

**ENTERPRISE & SKILLS STRATEGIC BOARD  
STRATEGY DAY PAPERS**

**31.03.21**

**SB(31.03.21)2a – Annual Analysis Report**

|                        |   |
|------------------------|---|
| <b>AGENDA ITEM</b>     | Item 2 - Annual Analysis  |
| <b>LEAD OFFICIAL</b>   | Richard Murray, Analytical Unit   |
| <b>PAPER REFERENCE</b> | SB(31.03.21)2a – Annual Analysis Report                                     |
| <b>SUMMARY OF ITEM</b> | An update on the emerging findings from the annual analysis work from 2020. |
| <b>BOARD INPUT</b>     | To review and discuss   |



# Enterprise and Skills Strategic Board Annual Analysis 2020

Presented to the Board in March 2021

# Contents

*Purpose*

*Summary*

|                        |    |
|------------------------|----|
| 1: Performance         | 3  |
| 2: Evidence of impact  | 16 |
| 2.1 Activity Bundles   |    |
| 2.2 Missions           |    |
| 2.3 Recent Evidence    |    |
| 3: Priorities for 2021 | 36 |

## Purpose

The Enterprise and Skills Strategic Board (ESSB) set out their ambition in the Strategic Plan to review the performance of enterprise and skills activity in Scotland. In March 2019 the Board signed up to a six-part Performance Framework, of which the Annual Analysis is a key part.

The Annual Analysis aims to:

1. Analyse the Performance Framework indicators and demonstrate areas where Scotland's performance is strengthening or weakening; and linking this to the activity of the agencies.
2. Highlight recent analysis and evidence on key areas that relate to the performance of these indicators and update the Board on the outputs from the Analytical Unit's research; and
3. Use this analysis to recommend areas of focus for the Board in 2021.

## Summary

2020 was a year like no other. The global health crisis of Covid-19 created an economic crisis which resulted in the largest drop in UK GDP on record. The economic shock prompted an extraordinary response from governments across the world to support employment and protect businesses and household incomes.

At the heart of the Scottish Government's response to the economic impact of the pandemic, is the enterprise and skills system, with agencies pivoting to provide vital support to businesses and support for learners. They have helped protect livelihoods and safeguard opportunities for our young people and those made redundant.

The health, social and economic impacts of the crisis are wide-ranging. With a recent report on Scotland showing that health, economy, fair work and business and culture national outcomes have been deeply negatively affected, and as the impact on the labour market fully emerges, outcomes for poverty are also likely to worsen.<sup>1</sup> In addition, the effects of the pandemic are likely to increase both income and wealth inequalities in Scotland over the medium term.

The challenging economic climate has been intensified by the end of the EU transition period and the start of the new free trade agreement. This has not been a smooth process, with businesses facing additional costs, delays in trading with the EU and this coming at a time when global trade is forecast to have decreased by 9.2% in 2020.

Many of the indicators in the Board's Performance Framework are yet to capture the impact of the pandemic and the UK's new trading relationship with the EU. Therefore, this report presents an update on the framework's indicators, and also draws on more recent evidence to set out the likely implications from Covid-19 for the key areas the Board is seeking to improve. In addition, this report sets out the evidence on the impact of the enterprise and skills system, drawing together the research undertaken by the Analytical Unit (AU) and agencies.

Amidst this unprecedented upheaval in the global economy since the outbreak of the pandemic, there are likely to be long term implications for how consumers, businesses and governments behave going forward. These will have serious implications for productivity, wellbeing, equality and sustainability, and therefore the Strategic Board's ambitions in these areas.

Therefore it is recommended that the Board focuses on the following areas in 2021:

- Drawing together evidence of the emerging impacts from the UK's departure from the EU which will support the Board's consideration of the forthcoming refresh of the Strategic Plan and the Scottish Government's new export plan. Using this as an

---

<sup>1</sup> [Scotland's Wellbeing: The Impact of COVID-19-19 | National Performance Framework](#)

opportunity to have a coordinated refresh of future priorities across the whole enterprise and skills system.

- Streamlining the innovation landscape to ensure greater alignment and collaboration in the system which will make it easier for businesses to access the right type of support.
- Examine the latest evidence on the reasons why Scotland lags other international countries on productivity and consider how the pandemic might affect the key actions for raising Scotland's productivity going forward.
- Develop recommendations to share with Ministers on post-school education and training based on the outputs of the Education and Skills Impact Framework in Autumn 2021, alongside the recommendations from the Scottish Funding Council review on Coherent Provision and Sustainability.

# 1: Performance

1. In 2020, economies across the world faced the largest economic shock in living memory, with the impact of the pandemic eclipsing the financial crisis of 2009-10. The following section provides an overview of the economic context of the Board's activities over the past year, and the productivity, equality, wellbeing and suitability indicators within the Enterprise and Skills Board Performance Framework. Many of the Performance Framework indicators do not yet contain post-March 2020 data, however remain useful for the Board in highlighting medium term trends that were ongoing when the crisis hit. While the pandemic has created new challenges for the Scottish economy, the longer-term economic weaknesses of the Scottish economy identified through the Performance Framework remain.
2. For more detailed economic discussion please see the latest Scottish Government Monthly Economic Brief (SG)<sup>2</sup> and Fraser of Allander Institute Economic Commentary (FAI).<sup>3</sup>

## Economic overview

3. The pandemic and necessary restrictions on activity have had unprecedented impacts on economic output in 2020. In Quarter 2 2020 during the national lockdown, Scottish GDP fell by 18.5% - the largest fall on record. To compare, while very different in nature, Scotland's GDP only fell around 4% over six quarters during the global financial crisis.<sup>4</sup> All sectors of the economy contracted significantly in Quarter 2: 17.8% in services, 15.7% in production and 38.7% in construction. At its lowest point in April 2020, Scotland's GDP fell to 23.4% below its pre-pandemic level in February 2020. As at December 2020, GDP had partly recovered to 7.2% below its pre-pandemic level. However, the outlook remains extremely uncertain and the Scottish Fiscal Commission forecast that Scottish GDP will return to pre-pandemic levels in early 2024.<sup>5</sup>
4. Businesses have been hugely affected by the Covid-19 pandemic and ensuing economic crisis, with more than 1 in 7 UK businesses at risk of failure by early April 2021, and registered business deaths at record levels.<sup>6</sup> National and regional restrictions to protect public health have meant an expected downturn in businesses activity, turnover and business investment. Businesses activity<sup>7</sup> in Scotland fell for the fifth consecutive month in February. As expected the proportion of businesses currently trading is in line with lockdown restrictions, with a greater share of businesses temporarily closed in recent months as restrictions have tightened.

---

<sup>2</sup> [Scottish Government, Monthly economic brief: March 2021](#)

<sup>3</sup> [Fraser of Allander Institute, Economic Commentary, March 2021.](#)

<sup>4</sup> [Scottish Government, State of the Economy, September 2020.](#)

<sup>5</sup> [Scotland's economic and fiscal forecasts. January 2021.](#)

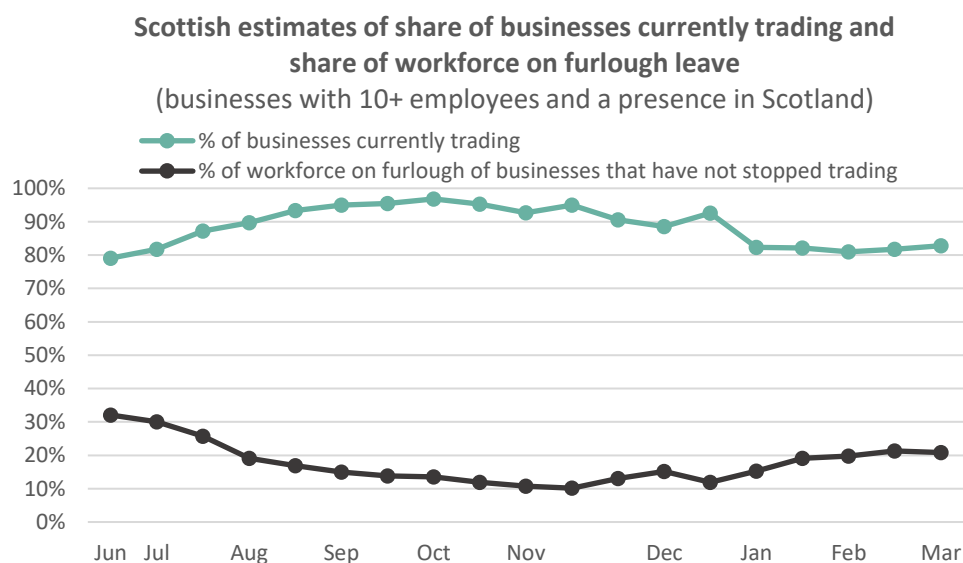
<sup>6</sup> [Centre for Economic Performance, January 2021. A major wave of UK business closures by April 2021? The scale of the problem and what can be done.](#)

<sup>7</sup> [Scottish PMI Business Survey for February 2021.](#)

5. However, business confidence continues to show encouraging signs as the vaccine has been rolled out, and there is the potential for the accumulation of savings to support a strong return of business investment and consumer spending. EU Exit continues to play a significant role. The free trade agreement with the EU has brought a degree of certainty, though businesses remain under pressure to adapt quickly to new EU trading requirements. Data from the Business Impact of Coronavirus Survey in the box below provides further information.<sup>8</sup>

### Insight

The Office of National Statistics fortnightly Businesses Impact of Coronavirus Survey (BICS) captures how business trading status, turnover, workforce and business resilience have been affected in a two week reference period. The latest survey (Wave 25, 22 February – 7 March 2021) indicates that **many businesses are still managing to adapt** to the prolonged challenges posed by COVID-19.



- The **share of businesses currently trading** remains low at 83% reflecting current restrictions; a decrease from 93% in the second half of December.
- The **share of businesses currently trading with staff on furlough leave** is currently at 67%, lower than in June (80%) but higher than November (48%).
- However, there are signs of **weak business resilience**, with 30% of businesses with no or less than 3 months cash reserves; and 17% report severe to moderate rate of insolvency.
- The survey indicates significant improvements in **business turnover**, with 45% of businesses reported decreased turnover compared with what is normally expected for this time of year, whereas June/July 2020 this figure was at 65%.
- Furthermore, of businesses **currently trading that had exported** in the last 12 months, 36% of businesses reported exporting less than normal, which is an increase from 16% in Dec-Jan 2021.
- Moreover, fewer businesses are reporting difficulties **obtaining required materials goods or services**: 10% (down from 20% in Jun-Jul 2020) of businesses had reported supply issues, with 3% of businesses not being able to obtain the materials they needed.

<sup>8</sup> BICS Wave 25, 19 March 2021.

6. In terms of the labour market, in the absence of the extensive government support provided to businesses, it is likely that the rate of unemployment would be significantly higher. The claimant count almost doubled, and was at 212,600 in February 2021 an increase of 89% over the year.<sup>9</sup> Take up of the Coronavirus Job Retention Scheme (CJRS) fell from 489,000 employments on 1 July, and at the end of January was estimated at 362,300 employments (14%).<sup>10</sup> Similarly, self-employed individuals in Scotland have made 131,000 claims for the third grant of the Self-Employment Income Support Scheme Grant made to 31 January totalling £373 million.<sup>11</sup>
7. Data over the year to December 2020 showed that young people aged 16-24 were worse off than other age groups with the largest drop in employment (6.0 percentage points) and rise in inactivity (3.2 percentage points ) compared to the same year in 2019. Compared with the UK unemployment for young people is higher (13.5 per cent v UK 13.3 per cent), employment rate is lower (51.9% v 52.3% UK) and the inactivity rate is higher (40.0% v UK 39.6%).

## Regional impact

8. The impact of the economic crisis on local authority regions reflects much of the population and business make up of that region as well as differing lockdown restrictions for much of 2020. For example, Glasgow City (with the highest number of Covid-19 deaths to date for Scottish Local Authority regions) has the highest number for employees on furlough, the highest number of business grant applications, and has the second highest claimant count. South and North Lanarkshire have the next highest rate of positive cases of Covid-19 per 100,000 of the population, and is also are ranked high in terms of employees furloughed and the Self-Employed Income Support Scheme, with North Lanarkshire also having the highest youth employment rate at 20.5% compared to the Scottish average (9.6%).
9. Rural areas have been uniquely impacted due to their sectoral composition but as can be seen from Figure 1, are at somewhat less exposure than higher populated regions. Rural regions saw strong take up rates of the CJRS, though slightly lower rates compared to higher populated areas. There were also large increases in unemployment related benefit claimants, with five rural local authority areas seeing an increase of over 90% on the year to January 2021. In terms of business support, in the latest tranche from October to January, the Highlands had the 4th highest number of business grants awarded after Glasgow, Edinburgh and Fife.
10. One significant impact of the national and international lockdowns has been the decrease in demand for oil and gas, significantly hitting the North East region of Scotland. Aberdeen City and Aberdeenshire are among the highest ranked local authority regions for employees furloughed on the CJRS.

---

<sup>9</sup> [Scotland's Labour Market Trends, March 2021](#)

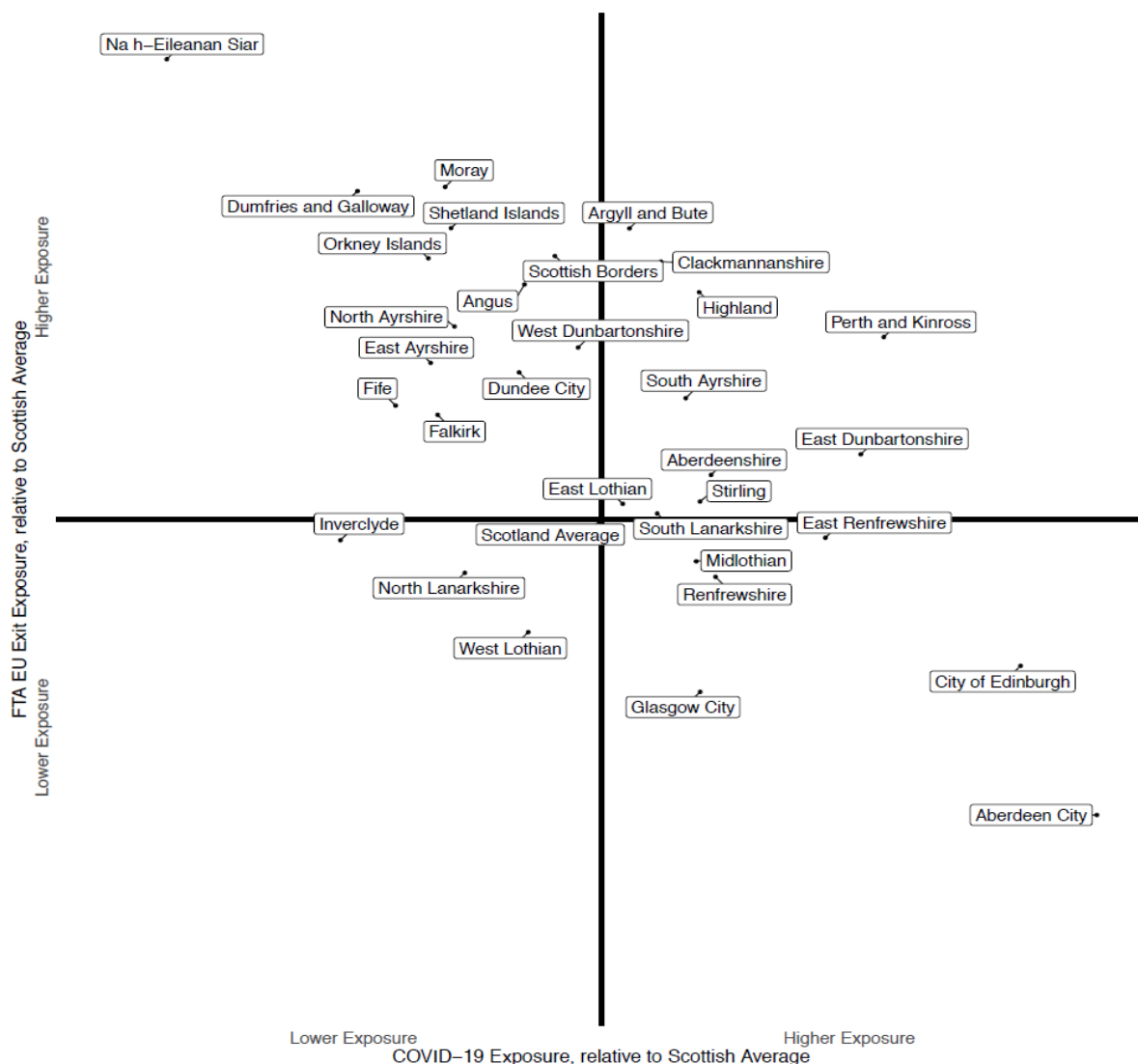
<sup>10</sup> [Coronavirus Job Retention Scheme statistics: February 2021 - GOV.UK \(www.gov.uk\)](#)

<sup>11</sup> [UK GOV, Self-Employment Income Support Scheme statistics, February 2021](#)



11. Local Authorities are also facing differing exposure to EU Exit. The Office of the Chief Economic Adviser have estimated the exposure of Local Authorities to the impact of Covid-19 and EU Exit (see Figure 1 below).<sup>12</sup> Overall, there are very few local authorities which are expected to experience low levels of exposure to both Covid-19 and EU Exit. Local authorities expected to face the highest exposure to EU Exit impacts are those with high concentrations of industries most exposed to the introduction of UK-EU trade barriers, i.e. agriculture and fishing, food manufacturing and chemicals. Local authority areas more exposed to the pandemic are those with high employment shares in the sectors most affected by the pandemic (e.g. Accommodation and Food sector).<sup>13</sup>

**Figure 1: Local Authority estimated exposure to Covid-19 and EU Exit impact**



<sup>12</sup> FTAs EU Exit exposure refers to a Free-Trade Agreement EU Exit. As EU export exposure varies within industries at a product level (for example, specific areas of agriculture such as cattle and sheep farming are most exposed), it is possible that the aggregation of industries in this analysis could lead to some local authorities being over or under estimated in their EU Exit exposure rating. For example, given specific areas of agriculture are particularly exposed to EU exit, local authorities with agriculture that predominantly sells to the domestic UK market could be over-estimated in their EU Exit exposure rating. Given the EU exit analysis underlying this local authority analysis focusses on EU export exposure, there is a possibility that some industries could see a corresponding benefit from lower EU competition. This could mean higher sales to the domestic UK economy, with the net-outcome for the domestic industry being much more uncertain.

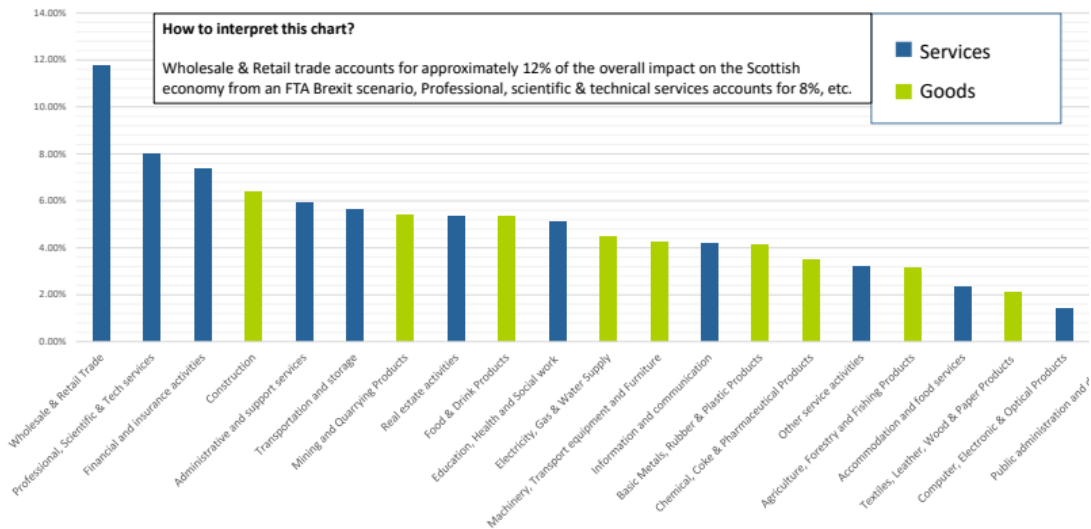
<sup>13</sup> COVID-19 Exposure is calculated using indicators that indicate the impact of COVID-19 on a local economy. These include furlough and the Self-Employment Income Support Scheme statistics, claimant count, employment in the most-exposed sectors (retail and accommodation & food services), and PACE management information, which gives an indication where companies are considering redundancies.

### Insight

On 24 December 2020 the UK Government announced a Free Trade Agreement (FTA) with the European Union. Economic analysis published by the Scottish Government examined the impact of a FTA across 21 sectors. All sectors would see a long term decrease in gross value added (GVA), compared to remaining in the EU. 17 sectors in Scotland see a proportionately larger impact than the rest of the UK (rUK), with 9 of these experiencing an impact 20% greater than the equivalent rUK sector. This is largely reflective of the fact that restrictions on EU migration are expected to have a greater impact in Scotland.

- In percentage terms, **production sectors** are more adversely affected, with the largest decline in GVA estimated from Chemicals and Pharmaceuticals (10.1%).
- However, in absolute terms (figure 2), **service sectors** are estimated to contribute more to the overall GVA decline, as these make up around 75% of the Scottish economy. Of these, wholesale and retail trade are expected to contribute most to the decline of the Scottish economy, accounting for approximately 12% of the overall impact in an FTA EU Exit Scenario. Professional services, financial services and construction also account for sizeable changes, with these estimated to account for around 40% of the overall change in Scottish GVA. However, there is generally a high degree of alignment in these sectors across all of the UK, indicating that the hit to Scotland will be proportionally similar to the rest of the UK.

**Figure 2: FTA results – Contribution to Total Decline in Scotland GVA**



This research does not include the effects of the pandemic, which will undoubtedly be significant, however further analysis is being conducted and the Board will be updated when this is available.

## Performance Framework Indicators

12. The 2020 economic crisis happened in the context of longer term economic challenges Scotland faced, captured by the ESSB Performance Framework (aligned to the National Performance Framework<sup>15</sup>). This section provides an update on new data available since the previous Annual Analysis (January 2020).<sup>16</sup> Please note that only 2 indicators include data post-March 2020 (marked by \*). Therefore consideration should be given to how the remaining indicators might be expected to shift in 2021 onward. The indicators also link in with the 4 Missions of the Board: Business Creation and Growth, Exporting, Future Skills, and Business Models and Workplace Innovation.
13. In this year's report, almost half of the indicators are experiencing long term improvement, the same as last year's report. The long term trend of four indicators has improved: entrepreneurialism, gender difference in employment rates, natural capital, and income inequality. The long term trend of three indicators has worsened: the skill profile of the population (adults with no/low qualifications), innovation active businesses and high growth businesses. (There is no new data available for skills shortage vacancies, skills under-utilisation, school leavers qualifications, mental wellbeing and greenhouse gas emissions.<sup>17</sup>)
14. Scotland ranks in the 1<sup>st</sup> quartile of OECD nations for young people's participation and the 2<sup>nd</sup> quartile internationally for six indicators including number of businesses per 10,000 of the population, and gender difference in employment rates.

## Productivity Indicators

15. Scotland remained placed in the 2<sup>nd</sup> quartile of OECD countries in 2019 for productivity; having seen almost no change in this ranking since 2002.<sup>18</sup> The UK is also in the 2<sup>nd</sup> quartile, ranked only one place higher than Scotland. Over the past year the Analytical Unit has undertaken research into understanding why Scotland's productivity performance has lagged many comparator countries. See Section 2 for more details.
16. Although the 5 year trend is positive for economic growth, the rate of growth has slowed, with annual GDP growth falling to 0.8%. Consequently, Scotland was ranked in the 4<sup>th</sup> quartile internationally for economic growth. Looking ahead, the UK and Scotland are expected to suffer worse than other countries following the current economic crisis and therefore Scotland's ranking is unlikely to improve in the short-term.<sup>19</sup> However it should be noted that there are many dependencies and it is too early to evaluate how countries differing responses to the pandemic will impact economic recovery.

---

<sup>15</sup> [National Indicator Performance, National Performance Framework. Scottish Government, 2021.](#)

<sup>16</sup> For more information on the indicators please see the [Enterprise and Skills Strategic Board Annual Analysis 2019; Supporting Annex](#)

<sup>17</sup> The two skills related indicators are unavailable due a change in the survey procedure for both. New Scotland specific data should be available in the next 6 months.

<sup>18</sup> Scotland's ranking rose to 15<sup>th</sup> in 2004 and 2006.

<sup>19</sup> To compare, the OECD forecasts for Germany activity falling by 5½% in 2021, rebounding by 2.8% in 2021; for France a 9.1% fall in activity in 2020, expanding by 6% in 2021.

**Performance Framework Graphic example:**

Scotland was ranked 16<sup>th</sup> in terms of OECD productivity ranking (2<sup>nd</sup> quartile), showing no change from the last data release and no change over the long term.

- Improvement
- No change
- Worsening
- Data not available
- UK comparison

|                            | Latest Scottish data                                   | Medium term trend | OECD / UK comparison and quartile |
|----------------------------|--|-------------------|-----------------------------------|
| Business Creation & Growth | Productivity, OECD rank                                | 16th              | 2                                 |
|                            | Economic Growth, vs 3 year average                     | -0.4pp            | 4                                 |
|                            | Number of businesses per 10,000 adults                 | 395               | 2                                 |
|                            | High growth businesses, % of all                       | 1.0%              |                                   |
|                            | Entrepreneurialism                                     | 7.2%              | 2                                 |
| Productivity               | Innovation active businesses                           | 32.2%             | 4                                 |
|                            | R&D spend, £m  | 1.65%             | 3                                 |
|                            | International exporting, £m                            | 33,830            | 4                                 |
|                            | Scotland's reputation                                  | 62.6              | 2                                 |
| Exporting                  | Access to broadband                                    | 93%               | 2                                 |
|                            | *Economic participation, vs best performing UK country | -1.7pp            | 2                                 |
|                            | Young people's participation                           | 92.1%             | 1                                 |
|                            | Educational attainment                                 | 60.5%             | 2/3                               |
|                            | Skill profile of population, low/no qualifications     | 11.6%             | 3                                 |
| Future Skills              | Skills shortage vacancies, % of establishments         | 6%                | 2                                 |
|                            | Skills under-utilisation, % of establishments          | 35%               | 2                                 |
|                            | Work place learning                                    | 23.7%             | 3                                 |
|                            | Business Models & Workplace Inn.                       |                   |                                   |

Note: This diagram also highlights which indicators the Board's four Missions should impact.

## Business related indicators

17. The number of businesses per 10,000 of the population continues to increase in Scotland, however the stock of businesses has remained relatively stable since 2015. Across the UK, the business stock has increased since 2015.<sup>20</sup> Latest Scottish data shows an increase over the year to March 2019 of 2.2% in the business stock, driven by a rise in the number of unregistered businesses (those not registered for VAT and/or PAYE).<sup>21</sup> Small or Medium-sized Enterprises (SMEs) accounted for 99.3% of private sector businesses, providing an estimated 1.2 million jobs (55.7% of private sector employment). Scotland continues to rank in the 2<sup>nd</sup> quartile of OECD nations. Prior to the pandemic, data showed that in the UK fewer businesses survive to 5 years relative to other EU countries. The pandemic is likely to result in increased business churn, with the scale vastly dependent on the length of the pandemic and its concurrent restrictions, and government support measures.
18. Only two business related indicators are worsening in performance over the longer term, both of great importance to the Board: high growth businesses<sup>22</sup>, and innovation active businesses. In 2017-2020, 1.0% of all registered businesses - 1,845 businesses - were reported as high growth, down from the 1.1% in 2012-2015. Businesses that are innovation active, decreased from 45.0% in 2014-2016 to 32.2% in 2016-2018 (UK: 37.6%).<sup>23</sup>
19. At the same time, there has been continued growth in gross spend on Research & Development (GERD), increasing in line with the UK rate at over 4% between 2017 and 2018. And in 2019, business investment in Research and Development<sup>24</sup> in Scotland increased at a faster rate (1.5%) than the UK (0.8%).<sup>25</sup> However, Scotland's GERD in 2018 represented 1.65% of Gross Domestic Product (GDP), below that for the UK (1.71%), the EU (2.03%) and the OECD (2.38%),<sup>26</sup> with Scotland remaining in the 3<sup>rd</sup> OECD quartile.
20. While the long term trend for exports remains positive, exports fell considerably in 2020 and are expected to face further challenges as the UK transitions to the new Free Trade Agreement with Europe. In Quarter 3 2020 (compared to Quarter 3 2019) the value of Scotland's goods exported decreased by 26%. The substantial fall has been mainly driven by a decrease in Oil and Gas (down 60% in Q3 2020 from Q3 2019) and Beverages and Tobacco (down 16%).<sup>27</sup> This was set within the context of a global slowdown in trade, which the WTO forecasts fell by 9.2% in 2020.<sup>28</sup>

---

<sup>20</sup> Defined by 'active enterprises'. [All data related to Business demography, UK: 2019 - Office for National Statistics \(ons.gov.uk\)](#)

<sup>21</sup> [Businesses in Scotland, 2020. Published November 2020.](#)

<sup>22</sup> A high growth business is defined here as a business with 10+ employees in the base year (x-3) exhibiting an average of 20% annual growth in turnover over three years.

<sup>23</sup> [UK Innovation Survey 2019 – Results for Scotland.](#)

<sup>24</sup> BERD can fluctuate considerably year on year, especially as dependant on a small number of businesses. In 2019, five businesses accounted for over a third of all Scottish BERD spending (36.8%).

<sup>25</sup> [Business Enterprise Research and Development Scotland 2019. Published December 2020.](#)

<sup>26</sup> [Gross Expenditure on Research and Development, 2018. Published October 2020.](#)

<sup>27</sup> [UK Regional Trade in Goods Statistics, Quarter 3 2020. Published December 2020.](#)

<sup>28</sup> [WTO, October 2020.](#)

21. The indicator on access to broadband is under development, but the latest OfCom Connected Nations report 2019 reported that superfast broadband in Scotland was around 92% in 2019; an increase of over 89,000 homes.<sup>29</sup> Over 8% of homes also have access to full-fibre broadband which allows faster download speeds. Scotland has improved compared to other UK nations as well, ranking in the 2<sup>nd</sup> quartile.

### Labour market and skills indicators

22. Scotland's economic participation continues to be just under the top highest ranked region in the UK (England); though over the longer term Scotland's performance is worsening. Internationally, Scotland is placed in the 2<sup>nd</sup> quartile. Young people's participation has increased since 2016 (when the indicator was created) and also increased on the year to 2020 to reach 92.1%. However, beneath this top figure, there is a 9.9 percentage point gap in the participation rate between those from the most deprived areas (SIMD quintile 1) and the least deprived areas (SIMD quintile 5).
23. The percentage of adults with no or low qualifications (skill profile of the population) is unchanged in the longer term. In 2018 and 2019, the results remained unchanged with 11.6% of adults have low or no qualifications. Scotland continues to rank in the 3<sup>rd</sup> quartile of OECD countries. Looking at the wider skills context, the numbers of students undertaking higher education qualifications continues to increase<sup>30</sup> and the college sector in 2019-20 again exceeded the target for Full Time Equivalent enrolments.<sup>31</sup>
24. Workplace learning has decreased in the longer term, though saw a slight improvement in the latest data, with 23.7% of employees in 2019 reporting work place learning in the past 3 months, an increase from 22.5% in 2018. However, it is likely that workplace learning will have declined during the pandemic.
25. New data for educational attainment has been delayed, but the latest data for 2018-19 shows performance maintaining; and improvement internationally. The Employer Skills Survey is underway and will report on skills shortage vacancies and skills underutilisation later this year.

---

<sup>29</sup> [Connected Nations 2019, Ofcom. Nations' supplements - Scotland.](#)

<sup>30</sup> [Who's studying in HE? | HESA](#)

<sup>31</sup> [College Statistics 2019-20 Executive Summary \(sfc.ac.uk\)](#)

## Equality, Wellbeing and Sustainability Indicators

26. Performance has improved for the majority of equality, wellbeing and sustainability measures in the past 5 years. Scotland ranks in the top quartile of UK nations for employees earning less than the Living Wage, social capital, use of renewable sources and greenhouse gas emissions. However, Scotland ranks in the 4<sup>th</sup> quartile internationally for income inequality.

|                | Latest Scottish data                             | Medium term trend | OECD / UK comparison and quartile |
|----------------|--|-------------------|-----------------------------------|
| Equality       | Gender difference in employment rates            | 6.3pp             | 2                                 |
|                | Gender pay gap*                                  | 4.2%              | 3                                 |
|                | Income inequality (Palma)                        | 124%              | 4                                 |
| Wellbeing      | Earning less than Living Wage                    | 15.2%             | 1                                 |
|                | Mental wellbeing (avg. score on WEMWBS)          | 51.9              | 3                                 |
|                | Employee Voice                                   | 34.8%             | 2                                 |
|                | Social Capital                                   | 93                | 1                                 |
| Sustainability | Natural Capital Asset Index                      | 102.3             |                                   |
|                | Renewable sources                                | 21.3%             | 1                                 |
|                | Carbon Footprint (million tonnes CO2 equivalent) | 74                |                                   |
|                | Greenhouse gases (change from 1990)              | -50%              | 1                                 |

### Equality

27. Scotland's performance has improved across most of the equality, wellbeing and sustainability measures. The gender employment gap has decreased by 4.3 percentage points since 2007, from 10.6 percentage points to 6.3 percentage points in 2019. In addition, in 2020, the gender pay gap for Scotland was 3.0%, a decrease of 4.2 percentage points on the previous year.

28. Income inequality is broadly stable, however Scotland ranks in the 4<sup>th</sup> quartile of OECD nations. The total household income of the top ten percent of the population had 24% more income compared to the bottom forty percent in 2016-19. This compares to 27%, 24% and 21% more income in the previous periods. Another important measure here is poverty, which is expected to rise due to the pandemic. Working-age families are expected to be most greatly affected due to their being most impacted by labour market changes.<sup>32</sup> Therefore the longer-term trend in income inequality may deteriorate as the full impact of the pandemic emerges.

29. The Fair Work Convention reported in December 2020, see below.<sup>33</sup>

### Insight

The Fair Work (FW) Convention, an independent advisory body to the Scottish Ministers, aims to make fair work a reality for workers and employers in Scotland. Their December 2020 report finds that some indicators of FW are improving, but across all dimensions of fair work, many are maintaining at current levels, indicating a lack of progress. Moreover, some indicators are deteriorating, highlighting growing problems within the labour market. The FW measurement framework assesses progress over five dimensions of FW; **Opportunity, Respect, Security, Fulfilment and Effective Voice**.

- Indicators relating to **opportunity** have generally shown signs of progress, with the disability employment gap, gender economic inactivity gap and the youth unemployment rate all improving over the past five years. Indicators of respect, however, paint a different picture.
- No single **respect** metric has deteriorated or improved significantly over the past five years.
- When considering employment **security** and stability, indicators seem generally positive. Secure employment has seen one of the largest changes, improving by 9.4 percentage points in the past five years. Involuntary non-permanent and part time work, underemployment, the gender pay gap and the ethnicity pay gap have all also improved in this period. However, the disability pay gap and number of zero hours contracts have worsened.
- **Fulfilment** indicators also show several areas where existing problems are worsening, with workplace learning, training duration and skills underutilisation all deteriorating.
- Finally, **effective voice** indicators show mixed results. Trade union membership has seen a decrease over the past five years, however Collective bargaining power (reported by both workers and employers) has improved over this same time period.

<sup>32</sup> [UK Poverty 2020/21, Joseph Rowntree Foundation \(JRF\). January 2021.](#)

<sup>33</sup> [Fair Work in Scotland Report, December 2020.](#)



## Wellbeing<sup>34</sup>

30. The proportion of employees earning less than the Living Wage has decreased from 18.8% in 2012 to 15.2% in 2020. And, the proportion of employees who have reported that they are part of a collective agreement which affects their pay and conditions has increased from 36.2% in 2018 to 38.1% in 2019.
31. Mental wellbeing was reported as unchanged from 2018 to 2019. Adults in the 65-74 age group had the highest average wellbeing compared to adults aged 25-34 who had the lowest average wellbeing. There was little difference between the scores for men and women, or between urban and rural. Those living in most deprived areas reported lower average mental wellbeing compared to those living in the least deprived areas. The effect of the Covid-19 pandemic on mental health cannot be underestimated. Early analysis shows mental health across the UK deteriorated in the first two months of the pandemic: average mental distress was 8.1% higher in April 2020 than it was between 2017 and 2019.<sup>35</sup> Young adults and women were worse affected<sup>36</sup> though there is evidence that both groups may have experienced faster recovery in April and August.

## Sustainability

32. In terms of sustainability, there is improvement across all reported measures: natural capital, renewable sources and carbon footprint. Natural capital has remained relatively stable since the index began, but the past 5 years has seen a slight increase. Energy from renewable sources increased to 21.3% in 2018 (from 19.2% in 2018). The latest data on Scotland's carbon footprint is from 2016 when Scotland's use was continuing to decrease.

---

<sup>34</sup> Please note, the Social Capital indicator is currently under review.

<sup>35</sup> [COVID-19: mental health and wellbeing surveillance report, UK Government, December 2020.](#)

<sup>36</sup> ['The mental health effects of the first two months of lockdown and social distancing during the Covid-19 pandemic in the UK', June 2020. Institute of Fiscal Studies. pdf \(ifs.org.uk\)](#)

## 2: Evidence of impact

33. The Board’s Performance Framework merges the above high level indicators with sound analytical evidence to guide the strategic direction of the Board. The following section outlines work to understand the strength of the evidence of the impact of agency activity; achievements across Missions and updates on evidence and projects across 4 themes: education and skills, innovation, business support and productivity.

### 2.1 Activity bundles: Evaluating the strength of the evidence

34. Agencies are working towards achieving Shared Outcomes which were agreed early in the development of the Performance Framework. Following this, it was recognised that it would be useful to understand the strength of the evidence already available for monitoring the impact of agency activity. Therefore, the agencies collaborated to review all activities undertaken and categorised these into 10 activity groups or ‘bundles’ (e.g. business support, learning and skills, research and innovation). Each group was assessed for the strength of the evidence available using a Red, Amber, Green (RAG) rating across each stage of the activity logic model: from Activities to Strategic Board Priorities. Agencies that are not involved in the activity bundle were removed from that analysis. Figure 3 presents the aggregated results.

**Figure 3: Strength of the evidence on impact across 10 activity bundles, aggregated.**

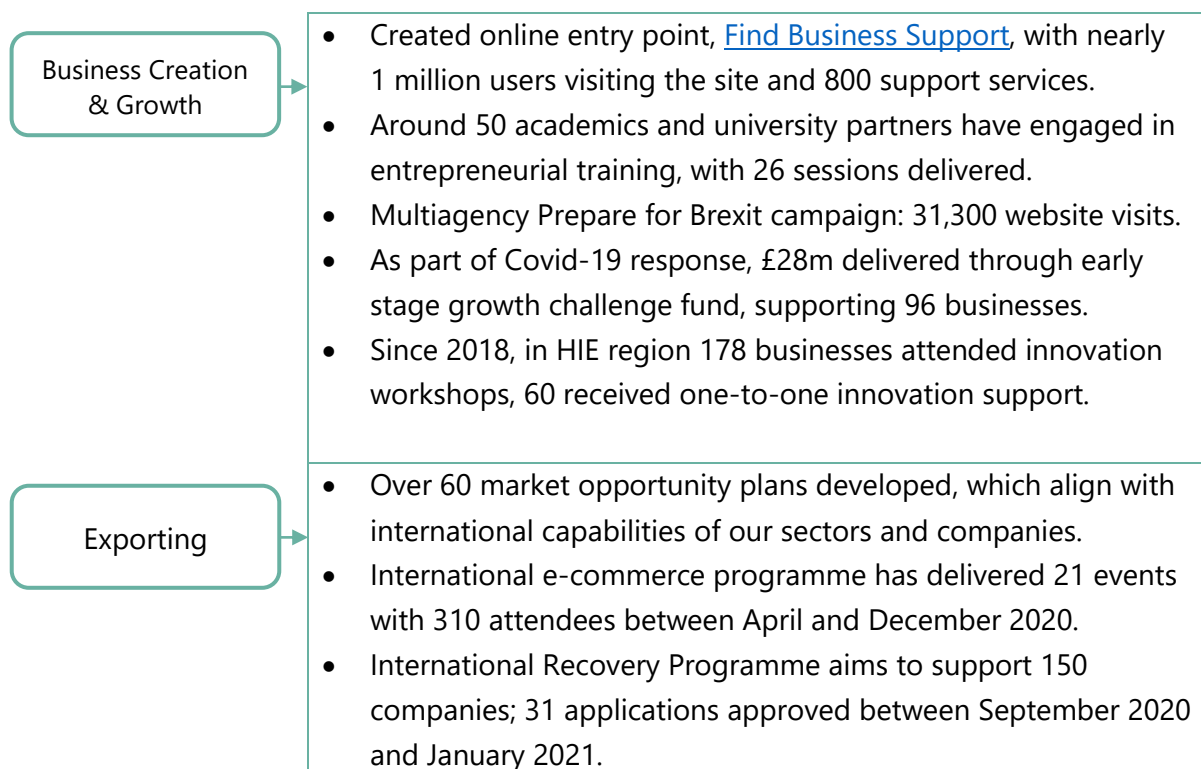
|   | Learning & Skills | Research & Innovation | Business Support    | Inward Investment   | Access & Diversity  | Sector Development  | Entrepreneurship    | Infrastructure & Capital Investment | Community & Place   | Workplace Development |
|---|-------------------|-----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|-------------------------------------|---------------------|-----------------------|
| Strategic Board Priorities to National Performance Framework                  | Mostly evidenced  | Partially evidenced   | Mostly evidenced    | Partially evidenced | Partially evidenced | Partially evidenced | Partially evidenced | Partially evidenced                 | Little evidenced    | Little evidenced      |
| <b>Impact Strategic Board priorities &amp; National Performance Framework</b> | Mostly evidenced  | Partially evidenced   | Mostly evidenced    | Partially evidenced | Partially evidenced | Partially evidenced | Partially evidenced | Partially evidenced                 | Little evidenced    | Little evidenced      |
| Long Term Outcomes to Strategic Board Priorities                              | Mostly evidenced  | Mostly evidenced      | Partially evidenced | Partially evidenced | Partially evidenced | Partially evidenced | Partially evidenced | Partially evidenced                 | Little evidenced    | Little evidenced      |
| <b>Long Term Outcomes</b>   | Fully evidenced   | Mostly evidenced      | Partially evidenced | Partially evidenced | Partially evidenced | Partially evidenced | Partially evidenced | Partially evidenced                 | Partially evidenced | Little evidenced      |
| Interim Outcomes to Long Term Outcomes  | Fully evidenced   | Mostly evidenced      | Mostly evidenced    | Partially evidenced | Partially evidenced | Partially evidenced | Partially evidenced | Partially evidenced                 | Partially evidenced | Little evidenced      |
| <b>Interim Outcomes</b>   | Fully evidenced   | Mostly evidenced      | Mostly evidenced    | Partially evidenced | Mostly evidenced    | Partially evidenced | Partially evidenced | Partially evidenced                 | Partially evidenced | Little evidenced      |
| Short term Outcomes to Interim Outcomes                                       | Fully evidenced   | Fully evidenced       | Mostly evidenced    | Mostly evidenced    | Mostly evidenced    | Partially evidenced | Partially evidenced | Mostly evidenced                    | Mostly evidenced    | Little evidenced      |
| <b>Short Term Outcomes</b>  | Fully evidenced   | Fully evidenced       | Mostly evidenced    | Mostly evidenced    | Mostly evidenced    | Partially evidenced | Partially evidenced | Mostly evidenced                    | Mostly evidenced    | Little evidenced      |
| Activities to Short Term outcomes   | Fully evidenced   | Fully evidenced       | Mostly evidenced    | Fully evidenced     | Mostly evidenced    | Mostly evidenced    | Mostly evidenced    | Mostly evidenced                    | Mostly evidenced    | Little evidenced      |
| <b>Activities</b>   | Fully evidenced   | Fully evidenced       | Fully evidenced     | Fully evidenced     | Mostly evidenced    | Mostly evidenced    | Mostly evidenced    | Mostly evidenced                    | Mostly evidenced    | Mostly evidenced      |
| <b>TOTAL EVIDENCE</b>   | Mostly evidenced  | Mostly evidenced      | Mostly evidenced    | Mostly evidenced    | Mostly evidenced    | Partially evidenced | Partially evidenced | Partially evidenced                 | Partially evidenced | Little evidenced      |

35. This high level review shows that across the majority of levels, impact is mostly or partially evidenced. As expected, there is more evidence lower down the logic model for evidence linking actions to short term outcomes, and less evidence for impact at national and Strategic Board level priorities. This is partly due to the requirements put on the agencies for monitoring and evaluation which do not always include quantitative evidence of impact on outcomes. Another reason is that attribution presents challenges as evaluation moves away from activities to longer term and national outcomes.
36. The above analysis was undertaken in early 2020 and there are developments since then that may not be fully captured here. In particular across Community and Place, and on Innovation and Research (see page 25). Following this initial assessment, the Analytical Unit will continue to work with agency partners to gain greater understanding of the strength of the evidence available, including on areas which are less easily defined such as Workplace Development, and Access and Diversity. Work will also continue on identifying priority areas for enhancing evidence going forward.

## 2.2 Missions

37. The Board's four missions – Business Creation & Growth, Exporting, Future Skills, Business Models & Workplace Innovation – feed directly into these activity bundles, as highlighted in Figure 5 on page 19. A short review has been undertaken for the Board on the evidence of impact to date from the Missions. Figure 4 below highlights some of the key achievements to date, with a more comprehensive summary captured in a separate paper agencies have prepared for the Board.

**Figure 4: Overview of key achievements across the Missions.**



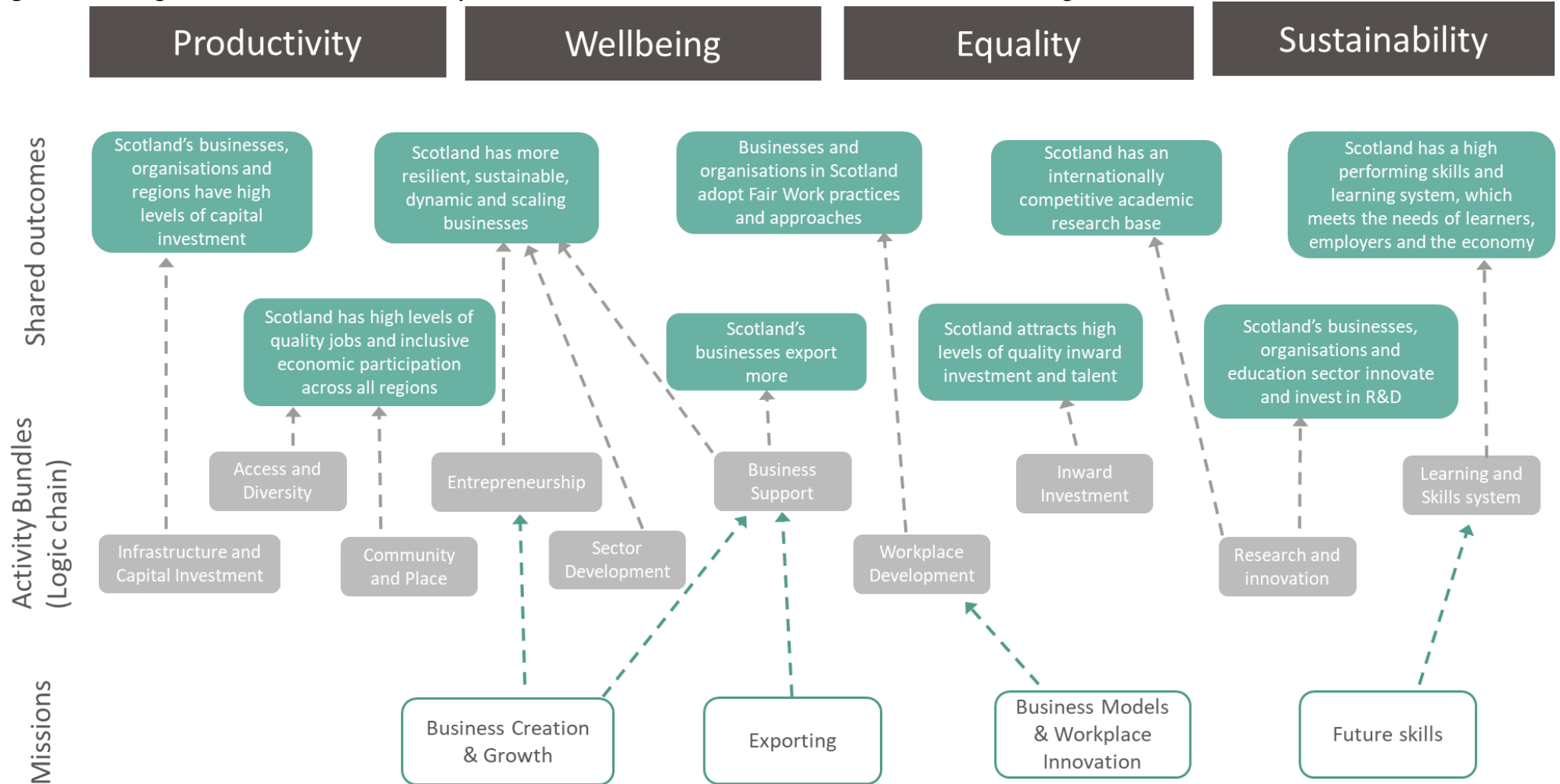
### Future Skills

- 41 trade missions held in 2020-21, with contracts estimated at £7.6m and 73 international trade events with audience of 3,800.
- Successful launch of revamped [Global Scot](#) digital platform.
- Adopt an apprentice enhanced fee launched in October 2020.
- New apprentice transition plan launched in December 2020.
- Pathway Apprenticeships Phase 1 launched in January 2021.
- Flexible Workplace Development Fund: 43 companies have registered so far, expected to support 140 businesses.
- National Transition Training Fund launched in January 2021, with 434 starts recorded.
- Opportunities provided for around 5,000 individuals aged 24+ by colleges and universities and will fund training opportunities for around 2,000 individuals in Covid-19 affected sectors.
- Around 20,000 Individual Training Account applications in 2020-21, with around 6,500 already training via ITAs.
- Investment of £6.5m in University Upskilling fund in 2020-21, expected to support around 7,000 learners.
- Beta version of new website for in-work careers information within [My World of Work](#) was deployed in Dec 2020.
- Young Persons Guarantee: SFC and Students Award Agency for Scotland investing around £9m to support 5,200 learners.
- FA and GA funding arrangements agreed for 2021-22.

### Business Models & Workplace Inn.

- Co-ordinate activity through agency fluid teams is most evident through Find Business Support portal and Covid-19 response.
- Development of the Fair Work Tool kit, targeting SMEs.
- Provision of world class management and leadership training, SE supported 162 individuals since April 2020, with 16 peer-to-peer workplace innovation workshops held and 8 masterclasses with over 400 participants.
- HIE's two leadership courses were adapted to run online in 2020, focusing to help leaders learn from Covid-19 and prepare workforce for the future.

**Figure 5:** Linking the Shared Outcomes, Activity Bundles and Missions; all in the content of the 4 overarching Board ambitions.



## 2.3 Recent Evidence

38. This section highlights what work has progressed to fill in the key evidence gaps across the following areas:
- Education and Skills Impact Framework
  - Innovation
  - Business support grants (FAI), including export support
  - Productivity

### Summary

39. The **Education and Skills Impact Framework** is a key project for the Board with the ambition to provide return on investment analysis for post-school education and training. This is the first time a project of this scale has been done; partially enabled by new data available which links education and HMRC tax data. Results from the first stage provide estimates for student earnings and employment premia, as a result of undertaking education or training. Overall the results are positive; but there is a complex picture and the cross-agency project team are continuing to process the results and support the consultants on the next stage of the project: the return on investment analysis.
40. 2020 also saw the completion of Stage 2 (of 3) of the Board's **innovation project**: reviewing the data available to assess the impact of agency innovation funding. Stage 2 reviewed the baseline data available and concluded that there were gaps in information and consistency of evidence across the agencies. Stage 3 has now begun which continued the collaborative approach to assess how these gaps can be resolved. A set of resolutions will be built and tested in the later part of the year.
41. In 2019, Scottish Enterprise published an evaluation conducted by the Fraser of Allander Institute into the evidence of **business grants**. The report finds a positive impact on employment but little evidence that grants have a statistically significant impact on turnover, turnover per employee, or on the growth of any outcome.<sup>37</sup> Also on business support, the Board's **export** mission was progressed again last year with the development of new export evaluation guidance to support the Trading Nation Export Strategy.
42. **Productivity** continues to be a point of debate, and even more so with EU-Exit and Covid-19 impacts potentially changing the shape of the conversation. In this section, a brief overview is given across a few themes: capital investment, regional aspects, and a future look for productivity.

---

<sup>37</sup> [Scottish Enterprise, 2019. An econometric evaluation of Scottish Enterprise grant support to businesses](#)

## Education and Skills

43. 2020 has impacted the education and skills sector dramatically. The Enterprise and Skills Strategic Board sub-group reported to the Scottish Government in July 2020<sup>38</sup> on measures to help mitigate the labour market effects of the pandemic. It highlighted that although the labour market was generally strong, there were a number of challenges, the magnitude of which would increase in light of the pandemic: Fair Work and quality of work; the persistence of precarious and insecure work; inequalities of labour market outcomes across groups and regions; significant proportion of people earning below the national living wage; labour market shortages in key sectors; proportion of graduates undertaking non-graduate employment; and low levels of in-work training.
44. Demand for skills will depend on the survival and recovery of businesses; the latest data shows redundancies across the UK have started to fall after rising across the year to 395,000 in Sept-Nov 2020.<sup>39</sup> In addition, the type of skills demanded may shift with businesses changing the way they operate to adapt to the crisis and post-EU Exit demands (e.g. more e-commerce, remote working). The Scottish Government launched the National Mission for Jobs in September 2020 to support job creation, with a specific focus on good and green jobs.<sup>40</sup>
45. Likewise, the tertiary education sector has adapted in 2020 to support students and staff at a distance, including offering learning almost exclusively online. However, the financial impact on the sector has been significant, with a deficit of at least £450-500 million expected in 2020-21.<sup>41</sup> In October 2020, the Scottish Funding Council published their Phase 1 Report: Insights to Develop Further of the Review of Coherence and Sustainability.<sup>42</sup> It noted the pivotal role of the education system in economic recovery, supplying the skills necessary to support future growth. Ten key themes were highlighted, including being student centric, the digital revolution, having an integrated system, the civic anchor role of institutions, employer/industry relations, the research and science base, innovation, collaboration, global outlook, and financial sustainability.

### Project report: Education and Skills Impact Framework

46. Each year the public sector makes a substantial investment in human capital, including investing in apprenticeships, and teaching and learning in colleges and universities. The Board wished to understand the impact of this post-school education, and so the Post-School Education and Skills Impact Framework (ESIF) was launched in 2019.
47. ESIF seeks to estimate the benefits of this investment to students, businesses, and the whole economy. The study will provide the Board with evidence on the return on

---

<sup>38</sup> [Report by the Enterprise & Skills Strategic Board sub-group on Measures to Mitigate the Labour Market Impacts from COVID-19. July 2020.](#)

<sup>39</sup> [LFS: ILO redundancy level \(thousands\): UK: All: SA - Office for National Statistics \(ons.gov.uk\)](#)

<sup>40</sup> [Protecting Scotland, Renewing Scotland: The Government's Programme for Scotland 2020-2021 - gov.scot \(www.gov.scot\)](#)

<sup>41</sup> [The impact of Coronavirus \(COVID-19\) on university funding in Scotland | Scottish Parliament](#)

<sup>42</sup> [Coherence and Sustainability: A review of Scotland's Colleges and Universities Phase One Report: Insights to Develop Further \(sfc.ac.uk\)](#)

investment from higher education qualifications, further education qualifications, and Modern Apprenticeships (MAs), from the perspective of the individual, government and employer. ESIF is the first time analysis of this type and scale has been carried out in Scotland. This is a collaborative project, driven forward by colleagues in Skills Development Scotland, Scottish Funding Council and Advanced Learning and Skills Analysis colleagues in the Scottish Government, as well as the Board's Analytical Unit.

48. From the outset, it was evident that economic returns to the government, employers and individuals are not the only returns gained from individuals undertaking education and skills. Therefore we have taken a holistic approach to this analysis and recognised the importance of wider benefits through a social return on investment (SROI) analysis. Both workstreams currently have provisional findings from the first stages of the project which the project team are currently interpreting. Confirmed results are expected in Summer 2021 following quality assurance.

### *Economic returns*

49. ESIF has emerged at an opportune time as a new data set has been developed, called the Longitudinal Education Outcomes (LEO), which tracks education graduates as they move from further and higher education and training into the workplace. To do so, it links education data with HMRC data to show salaries 3, 5, and 7 years after graduation. In addition to benefits to individuals, benefits from investment in post-school education will also accrue to:
- Employers – who benefit from having more productive workers, and;
  - the Exchequer – which benefits through higher tax receipts and lower welfare costs, as well as ancillary benefits through factors such as reduced crime and better general health and wellbeing.
50. Economic consultants London Economics were commissioned to undertake the econometric work. The economic return workstream comprises of three stages:
- Stage 1: econometric assessment of the labour market returns (earnings and employment) associated with qualifications and training. Using Scottish LEO data, matched with HMRC records, providing information on 807,000 learners (expected Summer 2021).
  - Stage 2: estimating the costs to the individual, public purse and employers associated with qualification and training.
  - Stage 3: estimating the Return on Investment (and Benefit to Cost ratios). ROI to individual and exchequer (expected Autumn 2021), and (for MAs) to employers (expected late-Autumn 2021).
51. The first stage answers the questions: how much more will an individual earn if they have undertaken a qualification, compared to someone who started, but did not complete the same qualification? Or compared to someone who completed the next highest qualification? And then - how much more likely is an individual to being employed over the course of one year? Modelling the data included controlling for individual characteristics where possible. And results are presented across qualification type,



gender, age groups, years since graduation, ethnicity, very broad subject type, and type of institution.

### Social returns

52. The Social Returns workstream considers the wider social benefits that come from acquiring post-school qualifications. Initially, the workstream had planned to carry out a full Social Return on Investment (SROI), which would assign a monetary value to these benefits. As a result of COVID-19, the workstream was unable to progress with a full SROI due to the ethical and practical issues around carrying out face to face research with learners at this time.
53. When looking at the results, it is important to note that education is only one of a number of factors that influence a student’s wellbeing. Initial findings suggest that possessing any form of qualification (school or post-school) is associated with learners reporting higher levels of wellbeing than those with no qualifications at all. Additionally, possessing a school-level qualification (such as Highers or Advanced Highers) is associated with a mean wellbeing score above the Scottish average.
54. For post-school qualifications, the picture is more mixed. Table 1 shows that there is little difference in mean happiness, satisfaction and worthwhileness scores between school and post-school level qualifications.

**Table 1: Mean wellbeing scores by qualification acquired**

| Qualification     | Anxiety | Happiness | Satisfaction | Worthwhileness |
|-------------------|---------|-----------|--------------|----------------|
| No qualification  | 3.5     | 6.9       | 7.1          | 7.3            |
| School level      | 2.8     | 7.5       | 7.8          | 7.9            |
| Post school level | 2.9     | 7.5       | 7.7          | 7.9            |

55. When broken down into different learner groups, there are notable differences in wellbeing for those with post school qualifications. For example, female respondents report higher anxiety than males across all qualification levels, but also higher levels of happiness, satisfaction and worthwhileness. People with a disability also report greater increases in wellbeing as they gain qualifications, although they continue to report mean wellbeing scores below the Scottish average across all levels of qualification.
56. Initial findings suggest that there is some relationship between education and wellbeing, however further work is required to determine the nature of this relationship. Analysis of the social returns findings is ongoing and will be reported alongside the economic workstream results later in the year. The team will also consider how to boost the sample of underrepresented groups and demographics, such as college students and adult learners.

### What this means for the Board?

- The Education and Skills Impact Framework (ESIF) will highlight the economic return to post-school education investment and will be used to formulate recommendations to Ministers on post-school education.
- In addition, thought needs to be given to how the results from ESIF will feed into the wider Skills Alignment programme, and SFC's work on Coherent Provision and Sustainability.
- The skills challenges existing prior to the economic crisis of 2020 will be exacerbated, matched with the risk of skills supply being much greater than skills demand in the next couple of years. There is a risk that this could hinder productivity, and impact vulnerable people groups more than others.
- At the same time skills demand is likely to shift, with businesses moving to greater online and technological dependant processes; and having to adapt to post-EU Exit requirements.
- The college and university system has already proved highly adaptable to operating within a pandemic, and going forward will need to continue to work together to transition into a 'new normal' post-pandemic.

**Recommended Deep Dive:** reviewing the results from the Education and Skills Impact Framework analysis alongside the emerging recommendations from the SFC review.

## Innovation

57. Innovation is a key driver of economic growth and the Scottish Government and Agencies spent almost £0.5 billion on innovation in 2018-19. Included in this is both support for businesses and funding for core research. In terms of business support, there are a significant number of different innovation support measures which business often find difficult to navigate. Consequently, the Board is interested in i) de-cluttering the business innovation funding landscape, and ii) ensuring robust evidence on the impact of innovation spend by the agencies.
58. Innovation refers to new forms of economic activity including new goods and services and manufacturing methods. Innovation can generate new jobs and facilitate new market entry. Innovation can also mean using existing resources more efficiently, which is key for long term economic growth and productivity.<sup>43</sup> Innovation activity can increase growth and productivity through accumulating knowledge based capital and improving capital stock.<sup>44</sup>

### Innovation trends

59. As reported in section 1, the proportion of businesses termed 'innovation active' has decreased to 32.2% between 2016-2018 compared to a level of 45.0% in 2014-2016. This is lower than the UK rate of 38%, which also decreased (over the same time period) from 49%. Large businesses<sup>45</sup> have a greater share of innovation active firms, however, this dropped significantly over the same time period from 62.5% to 43.8%. The highest share of innovation spend was 'in-house research and development' and the main driver was 'improving the quality of goods or services'. The third highest driver was 'to meet regulatory requirements', likely to be of greater importance following the new EU trade agreement.
60. Gross spend on research and development continues to increase in line with the UK rate at over 4% between 2017 and 2018. Businesses investment was 0.84% of Scottish GDP in 2019 (UK: 1.17%) – reaching £1.409 billion – and increased at a faster rate (1.5%) than the UK rate (0.8%)<sup>46</sup>. Across sectors, BERD expenditure in Scotland was split mainly between Services products (48.2%) and Manufacturing products (46.7%). The increase in the latest data was driven by an increase in R&D spend on Services products, up 10%; spend in Manufacturing and Other product groups fell by 4.9% and 8.6% respectively.
61. It is too early to tell the impact of the current economic crisis on innovation and more specifically R&D.<sup>47</sup> There is the possibility that the shift in business practices brought about in 2020 with many turning to more digital methods may encourage innovation

---

<sup>43</sup> See Rosenberg, N. (2004) '*Innovation and Economic Growth*'

<sup>44</sup> Scottish Government, 2016. See [Council of Economic Advisers Annual Report 2015-16](#)

<sup>45</sup> Those with 250 or more employees.

<sup>46</sup> [Business Enterprise Research and Development Scotland 2019. Published December 2020.](#)

<sup>47</sup> ONS BICS survey Wave 8-9 (July 2020) showed a net increase in self-reported innovation but this is a broad term and it is too early to tell if this increase continued throughout 2020.

spend and productivity improvements in some areas of the service sector. However, innovation spend tends to decline during economic downturns.

62. One key report published in the last year in the impact of innovation intervention was an evaluation on the contribution of Interface to economic growth.<sup>48</sup> Interface connects businesses and organisations with R&D expertise in Scottish higher education and research institutes. They operate across all industries, and between 2005 and 2020 spent £17.2 million on supporting this collaboration. It is estimated that Interface has contributed £88.9 million in GVA to the Scottish economy, supporting 1,595 jobs; and has the potential to reach £222.3 million GVA and 3,193 jobs.<sup>49</sup>

### Project report: Review of evidence - innovation impact

63. In 2019, a project was launched which aims to review the evidence of the impacts of Government funded innovation interventions and address any measurement gaps by supporting the agencies to strengthen their monitoring and evaluation processes. Each agency has a different role in supporting innovation. For example, SFC supports research capability and activity in Higher Education (HE) and supporting and encouraging engagement between education/research institutions and external actors in the innovation system. And SE and HIE focus on developing innovative capacity and supporting innovation activity within the business base.
64. The project has three stages, with the first two stages complete. South of Scotland Enterprise (SOSE) have also now been engaged in the project. Stage 1 reviewed the available evidence of impact as well as the participating agencies' monitoring and evaluation processes. In addition, a logic model was developed to test the links between agency innovation activities and the Strategic Board's priorities.
65. Stage 1 found that the evidence of impacts from the agencies' innovation activities was limited, particularly with respect to productivity. Stage 1 also indicated the scale and complexity of the innovation support landscape.<sup>50</sup> It was estimated that in FY 2018/19 there were around 90 Scottish Government and enterprise and skills agency programmes and funds supporting innovation and research - around £480 million. A further £60.8 million was spent by the Scottish Government on City Deal projects. Taking into account EU and UK funding (e.g. research council funding and R&D tax credits), public expenditure on research and innovation in Scotland was around £1.1 billion in FY 2018/19.

---

<sup>48</sup> [Interface, January 2021. The Contribution of Interface to Sustainable and Inclusive Economic Growth.](#)

<sup>49</sup> Some of the impact assessment is based on 'expected future impacts' self-reported by businesses 6 months after an interface project had concluded. Therefore it is difficult to say how accurate these assessments of impacts will be.

<sup>50</sup> The question of whether or not SFC's research funding should be included in the scope of the project was put to the Board at the December 2019 quarterly meeting. The Board decided that it should be included within the scope of the project while recognising the broad and diverse objectives of this funding.

66. In collaboration with the agencies, EKOS consultants were commissioned in Stage 2 to develop an example data collection framework, review the existing data collection practices of a sample of innovation programmes and make recommendations to address any gaps identified.<sup>51</sup> To build the conceptual framework a sample of 12 agency programmes was selected to combine maximum coverage, both in terms of expenditure (around 89% of funding) and type of intervention, while adhering to time and resource constraints.<sup>52</sup> The final report outlined current processes and gaps including a lack of common measures in use across the agencies, inconsistent long term tracking and inadequate collection of data for the attribution of impacts for some programmes or funds.
67. A series of 'next steps' were agreed with the agencies based on the recommendations and implications of EKOS' report. Stage 2 also showed that it is not currently possible to attribute impacts to the largest item of expenditure, the Research Excellence Grant, using the information currently collected. SFC acknowledged the need for the development of a new impact measurement framework in the Phase 1 report of their Coherence and Sustainability review.
68. Stage 3 will focus on implementing the report's recommendations, including addressing long term tracking of outcomes. Common reporting and management arrangements will also be addressed, and critically, a common standard with respect to the proportionate allocation of resources for monitoring and evaluation will be agreed. Suitable projects will be identified to pilot the new approaches developed.

### **Project update: Review of innovation funding landscape**

69. The Board has received evidence of the complex innovation funding landscape and has agreed to undertake a high-level review to identify options for greater alignment and collaboration. Workshops have been arranged with Board members to explore potential options and this will draw on the findings highlighted above on the evidence of impact from innovation spend. A draft report will be discussed by the Board in Spring 2021.

---

<sup>51</sup> [Innovation data baseline: final report - gov.scot \(www.gov.scot\)](http://www.gov.scot)

<sup>52</sup> Amongst the sample of projects, programmes and funds reviewed by EKOS, there are several which are funded or administered by more than one agency. In the case of R&D Grants and Advanced Innovation Vouchers, HIE also collects additional data consistent with its own measurement framework. These separate data collection activities were also reviewed by EKOS, bringing the total number of 'items' reviewed in detail to 14. The combined expenditure of this sample of activities represents 87% of the total expenditure for the agency innovation and research activities identified.

### What this means for the Board?

- The drop in innovation active companies leading into the current economic crisis has the potential to lengthen the recovery of businesses innovation. With businesses likely to have higher levels of debt coming out of the crisis, this is likely to hamper future investment in certain sectors.
- The review of the evidence on the impact of innovation support revealed gaps and inconsistencies in measurement across agencies. Formulating a shared approach will be vital to show what change innovation spend is making to businesses and the economy.
- The innovation funding landscape is cluttered, with scope to have greater collaboration and coordination between the different funds so they can be better targeted to support the key sectors which will drive the recovery.

**Recommended Deep Dive:** Streamlining the innovation landscape to ensure greater alignment and collaboration in the system which will make it easier for businesses to access the right type of support.

## Business support

70. Many businesses in Scotland are recipients of public sector financial support. This section provides an overview of a review of the impact of Scottish Enterprise Businesses Grant Funding, and the plans to implement new methodology for evaluating the impact of export support.

### Business Grant Funding

71. In spring 2019, the Fraser of Allander Institute (FAI) was commissioned by Scottish Enterprise (SE) to undertake an evaluation of different grant awards on recipient companies' outcomes. The evaluation focused on the effect of grant support on; turnover, employment, gross value added (GVA) and turnover per worker (used as a proxy for productivity).<sup>53</sup> The grants in question were:

- Regional Selective Assistance (RSA), designed to support creation or protection of employment, as well as capital expenditure;
- SE R&D grants, and SMART: Scotland grants, aimed at promoting R&D activity;
- Environmental Aid grants, aimed at promoting environmental protections;
- Proof of Concept grants, which support research commercialisation and creation of spin out companies; and
- Training Plus grants to encourage innovative workplace training.

72. The evaluation found that the overall estimated effect of grant awards on employment was positive and statistically significant. Five years after receiving a grant, firms had, on average, employed 69 more staff than they would have done in its absence. When disaggregating these results, it was found that the most significant employment impacts are for those in receipt of RSA grants. Analysis also found a positive correlation between the size of the grant and the number of jobs supported.

73. There is far less evidence, however, to suggest that grants have had a statistically significant impact on turnover, turnover per employee, or on the growth of any outcome. It is worth noting five years after receiving a grant, firms had, on average increased turnover by £66,000,000 more than they would have in its absence, but the large variability in this estimate did not allow for a statistically significant conclusion. A lack of detailed firm data in national datasets precluded a robust analysis of GVA, as well as other aspects of firm performance such as R&D activity and exporting.<sup>54</sup>

74. It is important to note that whilst the report did not find consistent evidence of a statistically significant impact of grants on all outcomes, this does not mean that the grants have had no effect. Instead the combination of data and methods used are unable or unsuitable to detect any impact either way. Additionally, estimated effects do not take into account any indirect economic impacts, meaning externalities or multiplier effects are not included in estimates. FAI recommended that going forward, the study should be

---

<sup>53</sup> The study used administrative firm level data and employed statistical matching methods to address selection effect issues.

<sup>54</sup> The report highlighted that the sample size of SE grant receiving firms identified in the Annual Business Survey and other databases were not large enough to undertake a robust analysis of GVA.

complemented with additional analysis focussed upon individual firms in receipt of grants and a consideration of how data is collected prior to grants being awarded.

75. Therefore, in 2019 Scottish Enterprise also commissioned EKOS to undertake qualitative analysis into the same grant programmes as the FAI research.<sup>55</sup> The report finds a significant 'observed' impact, with consistently positive feedback from stakeholders and companies. Benefits attributed to grants include increased employment, a growing market share leading to increased turnover and greater use of innovation, leveraging additional private sector investment. There were also benefits reported which were less tangible: demonstrating the value of R&D and growing capability and capacity within the supply chain.

### Scotland's 'Vision for Trade'

76. Another key aspect of business support is export support. In January 2021, the Scottish Government launched a 'Vision for Trade' outlining the principles of: inclusive growth, wellbeing, sustainability, net zero, and good governance.<sup>56</sup> This complements the Scottish Government's export growth plan, 'A Trading Nation', which sets out the detailed actions being taking to support Scotland's businesses to increase the level of their exports and contains a commitment to monitoring and evaluation of impacts.<sup>57</sup>
77. Scottish Development International (SDI) support businesses to trade and invest in Scotland. The 'Strategic evaluation of SDI international activities'<sup>58</sup> by SQW Consulting assessed the impacts of both export promotion and inward investment support up to 2015-16 and found positive GVA impacts.
78. Export promotion evaluation guidance has been developed by the Scottish Government Office of the Chief Economic Adviser in collaboration with SDI/ SE, HIE, the Scottish Chambers of Commerce (who are delivering some services), the Scottish Government Directorate for International Trade and Investment, and the Strategic Board Analytical Unit. A mixed methods approach has been adopted, including use of monitoring data; comparing the performance of assisted with that of similar non-assisted firms using administrative datasets; the use of survey techniques; and in-depth case studies. This is now being rolled out.

### What this means for the Board?

- Questions remain over what is the most effective way to support businesses to remain viable and to grow. Specifically, there is a balance between supporting strategically important businesses to ensure their survival whilst also helping businesses grow.
- The 2020-21 fiscal response to the economic crisis has changed the landscape of grant funding, and therefore it is unknown how demand for grant funding will change across 2021 as lockdowns ease.
- The agencies and local authorities have had to adapt to deliver a range of business support packages throughout the pandemic. There is scope to build on this and ensure greater awareness of the different types of support on offer.

<sup>55</sup> [Scottish Enterprise, 2020. Qualitative review of SE Large Grant Support – case study research](#)

<sup>56</sup> [Scottish Government, 2021. Scotland's Vision for Trade.](#)

<sup>57</sup> [Scottish Government, 2019. Scotland: a trading nation.](#)

<sup>58</sup> [Scottish Enterprise, 2017. Strategic evaluation of SDI international activities: final report](#)

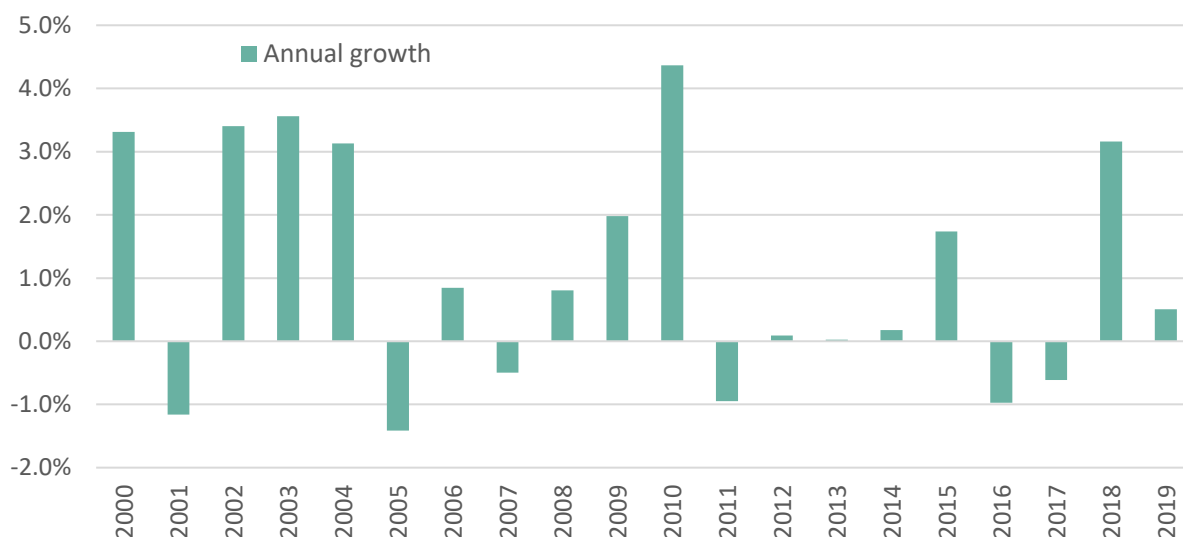


## Productivity

79. Productivity growth continues to generate much discussion, especially in light of the Covid-19 pandemic and how businesses have adapted to survive, and the UK's new trading relationship with the EU. This section builds on the discussion in last year's report on productivity, drawing on new research, including findings from research commissioned by the Board's Analytical Unit into Scotland's productivity compared to comparator EU regions.

80. In 2019, Scotland's annual labour productivity compared to the previous year<sup>59</sup> increased by 0.5%, following an increase of 3.2% in 2018 and a decrease of 0.6% in 2017 (see Figure 6).<sup>60</sup> Over the longer term, labour productivity has grown by an average of 0.8% per year since the 2008-09 recession. Prior to the recession, from 1998 to 2007, output per hour worked increased by 1.5% per year on average. Academic papers and analysis still debate the causes of the slowdown, which has also been experienced for the UK as a whole.

**Figure 6: Output (GVA) per hour, percentage change compared to the previous year**



### Project update: Productivity Comparisons (provisional findings)

81. In 2020, the Analytical Unit launched a research project with the National Institute of Economic and Social Research (NIESR) to compare Scotland's productivity performance to a select group of EU regions and the rest of the UK regions and countries. The purpose being to highlight those areas with a similar economic make up to Scotland but higher GVA, and to try to identify the reasons behind their growth performance and where Scotland has opportunity for improvement, which may lead to more competitive productivity growth.

<sup>59</sup> Labour productivity measures the amount of economic output that is produced, on average, by each unit of labour input, and is an important indicator of economic performance. So, compared to the same quarter last year, output per hour in Q4 2019 increased by 0.8% due to a combination of GVA growth (0.6%) and a fall in the total number of hours worked (-0.2%).

<sup>60</sup> [Labour productivity statistics: 2019 quarter 4 - gov.scot \(www.gov.scot\)](http://www.gov.scot)

82. Looking at regions within the EU, Scotland has maintained its overall ranking and sits in the middle of the second quartile, 15% below the per capita GDP figure for the bottom ranked region of the highest quartile. Scotland's position and the gap to the bottom of the highest quartile has remain the same as in 2009.
83. Against the nine comparator European regions selected within the research, Scotland ranks 6<sup>th</sup> for productivity growth performance since 2009. Though this growth is coming from a low starting point relative to the productivity of the comparator regions. Much of the difference in performance was present pre-2009.
84. What comes through from the analysis is that relative to the best performing region, and unlike every other comparator region, Scotland's productivity performance is below that of the best performing region across all elements of productivity: capital, labour quality and total factor productivity. Capital is responsible for almost half of the shortfall.
85. Against the UK, Scotland's labour productivity growth mirrored that of the UK pre-2007, but since the financial crash while most of the UK regions, and particularly London, have seen their productivity growth stall, Scotland has seen modest productivity growth. Scotland's labour productivity growth over the period ranked against UK regions has seen it moved up to 3<sup>rd</sup>, now ahead of the East of England. Scotland has also marginally closed the gap to London (1<sup>st</sup>) and South East England (2<sup>nd</sup>).
86. The research disaggregated productivity performance into: labour quality, capital and Total Factor Productivity. Its findings conclude that:
- **Labour quality** (measured through highest level of educational attainment) has not been a contributory factor in Scotland's recent labour productivity growth, though it was to the EU comparator countries. Labour quality is also not a factor in productivity growth in the three parts of the UK with the highest GDP per capita in the UK: London, SE England and Scotland. However across OECD countries, Scotland is the only country or region with a negative outcome for labour quality as a contributor to productivity performance.
  - **Capital** has played a bigger role in Scotland's recent productivity growth than labour quality in the EU comparator regions, and OECD countries. Capital has been a significant feature in overall productivity growth in Scotland, unlike most of the rest of the UK, though less of a role relative to other OECD countries. Scotland invests a lower percentage of GDP in capital (around 17%) than the OECD top quartile average (24%).<sup>61 62</sup>

---

<sup>61</sup> Capital investment is measured by Gross Fixed Capital Formation; one drawback of which is that it does not include significant parts of intangible capital investment, a very important part of the Scottish economy. Some parts of intangibles are included in the ONS accounts as GFCF [Developing experimental estimates of investment in intangible assets in the UK - Office for National Statistics \(ons.gov.uk\)](#) But significant parts of it are still outside of the National Accounts

<sup>62</sup> For more information on Scotland's performance in capital investment see the recently published Scottish Government [Global Capital Investment Plan](#) and associated [Analytical Note](#).

- Scotland's strong performance in attracting foreign direct investment would have been expected to feed through into a strong performance on **Total Factor Productivity** (TFP) but this has not been the case. A key result on looking at TFP is that it masks the difference between 'frontier' firms (i.e. the most productive firms) and those behind the frontier. Disaggregating this shows a lack of strong diffusion of innovation and technology from the frontier to other firms.

87. Looking beyond capital investment, recent research has shown the variation in equity investment across the UK. As expected, London receives the bulk of business (investment) due to its scale, but Scotland and the East of England receive more equity deals than would be predicted by the corporate sector demography (2011 to 2016).<sup>63</sup> Individual firm level data supports this finding, and in terms of the number of deals Scotland receives more than its 'fair share'.
88. However, Scotland does less well on the value of deals compared to London i.e. the deals are smaller in scale. There is some evidence that this reflects the stages at which the equity deals are taking place, namely at the early stages. Whether this is a demand side issue (number of firms needing next stage equity investment) or a supply side issue (firms unable to access next stage funding) is an ongoing question. In addition, evidence suggests that having non-executive director experience of equity finance is important in gaining access to equity finance. UK family firms (more generally smaller firms) have smaller odds of obtaining equity finance when controlled for all other characteristics. Looking at individual investor-investee pairs the study found support for the spatial proximity hypothesis, i.e. equity investments decreases with the distance from the investor.
89. On capital investment, there is a question around barriers to demand and how UK companies scale-up. The ScaleUp Institute annual review found that from 2015-18 Scotland saw amongst the weakest growth in ScaleUps (per 100,000 population) in the UK.<sup>64</sup> There is some evidence that UK companies scale-up though employment growth more than turnover growth.<sup>65</sup> The review also noted the top three reasons in the UK for not using finance:
- Owners do not want to give up part of the business,
  - finance comes with too many terms and conditions, and interest,
  - no security or collateral to offer to a finance provider – (ie companies based on intangibles with less asset collateral).

---

<sup>63</sup> [BEIS, 2019.](#)

<sup>64</sup> [ScaleUp Institute, 2020. Annual Review 2020.](#)

<sup>65</sup> Scale-ups growing by more than 20% per annum by employee growth, or per annum by turnover growth or both.

## Regional inequalities

90. The Productivity Insights Network (PIN)<sup>66</sup> highlighted why examining productivity growth remains important:
- The UK has consistently tracked below the level of productivity growth in France, Germany, and the US since the 1970's and is consistently falling below the UK's own forecasts for growth.<sup>67</sup>
  - There is also a long tail of low productivity firms in the UK, again compared to Germany and France.<sup>68</sup>
  - And there is a regional problem: GVA per hour is far higher in London and the South East than most other regions in England. This raises questions over the inclusive nature of productivity growth in the UK. Within the UK, Scotland remains one of the better performing regions.
91. The question of inequalities in regional productivity growth becomes more relevant as it is viewed in light of wider regional inequalities, i.e. income and opportunities. Research on the links between productivity and inequalities, including wellbeing measures, continues to emerge<sup>69,70</sup> and is of interest to the Board in the context of the Performance Framework and wider Scottish Government ambitions to build a wellbeing economy.
92. Another aspect of regional productivity is the governance structures and the extent to which these help or hinder growth. Further research by the PIN finds that major differences in local productivity - high performing regions (London, the South East and Scotland) surging ahead whilst low performing regions (the rest of the UK) are deteriorating - is acting as a severe drag on national productivity.<sup>71</sup> The research notes that economic decision making in the UK is highly centralised compared to other countries, therefore hindering the lessening of these regional productivity inequalities.
93. However, it is recognised that through Scottish devolution many of the micro levers which influence productivity are held by the Scottish Government. This may have contributed to Scotland being one of the better performing parts of the UK; however there remains a need to ensure the feedback loop between business and government is strong to tailor policies to meet local economic conditions.

## Future productivity

94. As 2020 has proven, there is always uncertainty when forecasting economic trajectories, and this does not exclude how the UK or Scotland's productivity growth will shift in the

---

<sup>66</sup> [PIN](#) is an Economic and Social Research Council funded network of researchers, policymakers, intermediaries and businesses that are working to present new insights on the UK productivity puzzle.

<sup>67</sup> Sourced using OECD and World Bank data.

<sup>68</sup> Data from 2013.

<sup>69</sup> MF Working Paper, European Department, 'Inequality of Opportunity, Inequality of Income and Economic Growth, (Aiyar and Ebeke, 2019)

<sup>70</sup> [Productivity Insights Network, 2018. Inequality, Well-being and Inclusive Growth.](#)

<sup>71</sup> [Productivity Insights Network, 2018. Perceptions of Regional Inequality and the Geography of Discontent: Insights from the UK.](#)

coming years. The Analytical Unit will continue to look at the emerging evidence around productivity growth, including examining productivity patterns across industries and sectors. And noting the importance of looking at factors affecting productivity at both a macro and firm level; and considering the impacts of the new trading arrangements with the EU.

95. Yet there are a number of emerging papers on the impact the pandemic has had on productivity. A Bank of England working paper published in December suggests that Total Factor Productivity (TFP) in 2020 will have decreased more than hourly labour productivity.<sup>72</sup> The results suggest that between Q2 2020 and Q2 2021, TPF will fall by about 3%; with a peak of 5% in Q4 2020. This is mainly expected to be due to a rise in intermediate costs. In addition, it is expected that low productivity firms have made a lower contribution to the economy due to the destruction (not 'creative destruction') of firms. This increases average productivity, but reduces total output. Overall, the analysis suggests a medium term fall of about 0.7% in TFP (i.e. approximately one year of pre-pandemic growth). The effects of labour productivity are smaller; due to a greater drop in hours worked than capital input.

### *Working from home*

96. There is also a growing body of literature on the impacts of working from home (WFH),<sup>73</sup> with the Bank of England's chief economist Andy Haldane in October 2020<sup>74</sup> noting that although hourly productivity may drop when workers move to home-working, this is balanced by an increase in working hours; with evidence suggesting that working from home resulted in almost an 8% rise in hours worked. In addition, over time as workers adjust to home-working, productivity may rise.
97. A common fear amongst employers has been that without physical oversight employees will shirk and productivity will fall. However, the Wales Institute of Social and Economic Research Data<sup>75</sup> has found that WFH does not seem to have had a significant effect on productivity. 40% of UK workers reported that they could get as much work done in June 2020 as they were 6 months earlier, whilst 28% reported getting more done.
98. The OECD<sup>76</sup> find that in the longer term WFH could lead to improved productivity performance, as smart adoption of telework practises have significant potential to raise worker well-being and efficiency whilst lowering firm costs. However, there are also instances where a switch to WFH can lead to lower productivity amongst workers. A Stanford University Survey<sup>77</sup> highlights an 'inequality time bomb' where more educated, higher earning employees are more likely to WFH without any loss of efficiency, whereas those on the lower end of the income distribution were far more likely to report a lower ability to WFH effectively.

---

<sup>72</sup> [Bank of England, 2020. Staff Working Paper No. 900. The impact of Covid-19 on productivity](#)

<sup>73</sup> [Bank of England, 2021. How could the recent increase in homeworking affect the economy?](#)

<sup>74</sup> [Bank of England, 2020. Is home working good for you? - speech by Andy Haldane](#)

<sup>75</sup> [WISERD, August 2020, Homeworking in the UK: Before and During the 2020 Lockdown](#)

<sup>76</sup> [OECD, September 2020, Productivity gains from teleworking in the post COVID-19 era: How can public policies make it happen?](#)

<sup>77</sup> [SIEPR, June 2020, How working from home works out](#)

### What this means for the Board?

- Capital investment will be a major route to recovery for the Scottish economy, with recent evidence showing that this has played a greater role in driving Scotland's productivity performance compared to the rest of the UK.
- The same study found that labour quality, as captured by the highest level of educational attainment, has not been a contributory factor in Scotland's recent labour productivity growth – again emphasising the relative importance of capital investment.
- Governance structures are vital in improving regional productivity growth. Evidence shows that the UK's highly centralized government – compared to many EU nations – is a barrier to reducing significant inequalities in regionally productivity across the UK. Scotland performs relatively better than most other UK regions in terms of productivity growth, in part due to devolved micro- levers. Reducing regional inequality within Scotland is perhaps in easier reach than in rUK.
- Covid-19 has raised new questions on how productivity will shift over the medium to long term. Although it is too early to draw any firm conclusions from the emerging evidence, the structural changes to the Scottish economy as a result of COVID will have implications on how the enterprise and skills system can best support the recovery and future productivity growth.

**Recommended Deep Dive:** Examine the latest evidence on the reasons why Scotland lags other international countries on productivity and consider how the pandemic might affect the key actions for raising Scotland's productivity going forward.

### 3: Priorities for 2021

The preceding analysis has used the Performance Framework indicators to highlight areas where Scotland's performance is strengthening or weakening. However, the majority of indicators do not yet reflect the two major shocks the Scottish economy has faced: the global pandemic and leaving the EU. These will have serious implications for the how the enterprise and skills system best supports economic recovery.

**Recommended area of focus:** Draw together evidence of the emerging impacts of the UK's departure from the EU to support the Board's consideration of what this means for the forthcoming refresh of the Strategic Plan and the Scottish Government's new export plan. This is an opportunity to have a coordinated refresh of future priorities across the whole enterprise and skills system.

The results from the evaluation of the returns to post-school education and skills will provide the Board detailed insight into the largest area of expenditure in the enterprise and skills system.

**Recommended area of focus:** develop recommendations to share with Ministers on post-school education and skills based on the outputs from the Education and Skills Impact Framework, alongside the recommendation from the Scottish Funding Council review on Coherent Provision and Sustainability.

There is a lack of evidence on the impact the range of innovation activities have on the Scottish economy. Work is underway with agencies to help develop more consistent monitoring and evaluation approaches going forward but it will take time before the outputs from these enhancements are available. However, the Board has committed to undertaking a high-level review of the innovation landscape to identify opportunities for greater alignment.

**Recommended area of focus:** Streamlining the innovation landscape to ensure greater alignment and collaboration in the system which will make it easier for businesses to access the right type of support.

Scotland's productivity performance has stagnated and Scotland has been ranked in the second quartile for OECD countries for the past two decades. There has been much debate over how the pandemic might result in a step-change in productivity performance going forward.

**Recommended area of focus:** Examine the latest evidence on the reasons why Scotland lags other international countries on productivity and consider how the pandemic might affect the key actions for raising Scotland's productivity going forward.