with many people still facing poor economic prospects.

The strategy suggests that reducing inequality and promoting growth are complementary goals and this is the “central theme” of Scotland’s Economic Strategy. The strategy states that moving towards a more equal society has the potential to strengthen economic performance by improving productivity and providing more sustainable growth.

A report recently published by the OECD addressed concerns about rising income inequality and the consequences for economic growth (Cingano, 2014). The OECD analysis shows that when income inequality rises there is a corresponding fall in economic growth.

The report states that rising inequality can mean that poorer members of society are less able to invest in education and this can restrict overall economic growth. A summary of the report published by the OECD suggests that “Tackling inequality can make our societies fairer and our economies stronger.”

The International Monetary Fund (IMF) also published research investigating the link between redistribution, inequality and economic growth (Ostry et al, 2014). The report concluded that lower inequality is linked with faster and more durable economic growth. The report also suggests that the effects of redistribution on economic growth appear to be generally benign.

EVIDENCE AND BASELINE

Scotland’s Economic Strategy shows the share of the UK’s economy accounted for by wages has fallen in recent decades. Since the early 1980s a growing share of the UK economy has been accounted for by gross operating surplus, which includes the operating profits of companies.

The strategy also highlights that the highest earners in Scotland have seen the largest increases in income in recent years. The strategy suggests around 18% of employees (or around 418,000) earned less than the living wage.

In Scotland, the quarterly national accounts show that in 2014 wages accounted for 58% of the value added by the economy (excluding taxes and subsidies). This share had fallen from 65% in 2001 and from 71% in 1979 (McGilvray and McNicoll, 1984). The UK trends cited in Scotland’s Economic Strategy are also present in Scotland.

KEY POLICY MEASURES

Fair Work

The strategy sets out a fair work agenda aimed at reducing inequality which it states will also have a positive impact on the economy’s wider performance. The fair work agenda includes job security, fair reward and opportunities for personal and workplace development. Policy measures include:

- Funding the Poverty Alliance to promote take up of the living wage accreditation scheme across the wider economy.
• Establishing a Fair Work Convention to draw on best practice and consider the best thinking and research on Fair Work. The convention will promote dialogue between employers, employees and trade unions, public bodies and the Scottish Government.

Scottish Business Pledge

The strategy sets out how a Scottish Business Pledge will encourage and recognise good business practice. The pledge will support businesses in return for a commitment to a range of business and social policies these include:

• Paying the living wage
• Not using exploitative zero hours contracts
• Supporting progressive workforce engagement
• Investing in Youth
• Making progress on diversity and gender balance
• Committing to an innovation programme
• Pursuing international business opportunities
• Playing an active role in the community
• Committing to prompt payment

Promoting equality and tackling inequality

Scotland’s Economic Strategy states that the promotion of equality and reducing inequality are inter-linked and the Scottish Government is committed to delivering improvements in both. Improvements will require tailored and targeted interventions including:

• Increasing the level of funded early learning and childcare from 475 hours to 600 hours per year – for 3 and 4 year olds and the most vulnerable 2 year olds
• Implementation of the equality recommendations of the Developing Scotland’s Young Workforce Commission
• The development and implementation of the Scottish Government’s Women in Enterprise Action Framework
• Continued funding for a range of organisations to tackle the pay gap, address occupational segregation in science, technology, engineering and mathematics (STEM) areas and to work with employers to promote and support flexible working
• An ambition to almost double the number of free hours of childcare to 30 hours per week by the end of the next Parliament
• A voluntary target for organisations to achieve gender parity on their boards by 2020, with a commitment to legislate as soon as the Scottish Government has the powers
Place and regional cohesion

The new strategy says all parts of Scotland should benefit from and contribute to Scotland’s prosperity. Scotland’s Economic Strategy cites a number of place and regional cohesion initiatives including:

- **Single Outcome Agreements** in place across all 32 local authorities
- **Scottish Cities Alliance** established
- **Glasgow and Clyde Valley City Deal** demonstrates both the use of innovative financing, and our approach to delivering more powers to local communities
- Scotland’s new £1.3 billion **Rural Development Programme** (SRDP) from 2014 to 2020
- The **Digital Scotland Superfast Broadband** programme

**INVESTMENT**

**CHALLENGES**

The Economist defines investment as “spending on physical assets with a life of more than one year.” (The Economist, 2010). Scotland’s Economic Strategy takes a broader view of investment covering people, infrastructure and businesses.

This wider view of capital has been suggested by [Forum of the Future](#), shown in Figure 2.

The new strategy states that investment is key to driving long-term improvements in competitiveness and creating opportunities. Investment must be sustainable in terms of environmental outcomes and ensuring the sustainability of Scotland’s communities.

**EVIDENCE AND BASELINE**

The broad definition of investment makes it more challenging to produce a baseline. Capital investment by the public and private sectors (also known as Gross Capital Formation) has increased, but relative to the size of the economy has remained at similar levels since 1998, even dropping slightly since 2007 (Figure 3).
KEY POLICY MEASURES

Education, skills and health

By investing in human capital the strategy aims to achieve a “well-skilled, healthy and resilient population and an innovative, engaged and productive workforce”. Examples of policies in this area include:

- The Curriculum for Excellence designed to raise ambition and attainment
- Implementing recommendations from The Commission for Developing Scotland’s Young Workforce’s final report

Infrastructure and digital

The new strategy suggests investment in infrastructure will make Scotland a more attractive location for business investment helping to grow the economy and generate employment. The strategy sets out that physical and digital infrastructure will help connect Scotland’s cities, towns and regions. Initiatives include:

- The strategy cites major projects, including the Queensferry Crossing, as part of a strategic and long-term approach set out in the Infrastructure Investment Plan
- Making significant investment through the Affordable Housing Supply Programme
- Delivery of a future-proofed infrastructure that will establish world-class digital connectivity across the whole of Scotland by 2020 as outlined in Scotland’s Digital Future: Infrastructure Action Plan
- Developing innovative financial mechanisms to support infrastructure investment led by the Scottish Futures Trust (SFT)
Business investment

The strategy states that future economic success depends upon the growth and competitiveness of businesses in Scotland. The Scottish Government will continue to target interventions at sectors and companies where Scotland has a comparative advantage.

Scotland’s growth sectors remain the same as those identified in the previous strategy (Scott). A range of data on Scotland’s growth sectors is available online. Areas of business support include:

- Interventions in “more locally-traded sectors”, such as retail and care sectors will be considered due to their importance in employment terms.
- Focused approach in particular areas, including through the Scottish National Marine Plan.
- Scottish Government focus on better regulation to help provide a supportive environment for businesses to invest and grow. The Regulatory Reform (Scotland) Act 2014 provides a proportionate and risk-based approach to regulation, and environmental protection.
- Focus on effective development planning and more efficient decision making. The Town Centre Planning Pilots programme includes a project to establish Scotland’s first Simplified Planning Zone (SPZ) for a town centre in Renfrew.
- The Small Business Bonus Scheme has been significantly extended and now reduces or removes business rates taxation for almost 100,000 business premises.
- Scotland CAN DO supports a number of initiatives towards becoming a world-leading entrepreneurial and innovative nation.
- The Scottish Investment Bank (SIB) delivers early-stage equity schemes, investing risk capital in Scotland’s new and growing technology companies alongside private sector partners.
- The establishment of a Scottish Business Development Bank to work directly with small and medium-sized enterprises and the financial markets to support businesses with high growth potential in Scotland.

Natural capital, resource efficiency and low carbon

Scotland’s Economic Strategy outlines the need to reduce the cost to the Scottish economy of climate change and maximise opportunities as other economies make their own low carbon transition. Initiatives include:

- Resource Efficient Scotland is supporting businesses, third sector and public sector organisations to boost productivity by using energy, materials and water more efficiently.
- Zero Waste Scotland and other partners are helping to create a more circular economy which reuses products.
- The Home Energy Efficiency Programmes for Scotland and Green Homes Cash Back improve resource efficiency and tackle inequality by lifting families out of fuel poverty.
- The Scottish Government’s Community Energy Policy Statement encourages local communities to explore ownership of energy assets.
Communities, local assets and housing

The Scottish Government is supporting local level investment, including regeneration, in Scotland’s most disadvantaged communities. Community Planning Partnerships across Scotland allow public agencies to work with local communities to improve services and work towards the Single Outcome Agreements. Initiatives cited in Scotland’s Economic Strategy include:

- The People and Communities Fund has supported 156 projects since launching in 2012.
- The Community Empowerment Bill will create new rights for community bodies and make it easier for communities to take on public sector land and buildings extending the community ‘right to buy’ across all of Scotland.
- The Scottish Government is committed to giving island and coastal communities all net revenues from Crown Estate assets in the waters next to their coast.
- The Scottish Government’s Prospectus for the Islands (Scottish Government, 2014) outlines potential areas for empowering Scotland’s island communities.
- The Scottish Government expects Community Benefit Clauses will be used more often following the Procurement Reform (Scotland) Act 2014.

INNOVATION

Innovation encompasses the development of new processes, products, services, workforce design, and business models. It is a key driver of competitiveness and long term economic growth. The new strategy highlights that innovative economies are generally better able to adapt to changing economic conditions and compete in international markets.

CHALLENGES

Scotland’s Economic Strategy points to a strong base of innovation in Scotland with a strong tradition of research and science, a highly-skilled workforce and world-renowned universities. The strategy stresses the need to build on Scotland’s innovation base, ensuring businesses understand the benefits of innovation and R&D and improving commercialisation of academic research.

The strategy also points to a need to stimulate innovation and improvement in the delivery of public services, reflecting the Scottish Government’s aspiration that innovative public service delivery will help stimulate innovation in the wider economy.

EVIDENCE AND BASELINE

Figure 4 below describes one of the challenges facing Scotland, where business expenditure on R&D remains low compared to other countries.
KEY POLICY MEASURES

Business innovation and entrepreneurship

The strategy states that improving innovation is a top priority. The proposed innovation forum will foster a collaborative approach to innovation across Scotland. The first meeting of the Scotland Can Do Innovation Forum was held earlier this year.

Key activities outlined in Scotland’s Economic Strategy include:

- Scottish Enterprise has refocused its innovation approach to increase the number of businesses that are innovation active.
- Highlands & Islands Enterprise’s ‘Innovate your Business’ programme supports company innovations with growth potential.
- The SMART: SCOTLAND programme helps with new product development and adoption of new technologies.
- Industry-specific initiatives to promote innovation such as Fisheries Innovation Scotland and the Scottish Institute for Remanufacture.
- New European partnerships such as the Vanguard Initiative will pursue greater alignment with European innovation policy and funding.
- Scottish Government will continue to work with organisations such as Innovate UK and the Big Innovation Centre.

Workplace innovation and digital

The strategy defines innovation as stretching beyond R&D and including new approaches to business practices, workplace development and the application of new technologies. In particular workplace innovation has the potential to benefit businesses, organisations and society. Initiatives include:

- A renewed focus through the Fair Work Convention to build on the Working Together Review and align with similar work such as the Workplace Innovation Consortium.
Commercialisation of research and development

The strategy states that Scotland’s universities “lie at the heart of the innovation system” in Scotland. The 2014 Research Excellence Framework identified 77% of Scottish university research as world leading (four star) or internationally excellent (three star) compared to 76% for the UK.

Activities to improve industry and academic networks include:

- **Innovation Centres**, partnerships between business and academia to apply knowledge and innovation into business
- **The Scottish Funding Council** delivers programmes that encourage universities to interact with businesses and commercialise products or services developed by researchers
- **Interface** is a central hub connecting businesses across Scotland, and internationally, to Scotland’s higher education and research institutes

Public services

The Scottish Government’s programme of public service reform aims to shift away from crisis intervention and focus on the causes of problems. By delivering support and investment directly to communities the Scottish Government is seeking to build the capacity of communities to tackle problems with innovative local solutions.

Activities to encourage innovation in public service delivery include:

- **The Building Safer Communities** programme
- **Recent reform** of the police and fire and rescue services providing a more cost effective and better service to the public, this innovation has protected and improved local services
- **NHS Research Scotland** ensures Scotland provides the best environment to support clinical research and innovation in health care
- **The Procurement Reform (Scotland) Act 2014** introduces a duty on public bodies to consider how they can promote innovation through their procurement

INTERNATIONALISATION

The strategy sets out Scotland’s approach to “strengthening our links with the global economy” via increasing trade, attracting investment, sharing skills and expertise and collaborating to support innovation and sustainable growth.

A key means of delivering this is through the International Framework. Trade and investment will continue to be encouraged by Scottish Development International, other Enterprise Bodies and the Scottish Government itself. However a new trade and investment strategy is to be developed.
CHALLENGES

The strategy points to measures to improve international connectivity, for example by increasing direct flights from Scotland and by enhancing digital connectivity. The strategy suggests that an international mind-set is required right across government, and indeed that an understanding of the wider world is vital.

EVIDENCE AND BASELINE

Whilst the cash value of international exports has increased, relative to the size of the overall economy the value of international exports declined to the mid 2000s and then remained stable. The latest Global Connections Survey shows international exports in 2013 (excluding oil and gas) were £27.9 billion.

Figure 5 – International Exports relative to size of the Scottish economy

Source: Quarterly National Accounts Scotland 2015 Quarter 1, Scottish Government

KEY POLICY MEASURES

Trade and investment

The new strategy states that attracting investment and expanding into international markets is “integral to boosting Scotland’s economic performance”. The latest EY inward investment report (EY, 2014) shows Scotland secured more inward investment projects than any UK region or country outside of London. Scotland has secured the second highest number of inward investment projects outside of London for three of the past four years.

Initiatives outlined in Scotland’s Economic Strategy include:

- Scottish Development International (SDI) will focus on new opportunities to attract further investment and encourage those already in Scotland to consolidate and expand
- The Scottish Investment Bank prioritises lending to support SMEs with international ambitions
- SDI’s International Manager for Hire programme gives companies support from individuals with proven international commercial expertise
• A High Growth Market Unit will support companies selling to emerging high opportunity markets such as China, India and the Middle East

• A key aspect of the strategy will be supporting particular sectors where Scotland has an international comparative advantage

**International connectivity**

Improving Scotland’s international connectivity may help boost trade, tourism and investment. The new strategy highlights that Scotland is currently served by direct flights to more than thirty countries and commits to improving both long-haul and hub connections to Scotland.

The Smith Commission recommended Air Passenger duty be devolved to the Scottish Parliament (Smith Commission, 2014). Scotland’s Economic Strategy restates the Scottish Government’s intention to reduce APD by 50% before the end of the next Parliament. The Scottish Government's longer term goal is to abolish APD “when public finances allow”.

**Global outlook, influence and networks**

The new strategy outlines a commitment to embed an international outlook and understanding of the world to ensure that Scotland remains internationally competitive. Policies include:

• Increasing foreign language proficiency for school-aged children

• Making the case for Scotland to remain a constructive member of the EU

• Connected Scotland encouraging joint working across Scotland’s Higher Education institutions and to encourage international students to study in Scotland

• Scotland Europa’s guidance on European policies and funding

• The GlobalScot network of 600 business leaders, entrepreneurs and executives across 51 countries with a connection to Scotland providing support to Scottish businesses

• The Scottish Government’s four overseas offices and Scottish Development International’s 29 offices in 17 countries

• Agencies, including VisitScotland and Creative Scotland supporting successful major international events including the 2014 Commonwealth Games, the Ryder Cup at Gleneagles and the MTV Europe Music awards in Glasgow

**IMPLEMENTING THE STRATEGY**

**FURTHER DETAIL AND DIRECTION**

Scotland’s Economic Strategy tackles wider social challenges than any other previous economic strategy for the Scottish economy since devolution. Further powers will be devolved to the Scottish Parliament which may help shape growth in Scotland’s economy; the strategy outlines how these additional powers may be used.
Given the broad coverage, the strategy states that further detail and direction on policy priorities and initiatives will be published in the coming months. Areas where further detail and direction will be provided include:

- Scotland’s International Framework
- Trade and Investment Strategy
- Scotland’s Oil and Gas Strategy
- Fair Work
- Social Justice

DELIVERY PARTNERS SUPPORTING THE STRATEGY

The strategy emphasises the “One Scotland” approach including all public sector agencies, private sector, the third sector and universities and colleges. Previous economic strategies were used to inform the business plans and strategies of delivery partners.

Scottish Enterprise was the first delivery partner, cited in Scotland’s Economic Strategy, to publish their business plan showing how their planned activities will support the new strategy (Scottish Enterprise 2015). Scottish Enterprise’s overall budget of £321.2 million is broken down with planned investments shown by the themes outlined in Scotland’s Economic Strategy (Table 2).

The breakdown of Scottish Enterprise’s planned activities by theme will help scrutiny and sets the standard for other delivery partners. However, this raises two issues about how far the planned activities of Scottish Enterprise will support the Scotland’s Economic Strategy.

Firstly, reducing inequality and promoting growth are a central theme of Scotland’s Economic Strategy. The strategy outlines how tackling inequality is expected to strengthen economic performance, improve productivity and provide more sustainable growth.

However, the largest share of the Scottish Enterprise budget is focused on investment (39.2%). Inclusive growth accounts for the lowest budget share (10.0%) of the four themes from Scotland’s Economic Strategy. Having said that, all four business plan themes are interdependent with activity in one area having an impact on others. The planned investment is based on projections and Scottish Enterprise can allocate budgets to emerging opportunities as they arise.
Table 2 – Scottish Enterprise Planned Investment by Theme (2015-16)

<table>
<thead>
<tr>
<th>Theme</th>
<th>Investment (£m)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internationalisation</td>
<td>£40.7</td>
<td>12.7%</td>
</tr>
<tr>
<td>Innovation</td>
<td>£46.8</td>
<td>14.6%</td>
</tr>
<tr>
<td>Investment</td>
<td>£126.0</td>
<td>39.2%</td>
</tr>
<tr>
<td>Inclusive growth</td>
<td>£32.2</td>
<td>10.0%</td>
</tr>
<tr>
<td>Cross cutting activity</td>
<td>£29.4</td>
<td>9.2%</td>
</tr>
<tr>
<td>Running the business</td>
<td>£46.1</td>
<td>14.4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>£321.2</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Source: Scottish Enterprise 2015 – 2018 Business Plan

Secondly, the extent to which the planned investment within each theme will deliver the outcomes described in Scotland’s Economic Strategy. For example, Scottish Enterprise cites two areas of planned investments supporting inclusive growth:

- Entrepreneurship, Leadership & Organisational Development
- Job Creation/Safeguarding Grant Support Schemes

The business plan covers the years from 2015-16 to 2017-18 for which detailed targets have been set within the inclusive growth theme including:

- 22,000 – 28,000 planned jobs through attraction of inward investment
- 2,000 – 2,500 companies developing their leadership through SE support
- 550 – 750 entrepreneurs increasing their capacity to create internationally competitive early stage ventures

It is unclear how the above Scottish Enterprise activities will support inclusive growth as described in Scotland’s Economic Strategy. Scottish Enterprise published an online article on the evidence base supporting the four business plan themes (including inclusive growth). Within the theme of inclusive growth, Scottish Enterprise emphasised their support in attracting inward investment projects to Scotland.

Scottish Enterprise cites three evaluation reports as evidence supporting their inclusive growth activities. This includes the evaluation of SDI (SQW, 2010), Scottish Edge and Planning to Succeed.

The evaluations of Scottish Edge and Planning to Succeed offer limited evidence of supporting inclusive growth. The evaluation of SDI shows supported inward investment projects paid workers higher wages and companies enjoyed higher labour productivity (output per worker). Care needs to be taken in interpreting the aforementioned improvement as evidence of inclusive growth.
The latest Scottish Annual Business Statistics for 2013 is consistent with higher wages and labour productivity among foreign owned companies cited by Scottish Enterprise. Wages were around 66% higher among foreign owned companies and labour productivity was around three times higher compared to Scottish owned companies, as shown in Table 3.

**Table 3 – Gross wages and salaries share of Gross Value Added (GVA) 2013**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Company Ownership</th>
<th>Difference between Scotland &amp; Abroad</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Wages &amp; salaries %</strong></td>
<td>Scotland 48.8%</td>
<td>Rest of UK 36.9%</td>
</tr>
<tr>
<td><strong>Average wages &amp; salaries</strong></td>
<td>£18,820</td>
<td>£21,225</td>
</tr>
<tr>
<td><strong>GVA per head</strong></td>
<td>£38,567</td>
<td>£57,579</td>
</tr>
</tbody>
</table>

Source: Scottish Government, Annual Business Statistics

Table 3 also shows that gross wages and salaries accounted for nearly half of GVA (48.8%) within Scottish owned companies but around one quarter (27.0%) of GVA among foreign owned companies. As outlined earlier, the share of the UK’s economy accounted for by wages has fallen in recent decades and is cited by the new strategy as a potential cause of rising inequality⁷.

The data presented above suggests that it is not immediately clear what role inward investment plays in addressing inequality. Additionally many foreign owned firms will operate in Scottish Enterprise’s key sectors such as food & drink, energy and life sciences and will benefit from wider support beyond inward investment.

This is the first Scottish Enterprise business plan in line with the new economic strategy and Scottish Enterprise is still in the process of aligning budgets, staff and activities to the new priorities. The measures and targets aligned to inclusive growth will evolve to reflect delivery.

This analysis highlights the need for a clear definition of what constitutes inclusive growth and how it can be measured, both in terms of the activities contributing towards this aim and the changes that will demonstrate success.

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⁶ Difference in wages and salaries as a % of GVA is shown as difference in percentage points.

⁷ Piketty (2014) discusses the role of the ownership of capital (including foreign ownership) as a cause of inequality.
APPENDIX

Targets in the Government Economic Strategy

The Government Economic Strategy (Scottish Government, 2007b) contains nine targets under the following themes:

- **Growth targets**
  - match the GDP growth rate of the small independent EU countries by 2017
  - raise Scotland’s GDP growth rate to the UK level by 2011

- **Productivity target**
  - rank in the top quartile for productivity among OECD economies by 2017

- **Participation target**
  - maintain position as top performing UK country in terms of labour market participation and close gap with top 5 OECD economies by 2017

- **Our population target**
  - match average European (EU-15) population growth (2007 to 2017), supported by increased healthy life expectancy in Scotland

- **Our solidarity target**
  - increase overall income and the proportion of income earned by the three lowest income deciles as a group by 2017

- **Our cohesion target**
  - narrow the gap in participation between Scotland’s best and worst performing regions by 2017

- **Our sustainability targets**
  - reduce emissions by 80 per cent by 2050
  - reduce emissions over the period to 2011
SOURCES


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