

DRAFT BUDGET 2019-20
SCOTTISH ENTERPRISE

ECONOMY, ENERGY AND FAIR WORK COMMITTEE

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SUBMISSION FROM: SCOTTISH ENTERPRISE

INTRODUCTION

Scottish Enterprise (SE) has been charged with making a direct and positive contribution to growing Scotland's economy for the benefit of its businesses, industries, communities and people. As Scotland's national economic development agency, we are helping to create the conditions for companies to grow, to harness major economic opportunities across both traditional and frontier industries and in turn create more, sustainable and higher-value jobs.

As part of a global economy, Scotland is facing challenging times such as the uncertainty that will come as a result of Brexit, the pace of digitalisation and increasing levels of automation. As a small nation with huge potential, we need to be ready to face the challenges ahead and at the same time be prepared to exploit new opportunities that these changes present.

Now more than ever, we need to intensify our work with partners and help shape new solutions to tackle some of Scotland's enduring economic problems such as low levels of productivity, research and development and exporting.

Scottish Enterprise is currently reviewing and refreshing its operations to ensure we are supporting Scotland to respond to these challenges and opportunities in the best ways possible. From November onwards we will be able to engage Committee members and other important stakeholders on the next stage of our organisation.

ENTERPRISE AND SKILLS LANDSCAPE

The Scottish Government's Review of the Enterprise and Skills Agency landscape in 2017 has resulted in greater levels of collaboration across the key agencies under the guidance of the Enterprise and Skills Strategic Board. We are working closely with the 'family' of agencies; Highlands and Islands Enterprise, Skills Development Scotland, the Scottish Funding Council and with the team developing the new South of Scotland Agency to integrate our planning and activities with a clear purpose of delivering greater impact on growth, employment and productivity.

To date the focus of the Strategic Board has been on producing their initial outline plan, and developing their strategic plan with a focus on four missions that reflect the priorities for Scotland's economy – exporting, business creation and growth, future skills needs and business models and workplace innovation. As the Committee will be aware, the Strategic Plan is due for publication in October.

The Scottish Government's recently published (4th September) Programme for Government (PfG) sets out an ambitious agenda for the work of SE and we are currently putting in place plans to respond effectively to the commitments set out in the plan. These include the call for a greater focus on accelerating business growth through exporting; the simplification of access to business support; fair work measures; and the intensification of work with key sectors including food and drink, and manufacturing.

In May this year, SE appointed a new Chief Executive Officer to take the agency forward by bringing a fresh entrepreneurial spirit to our activities and operations. This new leadership also provides the opportunity for us to reaffirm our purpose and operate within a clear strategic framework (aligned with others) to deliver a set of impactful actions.

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The following sections of this submission respond to the specific questions posed by the Committee in the call for evidence, that were directed at the Enterprise Agencies.

HELPING BUSINESSES EMPLOY MORE PEOPLE

SE's budget supports the delivery of the annual Business Plan. Each year our Board sets the strategic focus for the period of the plan, taking account of current economic circumstances and emerging opportunities. A priority of the Board is to derive maximum value from every £1 invested and to ensure that SE has a clear direction focused on the delivery of tangible outcomes in economic growth, productivity, and job creation. A recent assessment of our return on investment shows that over a ten-year period every £1 spent generates between £6-9 GVA.

Each year our budget helps to support over 10,000 companies. We do this by delivering services ranging from advice and signposting through to significant and intensive engagement and the provision of grants and investment. Job creation is a key element of our rationale for intervention. For instance, when appraising a company application for a grant, job creation or safeguarding is a central part of the approval process.

The type of support provided to help businesses employ more people is dependent on the particular need of the company and its stage of business growth. Some of the specific interventions that we know from evidence have a bearing on employment growth include:

- **Regional Selective Assistance** - grant funding that can only be drawn down dependent on the company achieving pre-determined jobs targets;
- **Account Management** - early indicators from a current evaluation exercise underway suggest that 79% of account management businesses increased employment as a result of SE support;
- **Trade Support** - the recent Scottish Development International (SDI) evaluation showed that assisted companies increased exports by £630m of additional international sales between 2012/13 and 2015/16 (with a further potential £360m exports over 2016/17-2018/19). This resulted in 1,400 net additional jobs being created by supported companies over the 2012/13 to 15/16 period, with a further 800 jobs in the supply chain and wider economy (2,200 jobs in total).

Strategic investments to stimulate economic growth such as in business infrastructure, equity investment or support for a major economic opportunity or major inward investment also make direct a contribution to our mission to safeguard jobs and create employment growth. Recent examples to help illustrate this are as follows:

- **Business infrastructure**
In Aberdeen, we have contributed £11.7m to the city's £350m harbour expansion plan. The extension into Nigg Bay, which is due to be completed in 2020, is expected to create 2,300 jobs by 2026. The project is described as strategically important to the growth of Scotland's economy; it will help sustain the development of the oil and gas sector while maximising opportunities from the growing cruise tourism and renewables sectors.
- **Equity investment**
The Scottish Investment Bank has completed a £2m funding round alongside Archangels and Bio-Images Drug Delivery Limited (BDD) designed to enable BDD to scale its business. BDD will use the funding to purchase processing and analytical equipment for the large-scale manufacture of its OralogiK precision times drug delivery system. The funding also enables BDD to expand its business and create up to 30 new jobs at its sites in Glasgow and Newhouse, North Lanarkshire.
- **Support a major inward investment, safeguard jobs and create employment growth**
We worked with Barclays to support the development of a new campus at Buchanan Wharf in Glasgow. The project will provide a state-of-the-art centre for the bank's functions, technology and

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operations teams. The investment will secure the bank's existing operations in Scotland and is expected to accommodate up to 2,500 additional jobs, of which more than 300 will be for disadvantaged workers or those with a disability.

In our current Business Plan 2017-18, our core aims are to 1) secure more inward investment and capital investment 2) support more companies and sectors to innovate and 3) support more companies to internationalise. Helping companies create higher quality, higher paying jobs, as part of achieving these aims is vital, which is why we now have specific target of attracting inward investment that creates jobs that pay the real living wage. Our support to companies to increase productivity and to adopt fair and progressive workplace practices also promotes the creation of higher quality, better paying jobs. Scotland's employment rate is high and unemployment low, so companies will need to ensure they offer quality job opportunities and workplaces to be able to attract and keep the talent and skills needed - addressing underemployment will also help us to make the most the talent that is available. SE has a role to play in supporting businesses to help them to develop fair work practices through workplace innovation, leadership development and employee participation.

SAFEGUARDING JOBS WITH SPECIFIC EXAMPLES

The 'resilience' of our economy matters – how well it weathers the business cycle and gets affected by downturns and global trends. Maintaining employment is more likely to help build skills, knowledge and capabilities, and help the longer-term processes to enhance productivity and see wages grow. An unnaturally high turnover in employment will cost employers as they will lose experience and need to recruit and train new staff. The impact of job losses at the individual level and the loss of the key employer in a community or region can be significant to local and national supply chains. But we also want to see new jobs created, as this reflects the dynamism of our economy, reflected in new and growing firms, and the emergence of new industries.

It is vital that as Scotland's national economic development agency we proactively engage with companies on their plans and their challenges to ensure that we can discuss at the earliest stage possible how SE can support them to sustain their commitment, presence and growth in Scotland.

One of the interventions we can apply to help safeguard jobs is Regional Selective Assistance (RSA), In 2017/18, 74 businesses across a range of sectors accepted offers of RSA totalling £14m. These offers relate to projects with planned capital expenditure of £46.8m and the expected creation or safeguarding of 1,752 jobs. SMEs accounted for 99% of the accepted RSA offers with total grant of £11.6m.

Some examples of companies that SE has supported to safeguarded jobs include:

Discovery Flexibles Ltd (Dundee)

- DFL manufactures packaging, principally for the food and medical markets. The company supplies many of the leading UK food brands.
- The project involved investment in a new, state-of-the-art flexographic press to complement its existing printing capability.
- RSA of £250,000 was awarded to support the acquisition of a 'flexible' printing press as result of the investment, the existing 57 jobs in Dundee were retained with the potential for an additional 9 jobs to be created.

The GT4 Group Ltd (Hamilton)

- GT4 provides labelling products for all types of food and drink customers. It supplies a number of leading brands including Innocent Drinks, AG Barr, Britvic and Nestle.
- RSA of £724,000 was offered to support a project involving investment in plant and equipment safeguarding 66 jobs.
- The company has been supported by a range of services including SMAS.

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Innovate Foods (Kirkcaldy)

- Innovate Foods manufactures frozen foods.
- The project aimed to increase capacity and allow expansion of the business through a significant £880,000 of capital expenditure.
- RSA of £245,000 was awarded which safeguarded 21 jobs in Kirkcaldy and created the potential for an additional 7 jobs.

BUDGET IMPACTS ON PROVIDING, MAINTAINING AND SAFEGUARDING EMPLOYMENT

The Committee will be aware from previous submissions that whilst SE (along with other public bodies) is impacted by pressures on public spending and the composition of Grant in Aid monies, we have always been able to use other income sources such as property disposal and equity investment returns to ensure that we deliver on commitments and deliver a strong economic development programme. It is worth noting that the Scottish Government funding included within the 2018-19 Business Plan (£289.7m) and our overall investment in the Scottish economy is at the highest level it has been over the last five years (£358.5m).

As stated earlier, each year the Board set the strategic direction within the constraints of the budget available. That includes a prioritisation process to ensure that the agreed plan focuses on those actions that sustain or improve employment in Scotland.

Throughout any operational year we constantly review budgets to ensure that our plans are on target and when we need to we can re-direct resources to help meet demand or support new opportunities. We have continued to meet demand for our interventions, and our products and services while also contributing to transformational economic opportunities in projects such as the Dundee Waterfront, Edinburgh Bio-Quarter and Aberdeen Harbour.

A consideration to understanding the agencies' ability to provide, maintain and safeguard employment is the importance of non-financial expertise provided to companies by Scottish Enterprise colleagues who deliver highly specialised and niche support not otherwise readily available. For example, Scottish Investment Bank Financial Readiness support and Co-operative Development Scotland's support on succession planning.

External factors are often more significant to the agencies' ability to provide, maintain and safeguard employment. For example, State Aid regulation changes in 2014/15 impacted on the size of company qualifying for support. In response to this, we sought to maximise other forms of support to assist large enterprises, including training support, research and development, and support towards projects with strong environmental/energy efficiency benefits.

IMPROVING JOB QUALITY AND ENSURING FAIR EMPLOYMENT

While unemployment and employment in Scotland have returned to pre-crash levels, wage stagnation and a rise in insecure jobs has meant that, for the first time, the majority of households experiencing poverty include someone in employment. A focus on job quality and fair work is therefore crucial to address in-work poverty. At the same time, Scotland's competitiveness depends on boosting productivity, which depends on the motivation and engagement of employees – factors driven by the fair and progressive business practices that ensure high quality jobs.

Job quality and fair work are, therefore, central to the work of economic development agencies to increase productivity and prosperity, to make a difference in Scotland's communities and to open up opportunities to people who wouldn't otherwise benefit. See below some examples of our contribution towards this important agenda:

Tracking and Evidence Gathering

We have introduced tracking measures to allow us to monitor the specific difference and impact we are making on Fair Work and Inclusive Growth to improve job quality and ensure fair employment. These

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measures include: *number of companies engaged and supported to develop approaches to fair work and progressive workplace practice, number of companies developing their leadership, number of female-led account managed companies.*

Gender

Delivering services to improve opportunities for women including Principally Women designed to help build leadership skills to help women led companies realise their full potential and scale and Special Edition a programme for women in the digital and media sector.

Youth

Successful RSA applicants are supported to develop Invest in Youth policies to build opportunities for young people into their workforce planning. All 220 RSA projects since 2015 have signed up to implementing this policy. The ScotGrad programme supports around 200 graduates each year (including HIE) by providing business placements that guarantee the living wage.

Older Workers

Grey Matters, a programme for recently redundant Oil and Gas workers to help them to consider starting new oil and gas based ventures including business start-up and developing new innovative products for the oil and gas and related sectors.

Focus on the Workforce

'People Centred' approaches can result in more motivated and engaged employees, fostering greater innovation and productivity. Under-utilisation of skills is recognised as a significant issue for Scottish SMEs with employees feeling they could make a bigger contribution to the success of the business. In support of the Fair Work Framework, we deliver a number of Workplace Innovation Programmes. These include a programme of Workplace Innovation Masterclasses to help businesses take action to improve employee engagement, improve health and wellbeing, invest in future leaders, and introduce best practice in human resource management e.g. training and development. In 2017/18, we worked with around 900 companies to support development of fair and progressive work practices.

We also promote and raise awareness of the benefits of the Scottish Business Pledge which seeks to improve business practices with a focus on innovation, fairness and opportunity. Elements of the Pledge include the living wage, gender balance and workforce engagement – 173 of the 443 signatories in February 2018 were account managed companies. The current total number of signatories is 541 and the work to match with SE supported businesses is currently under way.

Inclusive Business Models

Promoting and supporting alternative business models such as employee ownership plays an important role in creating sustainable growth. They enable employees, businesses and communities to work together to fulfil shared interests. There is growing evidence that they increase productivity, innovation and growth - whilst achieving wider societal benefits – making a positive contribution to 'inclusive growth'. There are around 100 employee owned businesses in Scotland, with approximately 7,000 employee-owners generating a combined turnover of around £940m.

ATTRACTING FOREIGN INVESTMENT

For the attraction of strategic inward investment, SDI's focus is primarily on attracting foreign investors - and in particular new investors - whose presence will strengthen and sustain Scotland's growth sectors and supply chains. SDI's priority is to develop a strong forward pipeline of projects and identify growth opportunities in specific subsectors such as digital health, software, and food technology where Scotland is globally competitive.

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Given that much of Scotland's inward investment success comes from companies which already have operations in Scotland, 75 of the 126 projects secured in 2017-18 were 'expansion' rather than 'new' investments. SDI also works hard to embed the existing base of inward investors, encouraging further expansion and developing supplier links for Scottish business.

When seeking to bring new investors to Scotland, as opposed to expansion projects, activity often starts with our international networks including Globalscot, University Alumni and industry organisations e.g. China British Business Council. These networks help identify market signals that may indicate a potential investor and facilitate connections. This is supported by our international marketing activity, aimed at raising awareness of Scotland as a business location in a number of key prioritised sectors, targeted at the specific market.

ScotlandIsNow – developed in partnership by Scottish Enterprise, VisitScotland, the Scottish Government and Universities Scotland - presents a cohesive marketing brand for Scotland that aligns our international marketing and the connections we have globally to attract greater investment and enhance Scotland's attractiveness as a location to work, visit, study and do business. All partners are taking advantage of a wide range of digital channels and using engaging content to promote Scotland as a place to work, study, visit, and invest.

Historically, London has contributed around 25% of our annual Foreign Direct Investment (FDI) results with consistently strong contributions from the technology and finance and business service sectors, both through attracting UK registered companies and in recognition of London being the home of a high number of global companies. Representing significant economic growth opportunities for Scotland, London's global status is complimented by Scotland's high-quality, cost-effective locations, world-class education, globally-competitive key sectors and rich skills base. Our increased presence in London (via the Innovation and Investment Hub) will enable us to leverage more investment via expansion projects from FDI companies in London.

EY's Scotland Attractiveness Survey 2017 confirmed that Scotland secured a record number of inward investment projects from overseas in 2016, winning 11% of all FDI projects into the UK. 35% of projects came from the US with a further 35% from the EU. Business Services, Construction, and Technology were the leading sectors, with 21 projects (the highest of all UK regions) R&D related. Key factors attracting investors to Scotland are the availability of talent, the supportive business environment, good infrastructure and availability of business partners and suppliers.

Reflecting the shift towards supporting better quality jobs, the inward investment measure in our Business Plan for 2018-19 is 6,500-8,000 inward investment jobs paying at least the living wage.

The external world and Scotland's competition is changing at pace. In response to this, SDI has recently reviewed its global operations and has put in place a new delivery model. In doing so, we considered those areas where we can build upon current strong performance and at the same time identified areas where we can be more ambitious. This change of approach will bring greater focus to our activities in key markets and support our ambition to deliver even stronger results from our trade and investment work.

ADDRESSING PRODUCTIVITY AND EMPLOYMENT GAPS BETWEEN SCOTLAND'S TOP AND BOTTOM PERFORMING LOCAL AUTHORITY AREAS

SE works with every local authority in low-land Scotland and guided by the findings of the Enterprise & Skills Review, we are refreshing our approach to how we support regional and local partners to ensure we support areas across Scotland to secure inclusive growth. There are currently over 80 projects and potential opportunities under way or in discussion with local authorities and a number of these are in localities with the lowest levels of employment, productivity and income. Part of this involves working closely with local partners to help develop their economic asset base and make the most of the assets they have. For example:

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- In North Ayrshire, we are working with the local authority to deliver a strategy for the viable development, regeneration and future management for the undeveloped land, including the loch at Lochshore, Glengarnock
- In Clackmannanshire, we are supporting the development of business cases for key commitments including the £15m capital grant investment by Scottish Government for economic assets in culture, heritage and tourism, and the £8m investment for capital projects by the UK Government
- In the Scottish Borders, we are working with partners on the development of a Textiles Centre for Excellence.
- In Dundee, we worked with a range of partners on the waterfront development including the V&A
- In Glasgow, we worked with the City Council to deliver the new Barclays Campus investment on the banks of the River Clyde

Going forward, we will be flexing and adapting how we deliver services to meet specific regional needs through the new regional partnerships model. Regional Partnerships will align resources to:

- Empower local areas to identify areas where most impact can be made;
- Build on Scotland's regional economic assets which can be utilised to promote growth;
- Look beyond Growth Deals to foster better connections and understanding between key economic players.

They will enhance collaboration and develop approaches and strategies to drive regional inclusive economic growth beyond the Growth Deals. The partnerships will include relevant local authorities, colleges, universities, third sector, private sector and other public partners and aim to address issues that go beyond boundaries such as industries, supply chains, regional assets, regional skills base and inward investment.

Aligned to the Regional Partnerships, SE will embed a new Regional Leadership approach during 2018/19 to develop and deliver Regional Operating Plans. Our contribution to these Regional Plans will be made up of a combination of what we deliver as part of our core national and international remit and initiatives that we will vary to more directly reflect regional conditions and that will lead to improved regional outcomes.

We are currently working in collaboration with partners in North Ayrshire and the Scottish Government to pilot an Inclusive Growth Diagnostic for the region. The purpose is to identify constraints and opportunities for driving inclusive growth in North Ayrshire and to prioritise actions to address these. The diagnostic pilot considers the following:

- The external environment to determine what drivers may be impacting on growth and inclusivity in the area;
- Local conditions that are determining the opportunities of the local population at each stage of life;
- Social factors which act to compound an individual's experience of inclusive growth.

The long-term objective for the diagnostic is to provide an evidence base for driving inclusive growth in the region and to inform the priorities of the Regional Partnership and Ayrshire Growth Deal.

CONCLUSION

We trust that this submission helps to inform the Committee's work and we look forward to continued engagement on this topic and other important aspects of economic development as we develop our plans and approaches over the next few months and beyond.