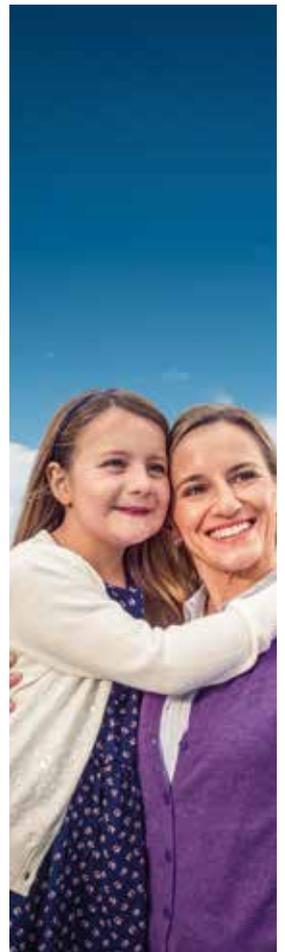


SCOTLAND'S ECONOMIC STRATEGY

MARCH 2015





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FOREWORD

Since 2007, this Government's central purpose has been to create a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth. This remains the Government's ambition to which all our efforts and actions are directed and is at the core of our Economic Strategy.

A strong, vibrant and diverse economy is essential to our national prosperity and in creating the wealth to support high quality public services. Ensuring that growth is shared and sustainable is the key to unlocking all of Scotland's potential and strengthening our greatest asset – the people of Scotland.

Our people are creative, ambitious and resilient and we are home to world-class entrepreneurs and a highly skilled workforce. We will continue to build on these strengths to create a more competitive, more sustainable and fairer economy.

As a result of the actions we have taken, we have seen a period of sustained growth in Scotland's economy over the last couple of years. Output has returned to above pre-recession levels, and there are record numbers of people in employment. Historic gaps in the levels of productivity and earnings between Scotland and the rest of the UK have also been reduced.

The Economic Strategy in place since 2007, and our Economic Recovery Plans, introduced from 2009, have played a key part in improving our economic performance.

Nicola Sturgeon MSP
First Minister
of Scotland



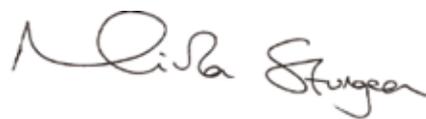
However, as we look forward, we want to achieve more than simply a return to pre-recession levels of economic performance. We need to tackle the underlying challenges in our economy and labour market, increase the competitiveness and sustainability of the Scottish economy and reduce inequality. We need to ensure that there are sufficiently skilled and well-paid job opportunities available, support the move to the low carbon age, take advantage of the opportunities presented by globalisation and technological change and ensure that the benefits of economic success are shared by everyone.

Scotland's Economic Strategy sets out an overarching framework for how we aim to achieve a more productive, cohesive and fairer Scotland. It forms the strategic plan for existing and all future Scottish Government policy. It prioritises boosting investment and innovation, supporting inclusive growth and maintaining our focus on increasing internationalisation.

There is growing international evidence that promoting competitiveness and addressing inequality are important interdependent ambitions.

Creating a fairer society is not just a desirable goal in itself, but is essential to the sustained, long-term prosperity of the Scottish economy. Our approach to economic policy is based on the principle that delivering sustainable growth and addressing long-standing inequalities are reinforcing – and not competing – objectives.

Creating greater prosperity and fairness is a shared national endeavour. Only by working in partnership with the wider public sector in Scotland, the third sector, trade unions, businesses and communities, will we be able to create a society where the benefits of economic growth are shared more equally and where future economic growth is stronger and more sustainable.



Nicola Sturgeon MSP
First Minister of Scotland

EXECUTIVE SUMMARY



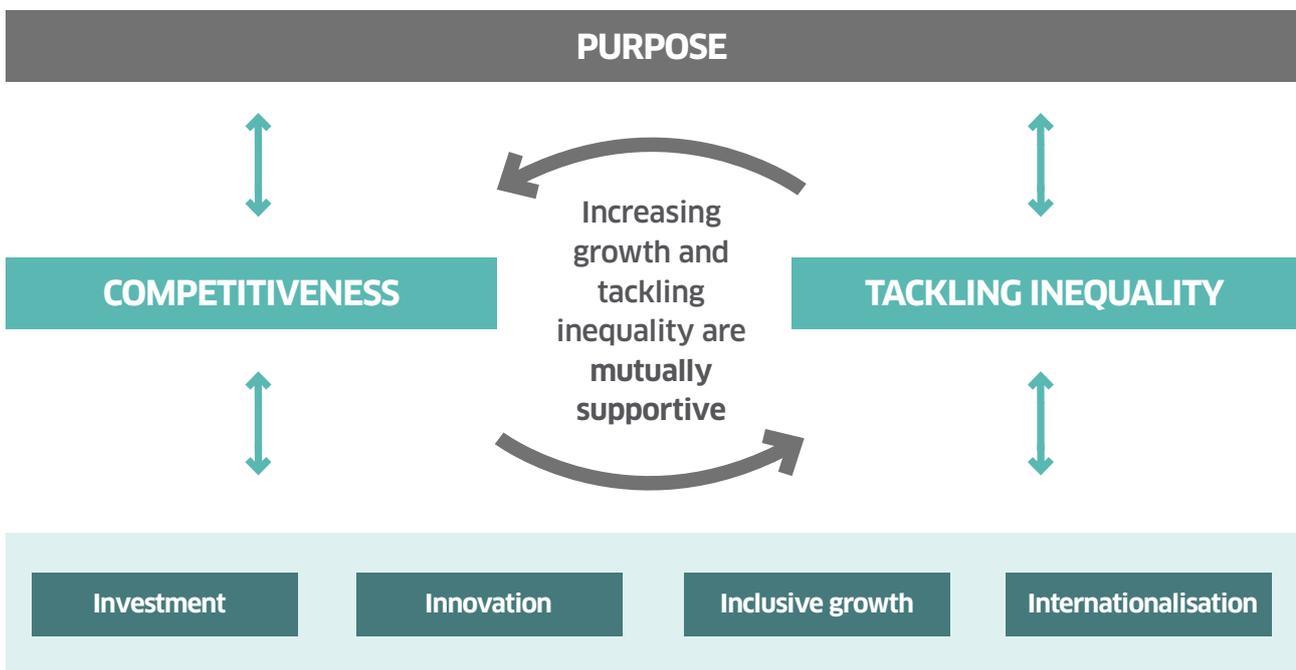
Aikengall Community
Wind Farm,
East Lothian

- Scotland's economic prosperity depends upon the strengths and talent of our people, our natural resources, our infrastructure and how we are governed. The overarching economic and regulatory environment in which we operate also determines key social and environmental outcomes.
- Scotland is a wealthy and competitive economy by international standards. However, many similar-sized economies perform better, not just economically, but also on measures of equality, wellbeing and sustainability.
- In doing so they have delivered more sustainable, resilient and inclusive levels of growth.
- This strategy sets out our ambition to create a more cohesive and resilient economy that improves the opportunities, life chances, and wellbeing of every citizen in our country.
- Our **purpose** of creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth remains at the centre of our approach.
- In doing so however, we are strengthening our approach to ensure that everyone in Scotland has the opportunity to fulfil their potential.
- Our approach is therefore based on two key pillars: **increasing competitiveness** and **tackling inequality**.
- Boosting competitiveness is key to supporting long-term economic growth. This relates to our ability to help new Scottish businesses to develop by supporting entrepreneurialism and access to finance, encouraging companies to become more innovative and to exploit new commercial opportunities, and to help businesses to grow and expand both at home and overseas.
- Increasing Scotland's economic performance also requires us to develop the human capital and productivity of all our workforce, to invest in Scotland's infrastructure and to increase the ability of people to participate in the labour market in Scotland.
- We have taken significant steps to boost Scotland's long-term competitiveness. This includes introducing the most competitive business rates scheme in the UK, investing £11 billion in Scotland's infrastructure in the three years to 2015-16, establishing the Curriculum for Excellence to raise ambition and attainment in our schools and expanding the level of funded childcare to help families with young children participate in the labour market. We will build on these actions by establishing a Scottish Business Development Bank to support SMEs in Scotland with high growth potential, taking forward a package of measures to boost business investment in innovative activity including establishing a new Ministerial-led Innovation Forum; and providing 30,000 new Modern Apprenticeships every year by 2020.
- In addition to increasing competitiveness, we must also reduce inequality. The international evidence is clear – that promoting competitiveness and addressing inequality are interdependent. Reducing inequality is not only important in itself, but is vital to creating the conditions to deliver sustainable economic growth over the long term.
- Growing inequality has however, become an increasing feature across many advanced economies. This has been driven, in part, by global forces, changes in technology and the global regulatory environment and has been exacerbated by the impact of the global recession.

EXECUTIVE SUMMARY

- We are implementing a range of policies as part of this strategy which will make a difference. These include an agenda for fair work, the Scottish Business Pledge, support for the living wage and gender balance on corporate boards.
- Many of the key levers for addressing both competitiveness and inequality however, remain reserved to the UK Government. The strategy sets out our approach within areas of current responsibility of the Scottish Government but also makes the case for key priority powers – particularly over the economy and welfare – to be transferred to Scotland.
- In developing the Scottish Economic Strategy, we have built on our distinct Scottish approach, our focus on outcomes and our commitment to partnership working.
- In order to achieve our ambition we require a whole economy approach, where partnership working and alignment are ever more significant, with a greater focus on key social and economic policies and a commitment to drive change.
- The core elements of our economic framework are summarised below.
- The new framework signals a clear direction of travel for all levels of government in Scotland. It involves a much broader approach to boosting competitiveness and tackling inequality through a full integration of our economic and social policies.
- We believe that a One Scotland approach is needed to deliver on our ambitions, with all public sector agencies working together – recognising that all can and should make a contribution towards that growth – as well as the private sector, the third sector, and our universities and colleges.
- Within *Scotland's Economic Strategy* there are four broad priority areas where our actions will be targeted to make a difference – investment, innovation, inclusive growth, and internationalisation.

Figure E.1: Scotland's Economic Framework



Actions to deliver the four priorities for sustainable growth



Investing in our people, infrastructure and assets we will:

- Invest in Scotland's people at all stages of life to ensure that we have a well-skilled, healthy and resilient population and an innovative, engaged and productive workforce;
- Provide the physical and digital connectivity needed to ensure that all of Scotland is open to the national and global economy and is able to access high quality public services;
- Invest in Scotland's infrastructure to help Scottish businesses to grow, innovate, and create good quality employment opportunities;
- Prioritise our investment to ensure that Scotland protects and nurtures its natural resources and captures the opportunities offered by the transition to a more resource efficient, lower carbon economy; and
- Invest in strengthening the success and resilience of local communities.

To foster a culture of innovation we will:

- Support the development of highly innovative businesses across the Scottish economy;
- Encourage more of Scotland's diverse business base to engage in innovation and research and development as part of their day-to-day activities;
- Continue to support the high-impact, world-class research of Scotland's Universities and improve levels of commercialisation of academic research;
- Develop with key partners, such as business organisations and trade unions, innovative approaches to developing progressive workplace practices; and
- Develop and deliver new approaches to public service reforms and make better use of our public procurement to drive innovation.

To promote inclusive growth we will:

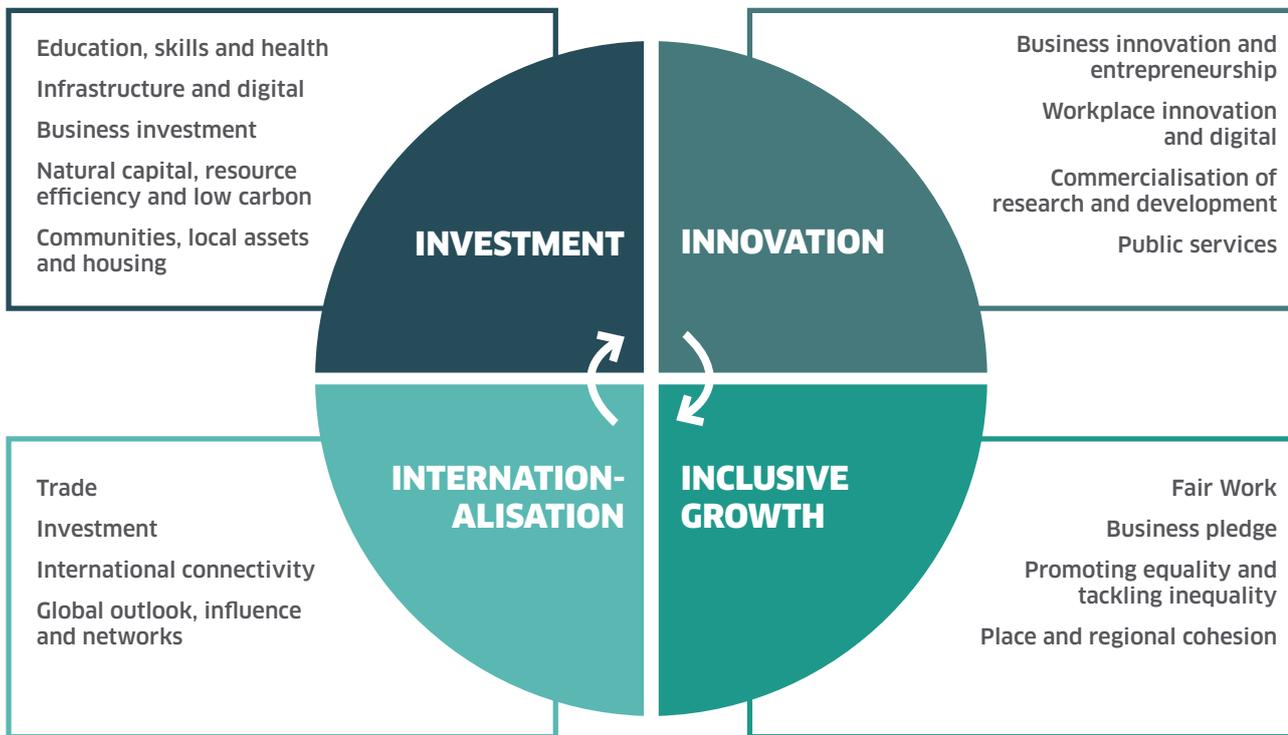
- Promote Fair Work and build a labour market that provides sustainable and well-paid jobs;
- Address long-standing barriers in the labour market so that everyone has the opportunity to fulfil their potential;
- Tackle cross-generational inequality through, for example, improved child care, boosting attainment and early years interventions that give every child a fair start in life; and
- Realise opportunities across Scotland's cities, towns and rural areas, capitalising upon local knowledge and resources to deliver more equal growth across the country.

To enable Scotland to take advantage of international opportunities we will:

- Support Scotland's exporters to grow into new markets and expand their presence in key traditional markets such as the EU and North America;
- Encourage a more export-orientated focus across all businesses and sectors in Scotland, and in particular amongst our small and medium sized enterprises;
- Create the underlying conditions which will continue to make Scotland a major destination for investment;
- Use Scotland's influence in Europe and more widely to support our international ambitions and continue to make the case for Scotland to remain a member of the EU;
- Promote Scotland's international brand and showcase both Scotland and Scottish goods and services internationally and secure major international cultural and sporting events; and
- Publish an International Framework, which will set the context for how the Government, its Agencies and Public Bodies, engage externally to promote Scotland - its economy and broader interests - and influence the world around us.

EXECUTIVE SUMMARY

Figure E.2: Four priorities



- As set out in the framework above, our approach to delivering sustainable economic growth is characterised by four key priorities:
 - An economy where growth is underpinned by long-term sustainable **investment** in people, infrastructure and assets;
 - An economy where growth is based on **innovation**, change and openness to new ways of doing things;
 - A society that promotes **inclusive growth** and creates opportunity through a fair and inclusive jobs market and regional cohesion to provide economic opportunities across all of Scotland; and
 - A country with an **international** outlook and focus, open to trade, migration and new ideas.
- To reach our ambition we will target our economic policies to our competitive strengths whilst also supporting growth across the wider economy and all communities. This will involve a greater focus on strengthening and developing the skills of all our people, and local economies. We will promote innovation, skills and training and international ambition across the Scottish economy.
- At the same time, our strategy will align our approach to social justice with our economic policies. For example, we will take greater account of the links between the formal and unpaid care services provided by individuals and the economy.

- We will also support the important role organisations across Scotland have – whether voluntary organisations, third sectors partners or through informal relationships – which together empower local communities and underpin the structures which many individuals rely on to participate within society.
- We will also protect and enhance our natural capital, our brand and reputation as a country of outstanding natural beauty, our commitment to low carbon and the opportunities our resources and assets provide for our economy and future generations.
- In summary, *Scotland's Economic Strategy* sets out an overarching framework for a more competitive and a fairer Scotland. It sets out the strategic direction for current and future Scottish Government policy.
- We are already closing the gap in productivity between Scotland and the UK and, if we are successful in each of our four priority areas, we would expect to see further growth in productivity. Our ambition remains to reach the top quartile of OECD countries in terms of productivity. We also aim to be in the top quartile of countries in terms of wellbeing, inequality and sustainability. In addition, we aim to reduce disparities in economic performance between regions and local areas within Scotland.
- We will measure progress through the National Performance Framework. As part of the development of our strategy we are updating the framework to reflect our new strategic approach.
- This will include a programme of work, to be undertaken in conjunction with the new Council of Economic Advisers, to develop a set of measures of Scotland's performance across a wider range of dimensions of economic prosperity to enable us to achieve a better assessment of progress.

INTRODUCTION



The shared purpose of the Scottish Government and its partners is to make Scotland a more successful country, with opportunities for all to flourish, through increasing sustainable economic growth.

Scotland's Economic Strategy sets out how we will deliver on our vision for Scotland. It brings increased focus to the dual objectives of boosting competitiveness and tackling inequality, and sets out the priorities we will target to achieve these mutually reinforcing goals.

This is an approach supported by a growing body of international research, with recent analysis by the OECD and IMF demonstrating that countries with more equal societies typically enjoy stronger and more sustainable growth over the long run. A fairer and more equitable society underpins a strong economy.

It is therefore becoming widely recognised that reducing inequality and promoting growth are complementary goals. Creating a fairer society is not just a desirable goal in itself, but is essential to the sustained, long-term prosperity of the Scottish economy. This is a central theme of this Economic Strategy.

Four priorities



Our approach to delivering *Scotland's Economic Strategy* is underpinned by four priorities for sustainable growth:

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

Each priority is critical to the delivery of our vision for Scotland. Our policies and resources will be aligned to deliver our purpose of increased sustainable growth, with opportunities for all to flourish.



A STRATEGY FOR SCOTLAND

The independence referendum in 2014 stimulated an unprecedented level of political engagement in Scotland and resulted in an increasing number of people taking a proactive interest in shaping the kind of country we live in. There is a common desire to create a more competitive and fairer country for current and future generations. We want to build on this sense of a shared endeavour.

We cannot achieve our vision for Scotland alone.

The whole public sector in Scotland, the third sector, trade unions, businesses and communities need to be onboard. Our success as a nation depends on working together to deliver the shared vision of a stronger and more competitive economy supporting a fairer society.

We are committed to a One Scotland approach, where communities are empowered to drive change and deliver growth in the shared interest of the people of Scotland.

This document sets out our vision in more detail and how it will be delivered.

DOCUMENT STRUCTURE

This document is structured as follows:

- Section 1 provides an overview of the economic context and evidence on the links between boosting competitiveness and tackling inequality;
- Section 2 sets out our four priorities for this refresh – innovation, investment, inclusive growth, and internationalisation; and
- Section 3 sets out how we intend to implement the strategy.



Graduates,
Calton Hill,
Edinburgh

A CLOSER LOOK AT SCOTLAND



DIRECT FLIGHTS
TO OVER 32
COUNTRIES



7 HOURS FROM
NEW YORK



75 MINUTES
FROM LONDON



RANKED 1ST FOR INWARD INVESTMENT
OUTSIDE LONDON

45.5%

OF THOSE EMPLOYED
IN SCOTLAND HAVE A

HIGHER OR FURTHER EDUCATION QUALIFICATION

(COMPARED TO 40.9% IN THE UK)



HIGHEST OUTPUT PER HEAD IN THE UK

OUTSIDE LONDON AND THE SOUTH EAST



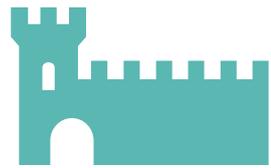
INTERNATIONAL SALES FROM SCOTLAND'S OIL AND GAS SUPPLY CHAIN REACHED £10 BILLION IN 2012-13



RANKED THIRD
IN EUROPE'S
TOP 50 GAMES DEVELOPER LOCATIONS



SCOTTISH SALMON WAS THE 1ST FOREIGN PRODUCT TO GAIN FRANCE'S PRESTIGIOUS 'LABEL ROUGE' QUALITY MARK



HOME TO FIVE UNESCO WORLD HERITAGE SITES

4 UNIVERSITIES
IN THE TIMES HIGHER EDUCATION WORLD
TOP 200 IN
2014-15



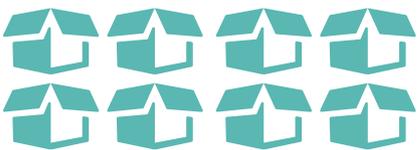
ALREADY GENERATING

44%
OF OUR

ELECTRICITY
NEEDS FROM
RENEWABLES AND A

WORLD LEADER
IN THE FAST GROWING

GREEN
TECHNOLOGY SECTOR



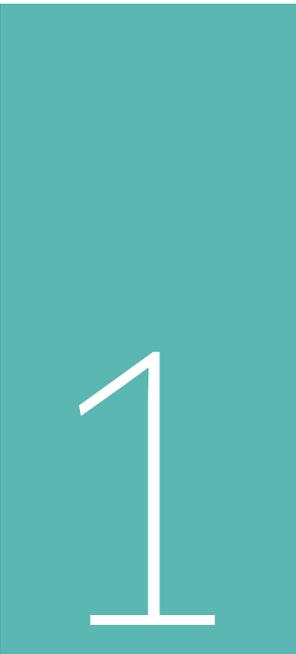
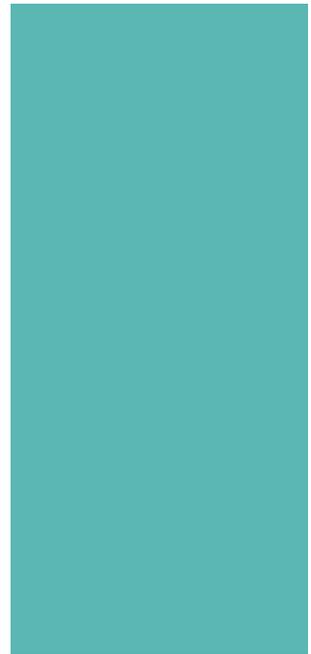
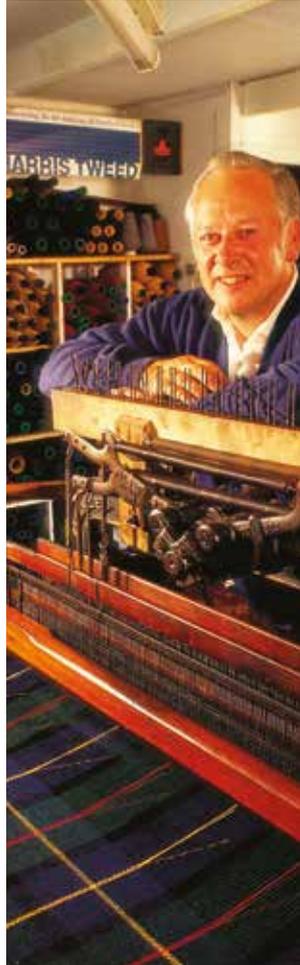
THE VALUE OF
SCOTTISH EXPORTS
HAS GROWN 40%
BETWEEN 2007 AND 2013,
REACHING £27.9BN IN 2013

40

BOTTLES OF SCOTCH WHISKY ARE SHIPPED OVERSEAS EACH SECOND



SECTION 1: ECONOMIC CONTEXT



Scotland has strong economic foundations

We have a highly-skilled workforce, substantial natural resources, a long-standing reputation for innovation, internationally recognisable brands and products and companies competing successfully in global markets.

We have thriving energy, life sciences, and creative industries and social enterprise sectors, while Scotland's tourism and food and drink are internationally renowned.

Our universities are also amongst the best in the world with four universities in the world's top 200 – more per head of population than any other country except Switzerland.

Our Economic Strategy will build on this strong starting point. It will focus on the dual and reinforcing objectives of boosting competitiveness and reducing inequality through our four priorities for sustainable growth – investing in our infrastructure and people, fostering a culture of innovation, encouraging inclusive growth and promoting Scotland on the international stage.

The Scottish Economy – Recent Trends

Despite challenging economic circumstances, since 2007, Scotland's economic performance has improved, relative to the UK, across a range of economic indicators.

Long-standing gaps between Scotland and the UK in terms of productivity, labour market participation and earnings have been reduced as outlined in Table 1.1. Scotland also has the highest employment rate, lowest unemployment rate and lowest economic inactivity rate of all four UK nations.¹

Further information on Scotland's recent economic performance is provided in Scotland's National Performance Framework, as discussed in Box 1.2.

Table 1.1: Key Economic Activity Indicators – Performance since 2007²



Indicator	Value in 2007	Rank (12 UK countries/ regions) in 2007	Most recent value	Current rank (12 UK countries/ regions)
1. GDP per head ³	£22,505	4th	£25,065	3rd
2. Productivity ⁴	£24.60/hr	6th	£29.10/hr	4th
3. Disposable income ⁵	£13,851	5th	£16,267	5th
4. Average full-time weekly pay ⁶	£442	4th	£519	3rd

¹ ONS Labour Force Survey Oct-Dec 2014

² Most recent data: GDP per head comparisons are for 2013; productivity comparisons are for 2013; and Oct-Dec 2014; GDHI is for 2012; and full-time gross median weekly pay is for April 2014.

³ Comparisons with the UK are for GDP per head using Quarterly National Accounts Scotland and ONS figures, and refer to the most recent set of consistent statistics, published in August. Scottish GDP is onshore only.

⁴ Comparisons with the rest of the UK are based on GVA per hour worked in 2013, published by ONS on 24 December 2014 and fully consistent with estimates of GDP per head on an ESA10 basis in the latest Quarterly National Accounts Scotland.

⁵ Gross Disposable Household Income (GDHI)

⁶ Full-time Gross Median Weekly Pay

These statistics relate to the onshore economy. Scotland's onshore GDP was worth £134 billion in 2013. Including North Sea oil and gas production total Scottish GDP stood at £151 billion.⁷ The North Sea oil and gas sector remains a key part of Scotland's economy. Whilst the fall in oil prices at the end of 2014 has had an impact on the sector, it is clear that with an appropriate tax regime and supportive policy environment the sector will make an important contribution to Scotland's economy for decades to come.

Scotland has also continued to perform well on the international stage. The value of our international exports increased by around 40% between 2007 and 2013.⁸ This growth has been achieved despite challenging conditions in key export markets, particularly in Europe. We have also maintained our strong performance in attracting international investment. In 2013 international investment to Scotland was at its highest level since 1997 and Scotland remains the top UK region outside London for such investment. In fact, of the 11 UK countries and regions outside London, Scotland has ranked 1st or 2nd every year since 2006.⁹

There is therefore much to be positive about in terms of economic performance. Nevertheless, Scotland's economy still faces a number of challenges. Some of these are linked to the recent recession and are likely to unwind as we progress further in the recovery process, as discussed in Box 1.1. Others are more structural in nature and will require a dynamic change in Scotland's long-term economic performance.

⁷ Quarterly National Accounts Scotland 2014 Q3 (table X1, provisional estimates of GDP on an ESA10 basis)

⁸ Scottish Government (2015) Global Connections Survey, <http://www.gov.scot/Topics/Statistics/Browse/Economy/Exports/GCSIntroduction>

⁹ Ernst and Young (2014) EY 2014 UK Attractiveness Survey - Scotland, <http://www.ey.com/UK/en/Issues/Business-environment/2014-Scotland-attractiveness-survey>

↓ Box 1.1 - Global recession and economic recovery

The 2008 financial crisis resulted in the deepest global recession in over 50 years. As with virtually all other advanced economies Scotland experienced a severe recession in 2008-09 with output contracting by 6%.

Research into previous financial crises has cautioned that, as well as being particularly severe, recessions that follow financial crises typically entail a long recovery time. This was the case in the majority of advanced economies after 2008 and Scotland was no exception. As the chart highlights, by 2011 more than two years after the end of the recession, output, employment, and wages in Scotland were still well below pre-crisis levels.

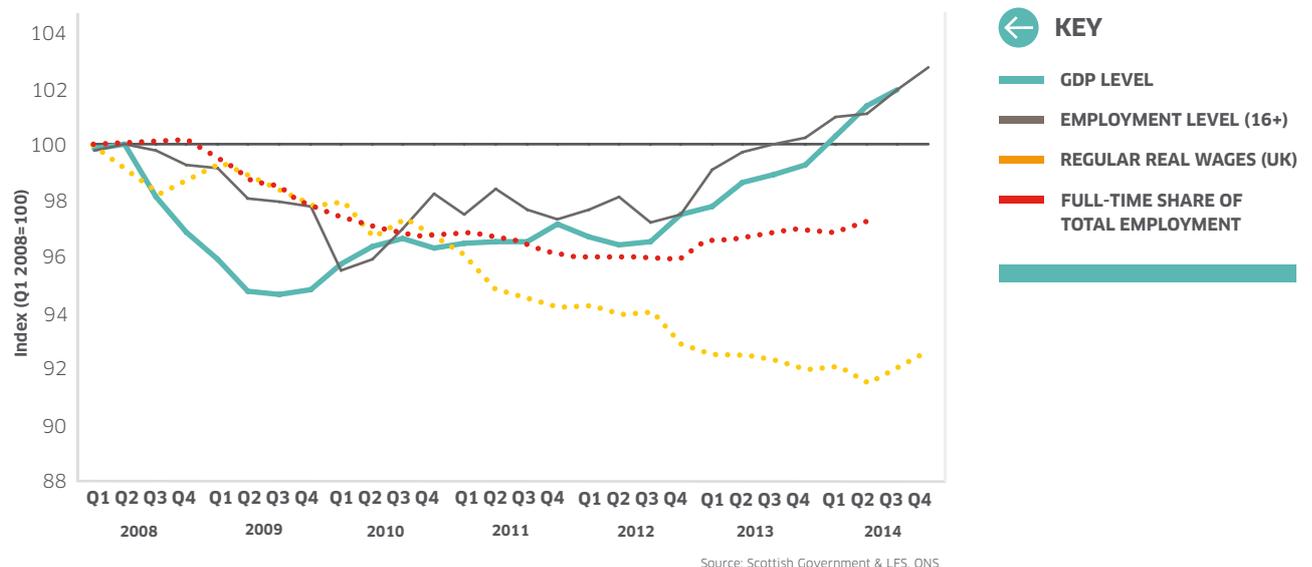
Four years on, the economic context is now different. We have seen a period of sustained growth in Scotland's economy. As a result, many key economic indicators are close to, or above, pre-recession levels, see Figure 1.1.

Scotland's labour market has strengthened significantly since 2011, with the headline unemployment rate falling consistently and now approaching its pre-recession average. The number of people in employment is now at a record level with around 2.6 million in work.

Nevertheless, the legacy of the recession remains evident. For example, the number of people underemployed, though falling, currently stands at 248,000, this is 32% higher than in 2008.¹⁰ Real wages in Scotland, in common with many other advanced economies remain substantially below pre-recession levels.

It is important to note that these economic improvements have occurred against a backdrop of significant public spending cuts as a result of the UK Government's austerity and fiscal consolidation agenda. As a result, the Scottish Fiscal DEL budget has been cut by the UK Government by nearly 10% in real terms between 2010-11 and 2015-16, with the risk of further cuts planned over the course of the next Spending Review.

Figure 1.1: Key Economic Indicators - Indexed to Q2 2008



¹⁰ ONS Labour Force Survey, Jul-Sep 2014, not seasonally adjusted. The ILO definition of underemployment covers those "aged 16 or over who are in work and would like to work longer hours in their current job, in an additional job or a different job altogether, at their current basic rate of pay, given the opportunity".

The UK economy recorded one of the weakest recoveries from recession compared to other major international economies. This reflected a number of factors – the impact and size of the financial sector, level of household indebtedness and the UK Government's policy response relating to austerity.

Our response to the economic and social challenges we currently face must go further than simply aspiring to ensure a return to pre-recession levels of economic performance. The challenges of underemployment, youth unemployment, low pay growth and weak productivity, all relate to, and in some cases are exacerbated by, patterns of inequality in Scotland.

It is therefore important that we take a wider view that encompasses action to tackle inequality and ensure that economic growth is inclusive.

↓ Box 1.2 – National Performance Framework

Scotland's National Performance Framework (NPF) underpins delivery of the Scottish Government's priorities and monitors the delivery of the Scottish Government's purpose.

The framework contains a number of indicators which monitor improvements in a range of socioeconomic indicators across Scotland. The latest results show that Scotland has improved its performance in many of the key areas identified in this strategy:

- **Productivity** – Productivity in Scotland has risen relative to the UK. The gap in productivity between Scotland and the best-performing countries in the OECD has also been reduced since 2006 – the baseline used in the NPF.
- **Participation** – Scotland has the highest employment rate among the four countries of the UK.
- **Population** – The population of Scotland is now at its highest ever. Since 2007 Scotland's population has grown by 0.5% a year on average, faster than in the EU-15 as a whole (0.4% a year).

- **Cohesion** – The gap in labour market participation between Scotland's best and worst performing regions has been reduced between 2012 and 2013 – although the gap remains larger than it was prior to the recession.
- **Solidarity** – Overall levels of income in Scotland are rising, however, the proportion of income received by the bottom three income deciles has remained largely unchanged since 2006-07.
- **Sustainability** – In 2012, total Scottish greenhouse gas emissions were 26% lower than the 1990 baseline used in the NPF.

The NPF will be central to monitoring our progress against the objectives set out in this strategy and is currently being updated to reflect our new strategic approach. As part of this work, the Scottish Government, in conjunction with the Council of Economic Advisors, will be developing an improved set of measures of Scotland's performance across a wider range of dimensions of economic prosperity.

These measures will reflect our ambition to rank in the top quartile of the OECD in terms of productivity, wellbeing, inequality and sustainability.

Tackling Inequality

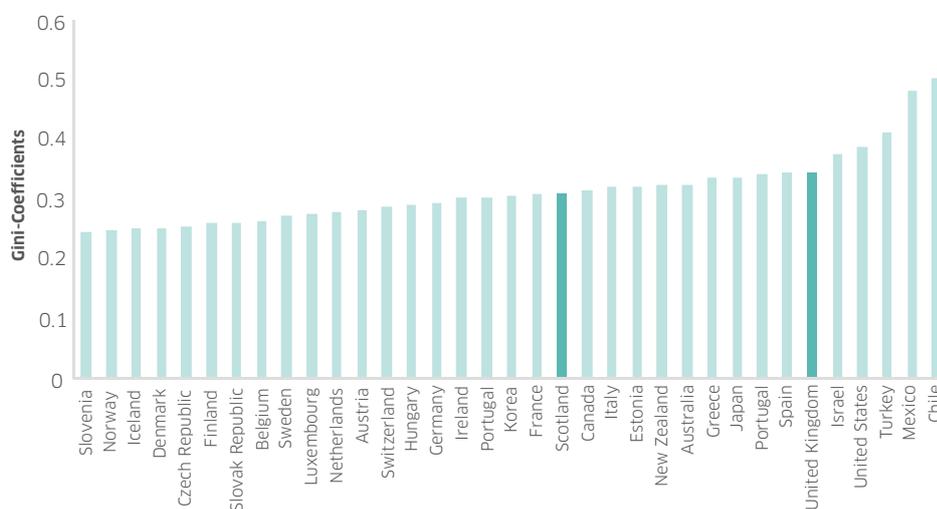
Ensuring that the benefits of economic growth are shared more equally across society is just as important as boosting overall growth. Poverty levels in Scotland are too high and many people still face poor economic prospects.¹¹ The inequalities that exist between households and between different regions across Scotland prevent individuals and communities from maximising their potential.

As part of the UK, Scotland has been tied to an economic model that has exacerbated inequalities. Of the 34 OECD countries, the UK ranked 29th in terms of income inequality – in other words, the 6th worst as outlined in Figure 1.2. Whilst income inequality in Scotland is closer to the OECD average than the UK, Scotland is still more unequal than many other countries and would rank 20th.

These are not new trends. Income inequality among working age people increased faster in the UK between 1975 and the late 2000s than in any other country in the OECD.¹³

In 1997-98, the richest 1% of income taxpayers in Scotland earned nearly 7% of total pre-tax income. This share increased to over 8% in 2010-11 meaning that the top 1% of income taxpayers in Scotland had an income greater than the bottom 20% of taxpayers put together. This is illustrated in Figure 1.3.

Figure 1.2: Gini-Coefficients in the OECD¹²



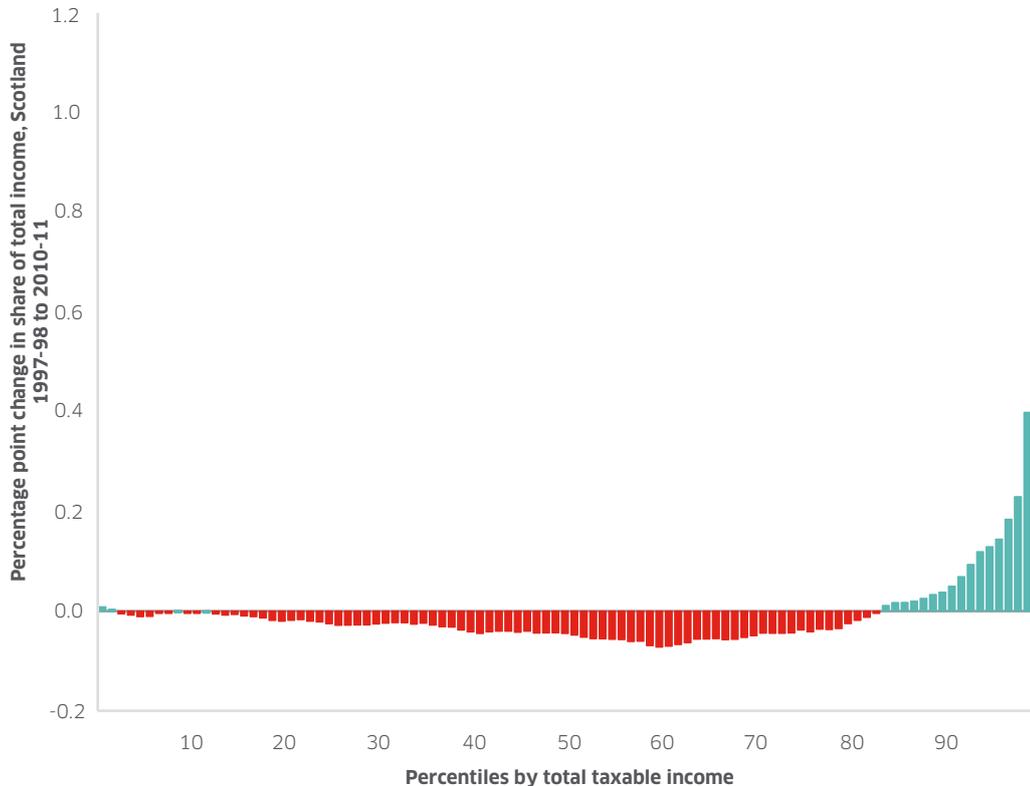
¹¹ In 2012/13 16% of people in Scotland were living in relative income poverty. Scottish Government (2014) Poverty and Income Inequality in Scotland: 2012/13 <http://www.gov.scot/Publications/2014/07/9247>

¹² Data from OECD international Gini comparisons post taxes and transfers, based on most recent year of data for each country. For most countries this is based on either 2012 or 2011 figures, figure for Belgium from 2010 data and figure for Japan based on 2009 data. Data for Scotland from 2012-2013 Family Resources Survey, Households Below Average Income (HBAI) dataset.

¹³ In 2011, the OECD reported that income inequality among working age people increased more quickly in the UK than in any other OECD economy since 1975. OECD (2011) Divided We Stand: Why Inequality Keeps Rising. <http://www.oecd.org/unitedkingdom/49170234.pdf>

¹⁴ Scottish Government analysis of the Survey of Personal Incomes (Public Use Tape)

Figure 1.3: Change in share of total income among income taxpayers, by percentile of taxpayer income, 1997-98 to 2010-11, Scotland¹⁵



Rising income inequality plays a key role in determining a household's ability to accumulate wealth. In Scotland, as in almost all advanced economies, the distribution of household wealth is even more unequal than the distribution of income. During the period 2008 to 2010 the wealthiest 30% of households owned 76% of all private household wealth in Scotland. The least wealthy 30%, in contrast, owned less than 2% of wealth.¹⁶ Forthcoming analysis of data from 2010-12 suggests little change in the extent of wealth inequality in Scotland and in wider Great Britain.¹⁷ This trend has been mirrored internationally and evidence

suggests wealth inequality is increasing at a faster rate than income inequality.¹⁸

Such patterns of inequality have a negative impact on long-term economic growth and prosperity. The IMF found that lower income inequality is correlated with faster and more durable growth.¹⁹ Work by Professor Joseph Stiglitz also concluded that countries which are more unequal, grow more slowly and are less stable.²⁰ Professor Stiglitz's analysis suggests that a concentration of income can restrict the economy in the long run by limiting the potential of people to contribute in a productive way; whilst inequality may

¹⁵ Scottish Government analysis of the Survey of Personal Incomes (Public Use Tape).

The Survey of Personal Incomes (SPI) is based on information held by HMRC on individuals who could be liable to UK tax. The analysis presented in the chart only includes income (including employment and non-employment income) from taxpayers in Scotland for the given years. The SPI contains a small number of composite records which are created for people with very high incomes over a set threshold, these combine high income cases to provide an average income and anonymise the data. This analysis uses the information on composite records to create new records to represent the income of Scottish taxpayers only.

¹⁶ Scottish Government (2014) Wealth and Assets in Scotland: 2006-10 <http://www.gov.scot/Topics/Statistics/Browse/Social-Welfare/IncomePoverty/wealthscotland>

¹⁷ Scottish Government (forthcoming) Wealth and Assets in Scotland 2006 to 2012

¹⁸ Piketty, T. (2013) Capital in the Twenty-First Century

¹⁹ Ostry, J., Berg, A. and Tsangarides, C. (2014) Redistribution, Inequality and Growth IMF Staff Discussion Note <http://www.imf.org/external/pubs/ft/sdn/2014/sdn1402.pdf>

²⁰ Macroeconomic Fluctuations, Inequality and Human Development, Stiglitz, J, Jan 2012, <http://dx.doi.org/10.1080/19452829.2011.643098>

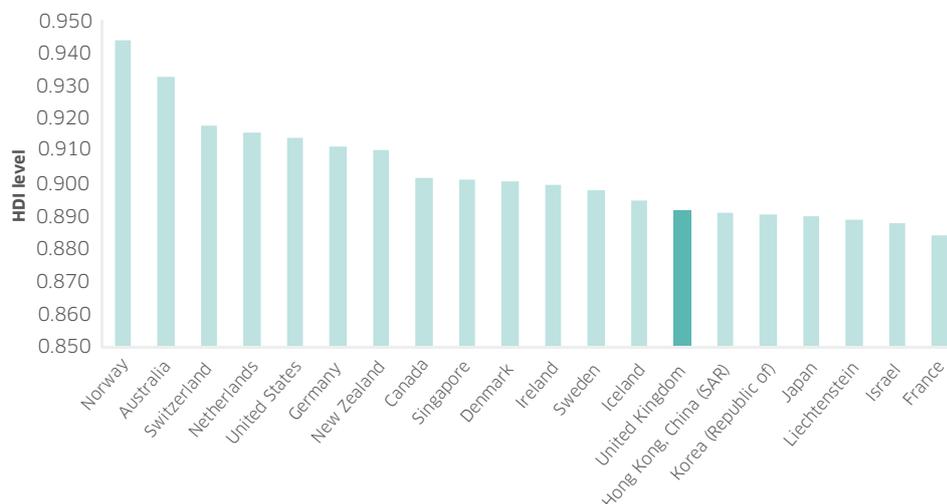
also restrict government investment in the infrastructure, education, and technology that is required by a modern economy.²¹ There is also evidence on the impact of public sector investment on growth. Mazzucato (2013) finds that public sector investment has an important role in supporting private innovation.²²

A recent working paper by the OECD drew similar conclusions, estimating that rising income inequality in the UK reduced GDP per capita growth by 9 percentage points between 1990 and 2010.²³ The OECD analysis argues that the key driver behind this finding is that income inequality undermines the education opportunities available for disadvantaged individuals, hampering skills development and reducing social mobility.

International experience demonstrates that it is possible to perform better on measures of equality and wellbeing whilst also having a strong economic performance.

For example, many northern European countries have achieved lower levels of income inequality than the UK whilst also performing better on key measures of economic performance. For example the United Nation's Human Development Index (HDI) is a composite index based on indicators of life expectancy, educational attainment, and income. The top-ranked country in the 2013 HDI was Norway, in addition Switzerland (3rd), the Netherlands (4th), Denmark (10th), Ireland (11th), Sweden (12th) and Iceland (13th) all ranked above the UK (14th). As well as having lower levels of income inequality, all these countries, with the exception of Ireland, had higher levels of Gross National Income per capita than the UK in 2013.

Figure 1.4: UN Human Development Index (HDI), 2013²⁴



²¹ Joseph Stiglitz has written extensively on the subject of inequality, for further information see: Economic Consequences of Income Inequality, Furman, J & Stiglitz, J, 1998, <http://www.kc.frb.org/publicat/sympos/1998/S98stiglitz.pdf>

²² Mazzucato, M (2013), 'The entrepreneurial state'

²³ Cingano, F. (2014) *Trends in Income Inequality and Its Impact on Economic Growth* OECD SEM Working Paper No. 163, <http://www.oecd.org/els/soc/inequality-and-poverty.htm>

²⁴ United Nations Human Development Index 2013 <http://hdr.undp.org/en/content/table-1-human-development-index-and-its-components>

Income and wealth inequality are only a small subset of overall inequalities in society and the economy. However, they are strongly associated with – and indeed determinants of – wider inequalities across a range of social outcomes, such as health and education. These have a significant impact on people's wellbeing, as well as on their future opportunities.

For example, health inequalities and poor health outcomes reduce people's economic opportunities and have a negative impact on the country's overall economic performance.²⁵ They can also place additional pressures on the public sector. Across the European Union it is estimated that health inequalities resulted in economic losses of between 1.5% and 9.5% of EU-25 GDP per year.²⁶

Scotland's health is improving with many people living longer, healthier lives. Nonetheless, significant health inequalities persist, particularly in our most economically disadvantaged communities.

Addressing inequalities in educational outcomes also improves employment opportunities and living standards for individuals, as well as the skills of Scotland's workforce.

Gaps in educational attainment between disadvantaged children and their peers are often apparent in the early years, and are likely to persist and widen through school and beyond. For example, evidence from the Growing Up in Scotland²⁷ study finds lower cognitive ability among children from disadvantaged backgrounds as early as age 3. Students from the most deprived fifth of our communities only account for one-seventh of our university undergraduates.²⁸

Regional Inequalities

Ensuring that all regions and communities can prosper is important for both overall economic performance and ensuring that all areas have the opportunity to fulfil their potential.

Significant variations exist in levels of economic activity across Scotland. For example, output per person in Edinburgh is £38,000 compared to £12,000 in East and North Ayrshire, see Figure 1.5.²⁹ This reflects, in part, the nature of growth in cities, which benefit from a concentration of economic activity, also drawing in workers from surrounding areas. In addition, some areas of Scotland still suffer the legacy of past industrial decline – for example, the management of the decline in industry and manufacturing in the 1980s by the UK Government which has contributed to concentrations of deprivation in some parts of Scotland.

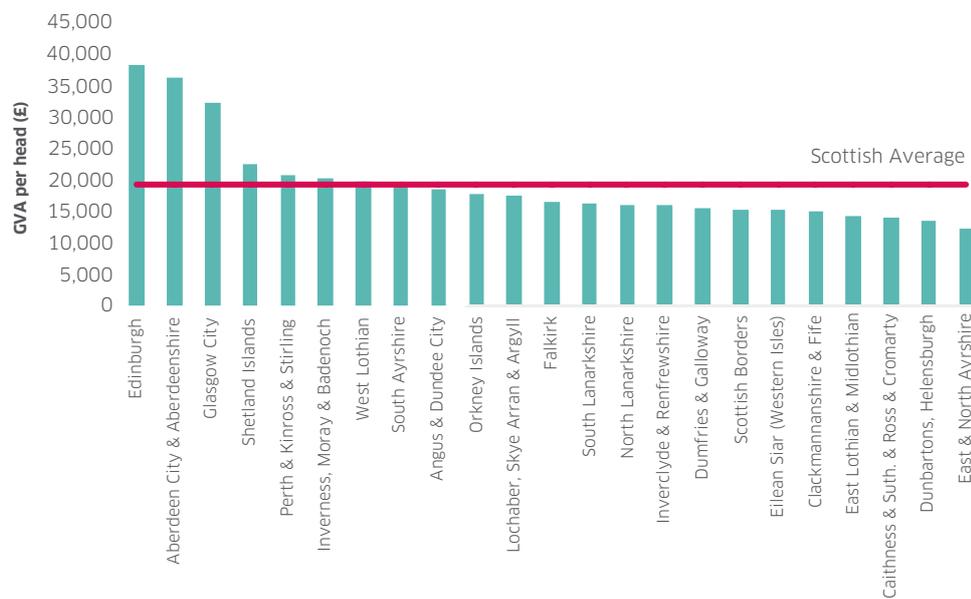
²⁵ Those with poor health are less likely to be in employment. In 2012 70.6% of those aged 16–64 were in employment, of those with a disability or long-term limiting health condition 45.6% were in employment. Local Area Labour Markets in Scotland: Statistics from the Annual Population Survey publication. <http://www.gov.scot/Topics/Statistics/Browse/Labour-Market/Local-Authority-Tables>

²⁶ Estimates were produced for the EU-25 in 2004. Mackenbach, J, Meerding, W. and Kunst, A. (2007) *Economic Implications of Socio-economic Inequalities in Health in the European Union* Directorate-General for Health and Consumers http://ec.europa.eu/health/ph_determinants/socio_economics/documents/socioeco_inequalities_en.pdf

²⁷ Bradshaw, P (2011) *Growing Up In Scotland: Changes in child cognitive ability in the preschool years*, Edinburgh, Scottish Government; <http://www.gov.scot/resource/doc/350161/0117210.pdf>

²⁸ The latest data available is for academic year 2012–13, which shows 13% of Scottish domiciled entrants to full-time undergraduate courses come from the most deprived 20% of society. (Source: analysis of Higher Education Statistics Agency data)

²⁹ ONS Regional Gross Value Added (Income Approach), Workplace Based. 2013 Figures at NUTS3 Level <http://www.ons.gov.uk/ons/rel/regional-accounts/regional-gross-value-added--income-approach-/index.html>

Figure 1.5: Regional GVA per head 2013³⁰

Whilst output per head varies by region in Scotland, these differences are smaller than those in the UK and many other EU countries, see Figure 1.6. However, progress is needed. Countries such as Finland and Sweden have smaller regional differences in GDP per person than Scotland.

As well as differences between regions, there is also a high level of variation in income and economic activity within regions.

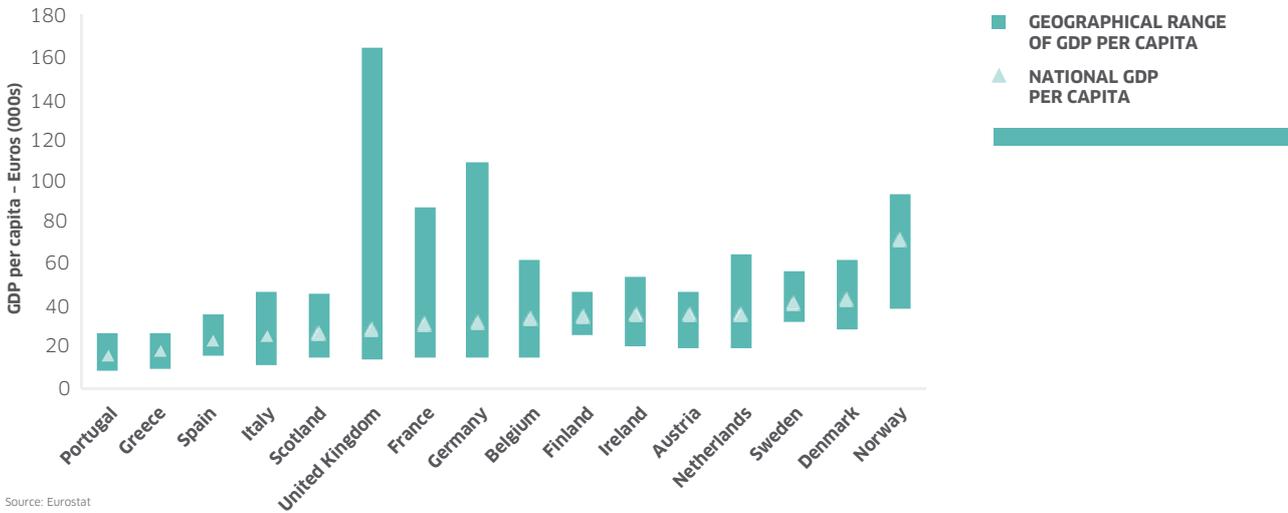
The Scottish Index of Multiple Deprivation incorporates a variety of different aspects of deprivation including employment, income, health, education, skills and training, crime, housing and access to services, and assesses these at smaller local levels.³¹

Whilst some characteristics of disadvantage in rural communities are not all picked up on this measure, communities in rural areas can face other types of challenges such as accessibility and connectivity.

³⁰ ONS Regional Gross Value Added (Income Approach), Workplace Based. 2013 Figures at NUTS3 Level <http://www.ons.gov.uk/ons/rel/regional-accounts/regional-gross-value-added--income-approach-/index.html>. GVA per head is measured on a workplace basis where output is allocated to the area where the economic activity takes place, not to where the workers reside. It is not a direct indicator of residents' income because many people live and work in different areas.

³¹ There are 6,505 datazones across Scotland. <http://simd.scotland.gov.uk/publication-2012/introduction-to-simd-2012/overview-of-the-simd/what-is-the-simd/>

Figure 1.6: Comparison of Geographical Income Distribution at NUTS3 Level



Source: Eurostat

Future Economic Challenges

Our ability to both increase Scotland’s competitiveness and reduce inequalities will be influenced by the challenges currently facing virtually all modern advanced economies.

A more detailed analysis of Scotland’s performance on these key measures, and on Scotland’s wider economic performance is provided in the Scottish Government’s State of the Economy report and in the National Performance Framework.³²

Boosting Productivity

Improving our productivity is about making better use of all our resources – whether they are our people, infrastructure, or natural assets. It is the principal long-term driver of economic growth. More productive economies can produce greater quantities of goods and services for a given set of resources, typically leading to higher incomes, living standards and wealth.

The historic gap between levels of productivity in Scotland and the UK has been reduced in recent years. However, when seen in an international context, there is a clear need to improve Scotland’s economic performance. Amongst the OECD countries Scotland currently ranks around the average but below many other Northern European economies such as Germany and Denmark.

Rebalancing the Economy

If we are to be successful in our ambitions for a more competitive and fairer Scotland we must consider how we want the structure of the Scottish economy to evolve.

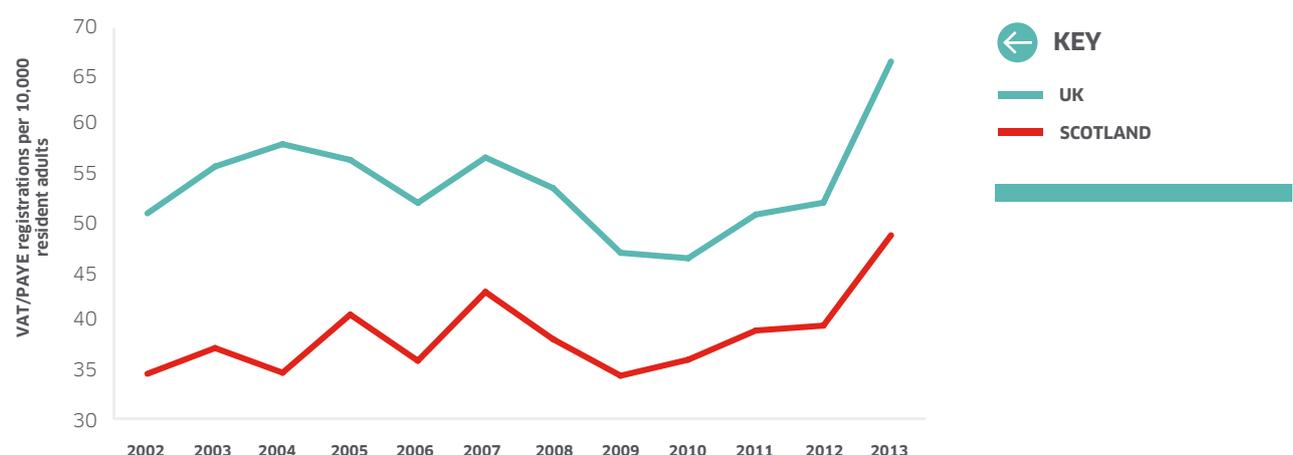
We want to move Scotland onto a more balanced growth path, with a greater contribution to economic growth from investment and net trade, rather than consumption. This will allow our economy to better withstand economic shocks and help ensure that everyone in Scotland can contribute to, and benefit from, growth.

³² The latest State of the Economy report is available from <http://www.gov.scot/Topics/Economy/state-economy>. The National Performance Framework can be accessed from <http://www.gov.scot/About/Performance/purposestratobjis>

Key challenges for Scotland in this regard are the need to continue to grow and to diversify the business base, reindustrialise, strengthen the role of export-generating sectors and focus on encouraging firms to invest and to export.

- Scotland has a relatively small business base with lower rates of business start-ups than the UK as a whole (see Figure 1.7). Although progress has been made in recent years growing the business base remains an important issue to improve upon as a key driver of growth and competition.
- Recent data from the Global Entrepreneurial Monitor (GEM) shows improvements in the level of entrepreneurial ambition in Scotland in recent years, now similar to UK levels and other major economies, but we will need to build on this improvement by supporting entrepreneurship across the entire Scottish economy.³³
- Rebalancing the economy will require a stronger role for exporting companies and sectors to increase sales in products and services. A strengthened role for manufacturing will be a key part of this. Manufacturing firms are more likely to export and to invest in research and development;³⁴ whilst increasing the scale of the manufacturing sector can help with wider equality objectives in terms of addressing regional imbalances through local spillovers, while providing jobs that are typically high skilled and well paid.³⁵
- Increasing exports is also key to rebalancing Scotland's economy. As well as having positive implications in terms of the resilience and sustainability of economic growth, there is evidence that companies that are exposed to international investment and competition become more productive.³⁶ Scottish exports have increased by 20% in cash terms between 2010 and 2013 marking good progress toward our target of boosting exports by 50% over the period 2010 to 2017.

Figure 1.7: VAT/PAYE - Registrations per 10,000 resident adults



Source: ONS

³³ Global Entrepreneurial Monitoring Scotland 2013 <http://www.gemconsortium.org/docs/download/3348>

³⁴ Scottish Government (2014) Reindustrialising Scotland For the 21st Century <http://www.gov.scot/Publications/2014/06/5184>

³⁵ For example, median annual gross earnings, for full-time employees in Scotland, in the manufacturing sector (£27,486 in 2014) are above the Scottish median (£27,046). Earnings are particularly high in a number of subsectors including manufacture of machinery and equipment (£35,617) and pharmaceuticals (£37,560). Annual Survey of Hours and Earnings 2014

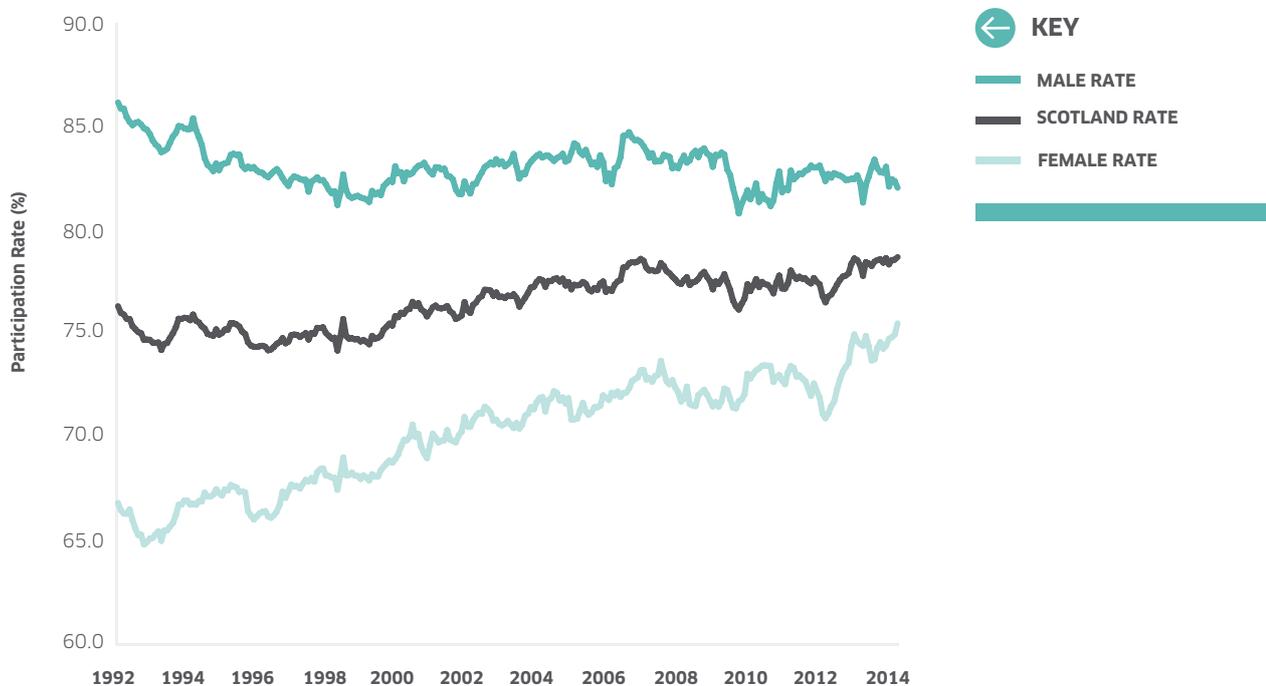
³⁶ For example, analysis by Harris & Moffat (2013) finds that over the period 1997-2008, "...foreign owned firms contributed relatively more to aggregate productivity growth than UK-owned plants over the period." *The Contribution of FDI to Productivity Growth in Britain, 1997-2008*, Harris and Moffat, March 2013

Labour Market Participation

Greater participation increases an economy's potential output and is essential to supporting sustainable economic growth. Bringing more people into the labour market is key to tackling poverty, inequality and social deprivation and improving health and wellbeing.

- The participation rate in Scotland has been on an upward trend for the past 20 years, as outlined in Figure 1.8. Female participation rates in particular have seen a marked increase. As a result, Scotland has a similar or higher female participation rate than many advanced economies.
- However, a gap remains between the female labour market participation rate in Scotland and the best-performing countries in the OECD, such as Iceland, Norway and Sweden. Employment rates among disabled people, some ethnic minority groups and older workers in Scotland also remain well below the national average.³⁷
- Youth unemployment in Scotland, whilst lower than in most European countries, also remains above the overall unemployment rate in Scotland, as discussed in Box 1.3.
- The number of people underemployed, though falling, currently stands at 248,000.³⁸ Reducing levels of underemployment and fully utilising the skills of the Scottish workforce are also key to supporting sustainable economic growth.

Figure 1.8: Labour Market Participation Rate³⁹



Source: Labour Force Survey, Oct-Dec 2014 ONS

³⁷ Annual Population Survey 2012 and 2013 as cited in the Scottish Government Equality Evidence Finder <http://www.gov.scot/Topics/People/Equality/Equalities>

³⁸ ONS Labour Force Survey, Jul-Sep 2014, not seasonally adjusted. The ILO definition of underemployment covers those "aged 16 or over who are in work and would like to work longer hours in their current job, in an additional job or a different job altogether, at their current basic rate of pay, given the opportunity"

³⁹ ONS, Labour Force Survey, Oct-Dec 2014

↓ Box 1.3 – Youth employment

Youth employment outcomes have important implications in terms of competitiveness and reducing inequality.

They are of particular relevance given the long-term impact unemployment at a young age can have on individuals and the economy as a whole, in terms of productivity and future participation in the labour market. There are also wider implications, for life satisfaction and long-term health outcomes.

Rates of youth unemployment tend to be higher than in the wider population. Higher youth unemployment is due, in part, to young people having fewer demonstrable skills and less work experience which can make it harder to find employment. These challenges have been magnified in recent years as a result of the recession.

Whilst youth unemployment remains above the pre-recession levels, significant progress has been made in recent months, with Scotland's youth unemployment levels and rates now at their lowest in five years. Youth unemployment⁴⁰ in Scotland is currently 14.5% – and is currently less than half the level observed in some European countries.⁴¹

However, whilst it has fallen by 6.8 percentage points over the year it remains higher than the overall unemployment rate in Scotland, currently at 5.4%. Similar trends are observed in other countries.⁴² For example, in Denmark and Finland youth unemployment rates are 10.7% and 17.9% while overall unemployment rates are 6.4% and 8.9%.

Our target is to reduce youth unemployment by 40% by 2021.

⁴⁰ Youth Unemployment Rates are non-seasonally adjusted – estimates for Scotland and UK are from the Labour Force Survey (LFS) Oct-Dec 2014 and covers those aged 16-24 while the figures for Denmark and Finland are from Eurostat and cover those aged 15-24.

⁴¹ Spain (52.2%), Greece (50.3%), Croatia (48.1%), Italy (46.5%), Portugal (33.9%), Cyprus (31.8%) and Slovakia (30.2%). Source: Eurostat November 2014

⁴² Headline Unemployment Rates are seasonally adjusted – estimates for Scotland and UK are from the Labour Force Survey (LFS) Oct-Dec 2014 and covers those aged 16+ while the figures for Denmark and Finland are from Eurostat and cover those aged 15-74.

Adapting to External Changes in Globalisation and Technological Change

Globalisation and technological change are external trends which have impacted the Scottish economy over the long term and shape the structure of demand.

Technological change is one of the key drivers of productivity and long-term growth. Innovation and the role of transformational (or destructive) technology has been crucial for driving economic growth and there is a clear link between previous periods of above trend growth and the advent of such new technologies. It has also been one factor which has changed the composition of the labour market. The process where labour is substituted for technology in many countries, including Scotland has tended to impact on semi-skilled jobs that are medium-paid. This has resulted in the share of people employed in high-paid and low-paid jobs increasing relative to those in medium-paid jobs, creating 'job polarisation'.

Technological progress has been one of the main factors driving increasing income inequality across countries.

Adjusting to these changes in the economy requires a flexible and skilled workforce that can adapt to new technologies and markets.

Population and Demographic Trends

Growth in the working age population plays a key role in underpinning sustainable economic growth.

- It increases the labour force and with it, the total amount the economy can produce.
- It also increases demand for goods and services, creating business and employment opportunities.
- In addition, a healthier and more active population with a longer life expectancy, as well as improving overall wellbeing, also further improves a country's productive capacity.

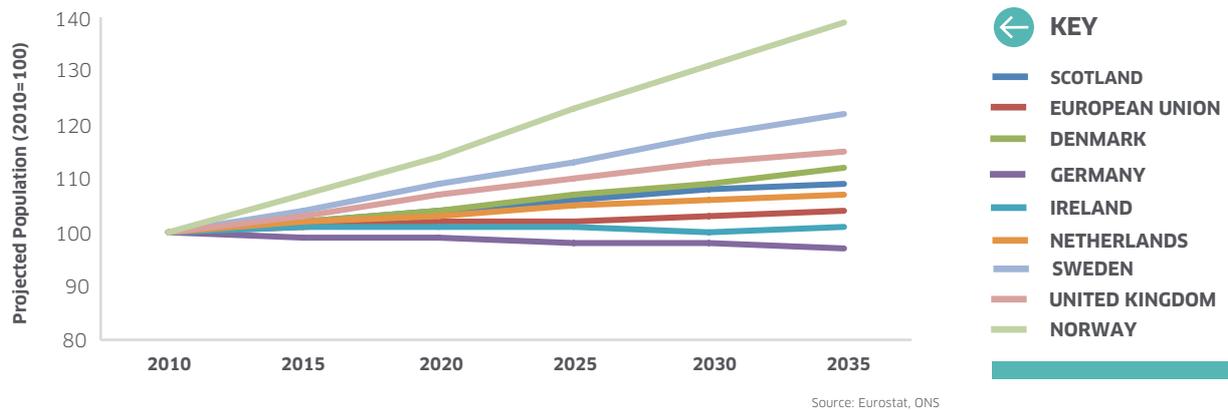
Between 2010 and 2035, the Scottish population is projected to increase by 10.2%,⁴³ above the EU average⁴⁴ and significantly faster than many other European countries, see Figure 1.9. Within this, the working age population is also projected to increase.⁴⁵

However, this increase in Scotland's population is expected to be accompanied by an increase in the dependency ratio which is forecast to rise as the number of older people in the population increases. This will present a number of challenges in terms of both the structure of the economy, and the way we innovate to deliver public services to meet these demands.

⁴³ National Records of Scotland 2010-based population projections are used for this comparison. While they are not fully comparable because of timing differences they provide a better comparison with Eurostat data, than the 2012-based population projections.

⁴⁴ Eurostat data does not cover Croatia who joined in 2013.

⁴⁵ The working age population in Scotland is projected to increase by 4.0% between 2012 and 2037. Source: National Records of Scotland 2012-based population projections <http://www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/population/population-projections>

Figure 1.9: Projected population, 2010 to 2035⁴⁶

Resource Efficiency and Climate Change

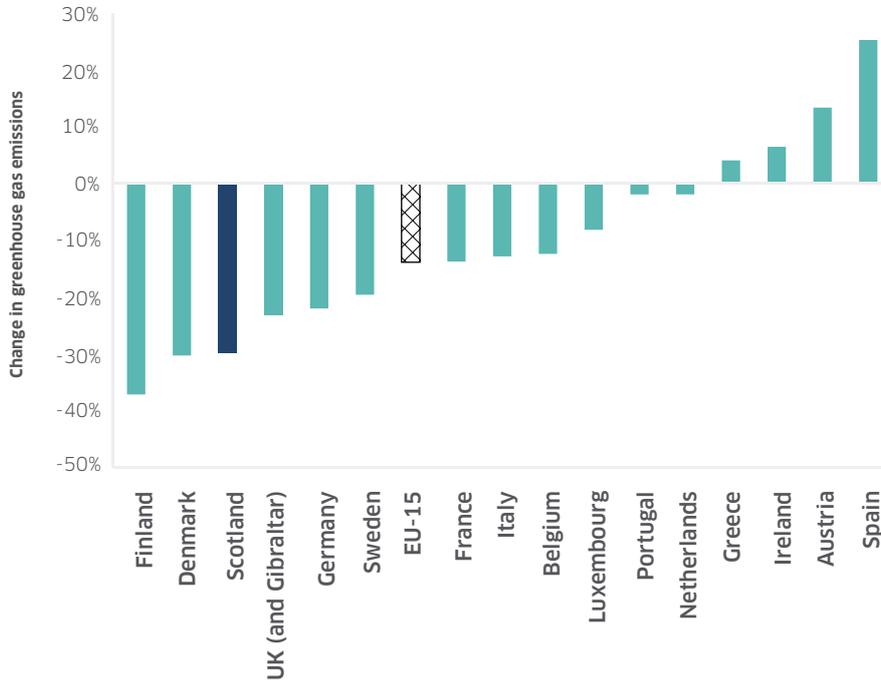
In the decades to come, climate change will continue to be a key challenge that all economies face and will only increase in importance.

All countries will have to adjust to a more resource-efficient and sustainable economic model. The Scottish economy is particularly well placed to benefit, both from the development of the low carbon economy and from using Scotland's natural resources more efficiently.

In 2012, Scottish greenhouse gas emissions were 26.4% lower than in the 1990 Base Year, used in the EU Emissions Trading System (EU ETS). As a result, Scotland is more than halfway towards its Climate Change (Scotland) Act 2009 target of achieving at least a 42% emissions reduction by 2020. As Figure 1.10 illustrates, on an internationally comparable basis, the reduction in emissions in Scotland has also been greater than in the EU-15 as a whole.

⁴⁶ National Records of Scotland 2010-based population projections are used for this comparison. <http://www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/population/population-projections/population-projections-scotland>
 Data sources: ONS National Population Projections <http://www.ons.gov.uk/ons/rel/npp/national-population-projections/2010-based-projections/>
 Eurostat database <http://ec.europa.eu/eurostat/data/database> Notes: Care should be taken when making comparisons as Eurostat and the ONS/NRS use different methodologies when calculating population estimates and projections and as such data is not directly comparable.

Figure 1.10: Change in greenhouse gas emissions between 1990 and 2012 - Scotland and EU-15 countries



Conclusion

Scotland has faced a challenging economic climate over the last eight years, with the most severe recession in living memory. The Scottish economy has, however, shown resilience in responding to these challenges.

We want to achieve more than simply return to pre-recession levels of economic performance and the resultant outcomes that this model delivered. That is why our Economic Strategy has a greater focus on tackling inequalities to ensure long-term sustainable and inclusive growth.

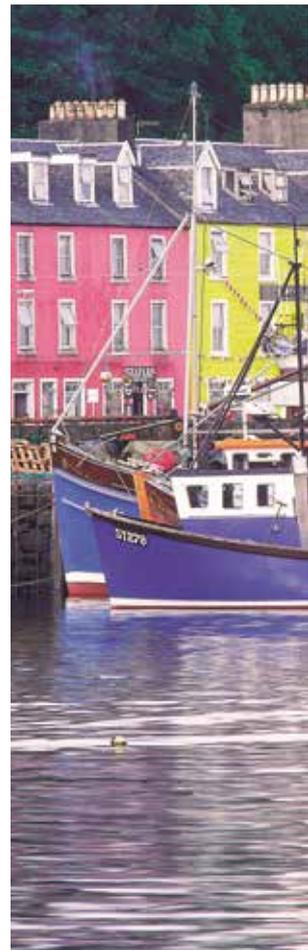
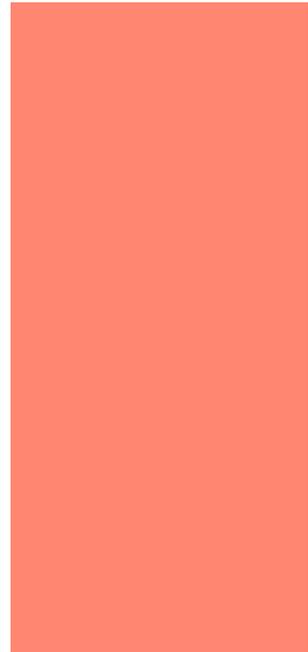
The next section sets out the priorities for *Scotland's Economic Strategy*.



The Kelpies,
The Helix,
Falkirk

SECTION 2: OUR FRAMEWORK AND PRIORITIES

2



The Scottish Government's purpose is to create a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth.

Our Economic Strategy brings focus on two main pillars to achieving this objective; increasing competitiveness and tackling inequality.

In order that everyone in Scotland can enjoy the opportunities that economic growth provides, it is vital to boost the competitiveness of the Scottish economy. Over the long term, increased levels of productivity are essential to support the economic growth needed to ensure rising living standards.

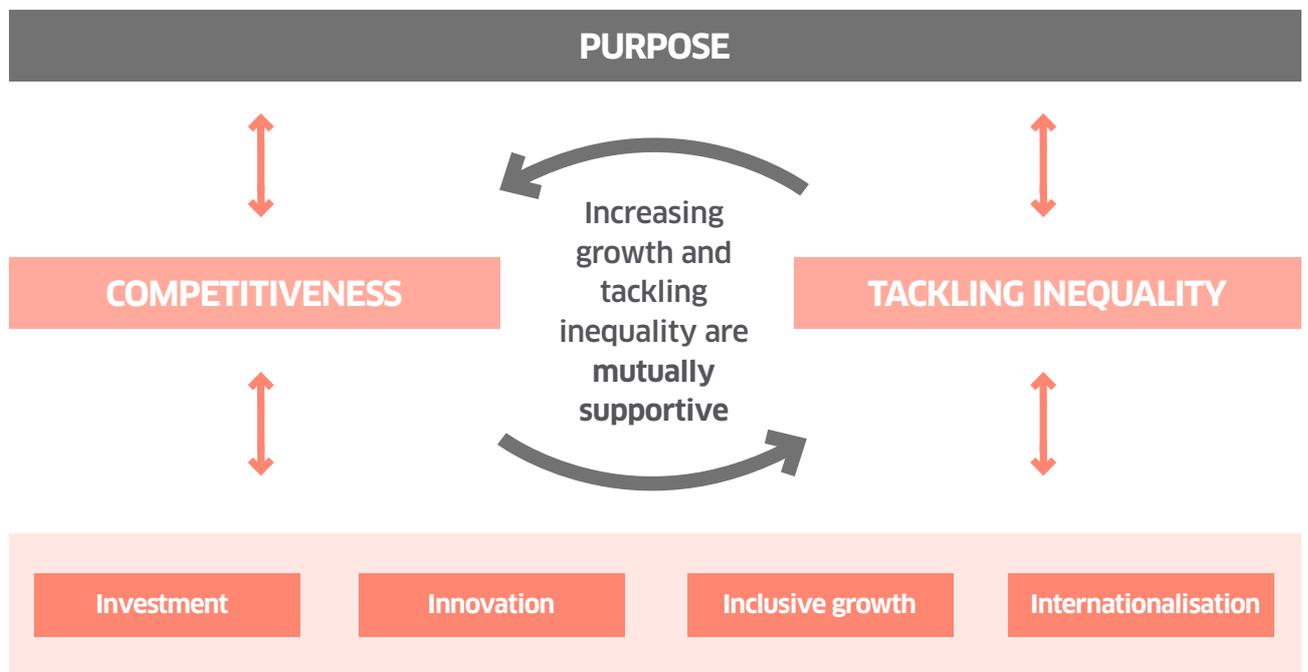
As outlined in Section 1 the growing international evidence is clear. Promoting competitiveness and addressing inequality

are important interdependent ambitions; reducing inequality in itself is beneficial for economic growth. It is also a moral imperative in its own right which sits at the heart of Scotland's commitment to social justice and international responsibilities on human rights.

Growth in inequality - both in income and wealth - has become an increasing feature of many advanced economies. Part of this trend has been driven by global forces, changes in technology and the global regulatory environment. However, the choices and operation of domestic economic and social policy have also had a crucial bearing on the resilience and cohesiveness of our economy and society.

The framework underpinning our Economic Strategy is summarised in Figure 2.1.

Figure 2.1: Scotland's Economic Framework



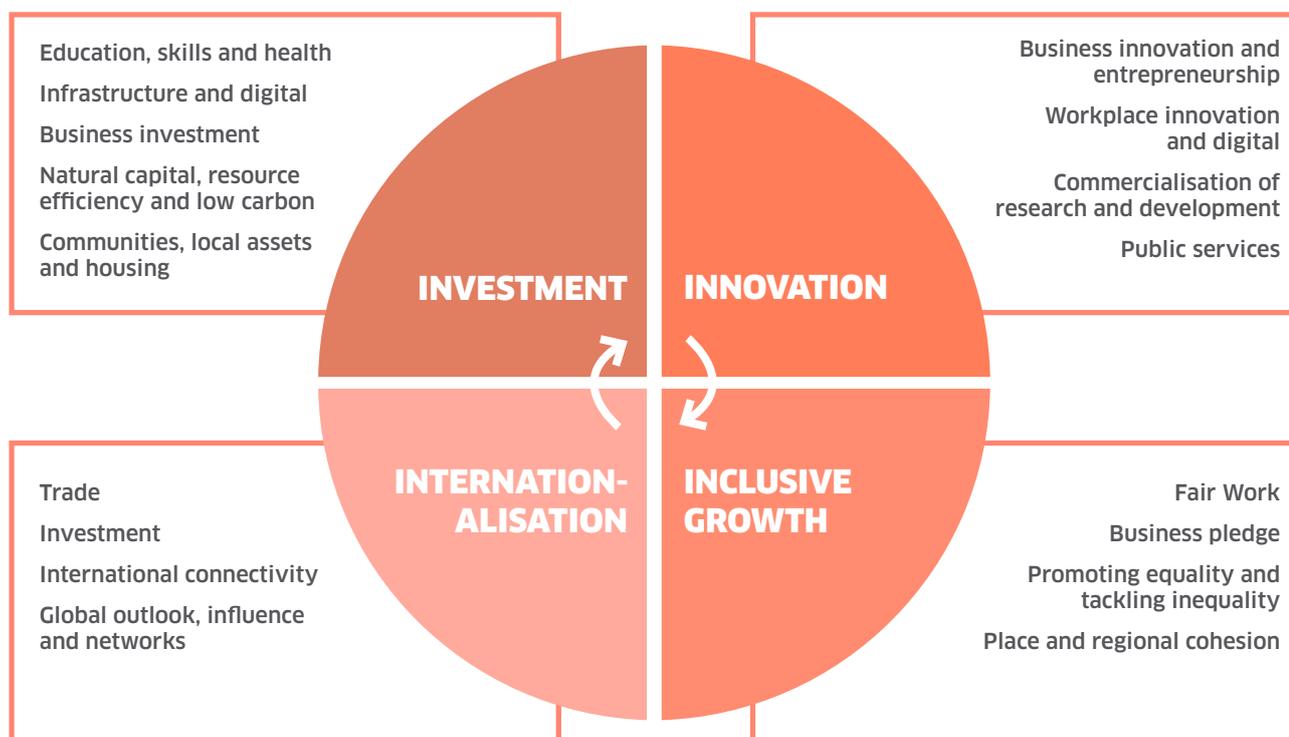
As the framework makes clear, our approach to delivering sustainable economic growth is characterised by four key priorities:

- An economy where growth is underpinned by long-term sustainable **investment** in people, infrastructure and assets;
- An economy where growth is based on **innovation**, change and openness to new ways of doing things;

- A society that promotes **inclusive growth** and creates opportunity through a fair and inclusive jobs market and regional cohesion to provide economic opportunities across all of Scotland; and
- A country with an **international** outlook and focus, open to trade, migration and new ideas.

In the sections that follow we describe each priority in more detail and the key measures being taken in Scotland under each priority, as summarised in Figure 2.2.

Figure 2.2: Four priorities



1. Investing in our people, infrastructure and assets in a sustainable way



This strategy sets out how we will:

- Invest in Scotland's people at all stages of life to ensure that we have a well-skilled, healthy and resilient population and an innovative, engaged and productive workforce;
- Provide the physical and digital connectivity needed to ensure that all of Scotland is open to the national and global economy and is able to access high quality public services;
- Invest in Scotland's infrastructure to help Scottish businesses to grow, innovate, and create good quality employment opportunities;
- Prioritise our investment to ensure that Scotland protects and nurtures its natural resources and captures the opportunities offered by the transition to a more resource efficient, lower carbon economy; and
- Invest in strengthening the success and resilience of local communities.

Introduction

Investment – whether in our people, infrastructure or businesses – is key to driving long-term improvements in competitiveness and in creating opportunities for everyone in society to benefit from these improvements.

Investment in education and training ensures that we have a strong and productive labour force, which has the skills to maximise our country's economic potential. It is also a key avenue for tackling a range of issues from poverty and income inequality to health and life expectancy.

Investment in our infrastructure is vital for delivering high-valued public services, boosting connectivity and enabling businesses, households and communities to take advantage of the digital age.

Similarly, the structure of the economy and its business base are key determinants of economic performance.

A diverse business base – by firm size, industry, geography and ownership – can improve the long-term resilience of an economy. It complements a targeted strategy to excel in a number of niche sectors where we have a comparative advantage.

Investment must also be sustainable, not only in terms of tackling emissions, enhancing our natural capital and supporting the transition to a low carbon economy, but also through ensuring the sustainability of our communities.

Education, skills and health

An individual's health and skill level has a direct impact on their wellbeing and prospects for employment and income. At an economy-wide level, education and skills play an important role in enabling our companies to grow and be successful.

The Scottish Government, and the wider public sector, undertake significant investments in education and skills through our schools, colleges and universities, including our Modern Apprenticeships and other training programmes delivered by Skills Development Scotland.

Going forward, our investment in the human capital – the education, skills and health – of the people of Scotland will be a central focus of our actions to deliver *Scotland's Economic Strategy*.

In this regard, we can build on the significant progress made in recent years.

The Curriculum for Excellence (CfE) is designed to raise ambition and attainment for all our children and young people, and will make learning and teaching more relevant, engaging and inspiring.

We are also implementing substantial changes to the structure, governance and focus of Post-16 education in Scotland.

Colleges play a key role in delivering educational opportunities that support individuals into the workplace and on to higher learning. Through our Post-16 reforms, we are ensuring that every college in Scotland is in a strong position to meet the needs of learners and employers in their region.



↓ Box 2.1 – Developing Scotland's Young Workforce

The Commission for Developing Scotland's Young Workforce's final report was published in June 2014. The Scottish Government is now embarking on a seven-year national programme to implement its recommendations.

These measures include working jointly with local government to ensure school pupils access learning which is directly relevant to getting a job, improving and extending careers advice and work experience, and ensuring that learning is shaped and supported by employers. All young people, regardless of any barriers they face, will have fair access to these opportunities.

There are a range of challenging targets for the programme, for example:

- To reduce youth unemployment by 40% by 2021;
- To increase the percentage of employers recruiting young people directly from education to 35% by 2018; and
- To reduce to 60% the percentage of Modern Apprenticeship frameworks where the gender balance is 75:25 or worse by 2021.

and further education. Our investment has helped to ensure that our universities are amongst the best in the world. Scotland now has four universities in the world's top 200 – more per head of population than any other country except Switzerland, and achieves world-renowned research.

Moreover, a key part of our strategy for long-term economic growth that boosts competitiveness and addresses inequalities, will be our commitment to free tuition, ensuring that access to university is based upon ability to learn and not ability to pay.

Our investment in education has a focus on preparing young people for employment. We are therefore widening access to higher education, and to extending a wide range of high quality learning through the implementation of Developing Scotland's Young Workforce (see Box 2.1).

We will also continue to make a significant investment in the health of Scotland's population. A sustained effort on increasing healthy life expectancy, providing physical and mental health benefits for those in work, and helping to increase participation.

Our commitment to health and social care integration, a system-wide and sustained focus on prevention and further legislation on alcohol and tobacco control are also important contributions to improving the economic opportunities for everyone in Scotland and tackling inequalities.

Infrastructure and digital

Infrastructure investment attracts business investment, stimulates economic activity and deepens access to the labour market. Physical and digital infrastructure improves connectivity, helping our cities, towns and regions to drive growth and compete internationally.

A central feature therefore of our Economic Strategy will be our approach to supporting investment.

We will take a strategic and long-term approach.⁴⁷ Our programme of improvements includes a number of major projects such as:

- The Queensferry Crossing; the new Aberdeen Western Peripheral Route; investment to dual the A9; and a number of rail improvements including the Borders Railway and Edinburgh-Glasgow Improvement Programme.
- In the future, High Speed Rail will generate prosperity and has the potential to rebalance the British economy, but Scotland must be included in HS2 plans if it is not to be economically disadvantaged.
- Our investments in infrastructure go beyond one-off, large-scale projects – smaller scale, local interventions to improve our infrastructure networks can, together, make a nationally significant contribution to supporting economic growth and tackling inequalities.

An adequate and affordable supply of housing is essential for growth and in supporting local communities tackle inequalities. We are making significant investment through the Affordable Housing Supply Programme and our planning frameworks highlight the strategic importance of up-to-date development plans in delivering Scotland's future housing requirements.

Digital technologies are increasingly critical in the day-to-day operations of businesses and households across Scotland, and in improving access to public services across Scotland's more remote regions. A key part of our Economic Strategy will be delivery of a future-proofed infrastructure that will establish world-class digital connectivity across the whole of Scotland by 2020.⁴⁸

The availability of Next Generation Broadband in Scotland has increased significantly since 2011, from 41% of premises to 63% in 2014, however, there is a need for further improvements in coverage⁴⁹ and also uptake within these areas .

The Scottish Government and its partners are investing in the Digital Scotland Superfast Broadband (DSSB) programme to extend superfast broadband infrastructure into areas which are not being reached by the market alone, such as parts of rural Scotland. As a result of this investment, at least 95% of premises across Scotland will be able to access fibre broadband by the end of 2017.

⁴⁷ The Infrastructure Investment Plan (IIP) 2011 sets out investment priorities over the period to 2030. It is available online at: <http://www.gov.scot/Topics/Government/Finance/18232/IIP>. The National Planning Framework 3 (NPF) sets the context for development planning in Scotland and provides a framework for the spatial development of Scotland as a whole, including priorities over the next 20-30 years. It is available at <http://www.gov.scot/Topics/Built-Environment/planning/NPF3-SPP-Review/NPF3>

⁴⁸ Further information is provided in *Scotland's Digital Future: Infrastructure Action Plan*, available at: <http://www.gov.scot/resource/doc/981/0114237.pdf>

⁴⁹ <http://stakeholders.ofcom.org.uk/binaries/research/infrastructure/2014/infrastructure-14.pdf>

↓ Box 2.2 - Innovative financing mechanisms

A key part of our Economic Strategy, and focus on investment, is not just about prioritising resources, but in maximising opportunities to secure new funds and additionality.

In this regard, Scotland is at the forefront of developing innovative financial mechanisms to support infrastructure investment. This work is being led by Scottish Futures Trust (SFT), which aims to improve the efficiency and effectiveness of infrastructure investment in Scotland. Recent approaches to financing investment include:

- The National Housing Trust, which leverages private sector funding and council borrowing to support the delivery of homes for intermediate rent. Together with other innovative financing approaches, around 2,000 new affordable homes are now being delivered in communities across Scotland.
- The Tax Incremental Financing pilot programme, under which councils fund infrastructure by borrowing against future business rate income, has already resulted in two projects worth almost £150 million entering construction, Glasgow City Council's Buchanan Quarter project and Falkirk Council's Grangemouth project.
- The Growth Accelerator Model is a new financial model that combines public and private sector investment in local infrastructure and public space. The model unlocked an £850 million investment in the St James Quarter in Edinburgh by bringing together the Scottish Government, City of Edinburgh Council and private sector developers.
- Hub, which reflects a creative approach in the delivery of community-based infrastructure and facilities, will deliver an estimated £2 billion of community infrastructure over 10 years.
- The Non Profit Distributing financing model is delivering a £3.5 billion programme of investment. Currently, two health projects are operational and 16 projects worth around £1.6 billion are under construction.



Business investment

As this strategy makes clear, the future success of Scotland's economy depends upon the growth and competitiveness of Scotland's businesses. *Scotland's Economic Strategy* will therefore ensure that this Government delivers a business environment that supports business growth.

We will continue to target our interventions at sectors and companies where we have a distinct comparative advantage. Scotland has strengths in a diverse range of sectors including Food and Drink, Financial and Business Services, Life Sciences, Energy, Tourism and Creative Industries. We will continue our focus on these key sectors.

Scotland also has a global reputation for manufacturing excellence, and innovative new technology sectors. We will not only take advantage of such strengths but also consider how we can stimulate innovation and performance in more locally-traded sectors, such as retail and care sectors, which are important in both employment terms and in supporting local economic activity across Scotland.

We will also provide support for Scotland's entrepreneurs and businesses more generally. Our strategy will ensure that we will create an enabling business environment which allows them to thrive, ensuring that services are integrated, and offering more targeted assistance in areas where the market fails to step in.

Central to this is our strong performance in regulation, planning, procurement and skills. Box 2.3 provides examples of our initiatives on better regulation and planning designed to minimise costs on businesses.

In addition, we have a focused approach in particular areas, including through the Scottish National Marine Plan which sets out strategic policies for the sustainable development of Scotland's marine resources.

↓ Box 2.3 – Scotland's approach to better regulation and planning

Well-designed regulation and planning help provide a supportive environment for businesses to invest and grow. The Scottish Government's approach to Better Regulation focuses on encouraging a risk-based enabling approach, and adopting the five key principles of regulation which includes addressing inconsistencies in regulatory systems. Alongside this, we have a focus on effective development planning, and more efficient decision making including seeking solutions where development has stalled.

Two examples of our initiatives in regulation and planning are summarised below:

- The Regulatory Reform (Scotland) Act 2014 provides a proportionate and risk-based approach to regulation, and environmental protection in particular. The Act enables the creation of an

integrated authorisation framework, reducing the unnecessarily complex landscape of individual pieces of environmental legislation and allows businesses to benefit from clearer guidance, simpler processes and reduced administration.

- The Town Centre Planning Pilots programme includes a project to establish Scotland's first Simplified Planning Zone (SPZ) for a town centre in Renfrew.

SPZs are areas where the need to apply for planning permission for certain types of development is removed. It removes the need for repetitive planning applications, covering the same range of planning issues, and offers certainty on the type of developments that would be permitted.



Grangemouth
Oil Refinery



We are also taking a range of measures to support growth in the business base in Scotland. For example:

- Since its introduction in 2008-09, the Small Business Bonus Scheme (SBBS) has been significantly extended and now reduces or removes business rates taxation for almost 100,000 business premises.
- Local Authorities, as part of their economic development activity, are responsible for the Business Gateway which provides businesses support to start up and grow. This is important for supporting our SME base across Scotland.
- Through Scotland CAN DO⁵⁰ we support a number of initiatives towards becoming a world-leading entrepreneurial and innovative nation. A particular focus is placed on ensuring all of Scotland's people view enterprising activity as a valid and viable option; as such we have co-developed the Women In Enterprise Framework⁵¹ (the only of its kind in the EU) to tackle the gender-gap and are working with numerous third sector partners to mainstream entrepreneurial mind-sets in our schools in the 'Enterprising Schools' programme. A notable success to date has been the Scottish EDGE Fund;⁵² a funding competition supported across all sectors that is enabling Scotland's top, early-stage and high-growth potential entrepreneurs towards reaching their potential.

Moreover, our Enterprise Bodies – Scottish Enterprise and Highlands and Islands Enterprise – will play an important role in assisting businesses in Scotland and in delivering this strategy. Their business support activities include development of leadership capacity, stimulating innovation and exporting advice.

A properly functioning market for lending is particularly important for the success of all businesses in Scotland. In addition to advisory support provided through Business Gateway, Scottish Enterprise and Highlands and Islands Enterprise continue to engage and work actively in partnership with the banks, at both operational and strategic level, to improve access to finance.

The Scottish Investment Bank (SIB) delivers early-stage equity schemes, investing risk capital in Scotland's new and growing technology companies alongside private sector partners. SIB also has a mezzanine loan fund aimed at growth, and exporting companies. Annually, the SIB equity schemes have invested over £30 million in some 100 companies, leveraging over £60 million from private sector partners.

Building on the work of the SIB, we are establishing a Scottish Business Development Bank, to work directly with small and medium-sized enterprises and the financial markets to support businesses with high growth potential in Scotland. Scotland has a lower proportion of medium-sized enterprises than other European countries such as Germany, Austria, Finland and Sweden. The Scottish Business Development Bank will therefore, in particular, help to build more medium-sized enterprises, and is an important addition to the institutional landscape in Scotland.

⁵⁰ <http://www.cando.scot/>

⁵¹ <http://wescotland.co.uk/influence/framework/>

⁵² <http://www.scotedge.com/>

Through our Enterprise Agencies we provide a substantial package of business support which can help businesses to become more productive; grow, innovate and export. We will continue to offer targeted support and advice as part our commitment to the Scottish Business Pledge (see Box 2.11).

Natural capital, resource efficiency and low carbon

Communities across Scotland benefit from the goods and services that our natural environment provides, including food, renewable energy, water purification, flood mitigation and places for recreation, education and inspiration.

Protecting and enhancing this stock of natural capital, which includes our air, land, water, soil and biodiversity and geological resources is fundamental to a healthy and resilient economy. It also supports sectors such as agriculture, forestry, fisheries, tourism and renewables.

Sustainable economic growth also rests on a requirement to make the transition to a more resource efficient, lower carbon economy. Our ambition is to reduce emissions of greenhouse gases by 80% from 1990 levels by 2050. This represents a fundamental transition of all sectors of the economy and a long-term strategy for economic growth: reducing the cost to the Scottish economy of climate change, while maximising opportunities to export our technology innovations and knowledge as other economies make their own low carbon transition. Key to this transition is ensuring that we manage our natural resources and secondary materials sustainably.

By improving resource efficiency we can reduce energy demand and overall greenhouse emissions. Resource-efficient homes are less likely to face fuel poverty; resource-efficient businesses are more productive.

It is therefore a key aspect of our Economic Strategy.



Hydroelectric
Power Plant,
Sloy

Through Resource Efficient Scotland, we are supporting businesses, third sector and public sector organisations to boost productivity by using energy, materials and water more efficiently.

With our partners, such as Zero Waste Scotland and the Enterprise Agencies, we are creating conditions for a more circular economy that helps companies embrace new business models and manufacturing processes, and which transforms used products into assets that support industries like remanufacturing, reuse, product disassembly and reprocessing.

Remanufacturing is transforming how parts and products are produced. In doing so, it helps industries minimise their use of raw materials, while reducing energy and water use. Sectors as diverse as aerospace, energy, automotive, IT and medical equipment industries are already benefiting from this transformation. We are helping to stimulate remanufacturing networks and supply chains by funding the Scottish Institute of Remanufacture – one of only four international centres of excellence for remanufacturing, joining others in Singapore, New York and Beijing.

The energy used to heat our homes and businesses and drive our industrial processes accounts for over half of Scotland's total energy use with an estimated £2.6 billion a year spent on heating by households and the non-domestic sector. This represents a significant opportunity which will be pursued through the continued development of our strategic approach to encourage wider investment in low carbon and renewable heat technologies.

We have implemented a number of programmes to improve domestic energy efficiency, such as the Home Energy Efficiency Programmes for Scotland (HEEPS) and Green Homes Cash Back which at the same time as improving our resource efficiency, are tackling inequality by lifting families and households out of fuel poverty. Energy efficiency measures have been installed in nearly 1 in 3 Scottish homes since 2008.

Scotland's immense natural resources are already delivering clean, reliable energy. The equivalent of 44% of Scotland's demand for electricity is now generated from renewables.

Strategic investments in infrastructure can further help to unlock the potential of Scotland's islands and remote communities. Renewable resources from wind, wave and tidal on or around the Western Isles, Orkney and Shetland are considerable, and renewable generation on Scotland's islands could make a significant contribution to renewables targets security of supply, as well as playing an important role in longer-term decarbonisation.

Our Community Energy Policy Statement sets the challenge to encourage Scotland's communities to grasp the opportunities of a whole system approach to community energy. Low carbon energy systems can involve a range of innovative technologies: renewable energy generation, energy storage, the use of waste heat and community heat systems, smart grids and demand reduction measures, improvements to energy efficiency. Central to this is the idea that these new assets can be locally owned – empowering communities to lower fuel bills and earning a financial return on investments.

↓ Box 2.4 – Community Energy Empowerment programme

The Scottish Government has launched a programme to support Community Energy Empowerment, which will put communities at the heart of decisions about local energy systems, and give them the confidence to take an economic stake in commercial projects.

Currently, there are approximately 285 MW of energy in community and local ownership. However, only 43 MW is directly owned by community groups. The Scottish Government's objective is to ensure 500 MW of community and locally-owned renewables by 2020.

The programme will introduce a new Local Energy Investment Fund as well as continuing to offer communities access to technical advice and capital through existing initiatives, such as the Community Renewable Energy Scheme and the Renewable Energy Investment Fund. In 2015-16, £10 million will be available through the Local Energy Investment Fund to invest on behalf of communities in commercial renewables schemes.

Communities, local assets and housing

Working with the people and communities of Scotland to deliver the best possible outcomes is at the heart of how we will invest in, and support, local areas as part of this Economic Strategy. Building the resilience and capabilities of individuals, families and communities, and enabling people to actively shape and assist with the design and delivery of services they use, are two fundamental principles.

We are acting to catalyse local level investment including regeneration in our most disadvantaged communities, bringing empty town centre properties back into use as affordable housing, with investments in housing and communities to improve local amenities and build strong and sustainable communities.

Community Planning Partnerships are in place in all local authorities for public agencies to work in coordination with local communities to plan and deliver better services and work towards the priorities set out in Single Outcome Agreements.

Scotland's third sector is a significant employer and contributor to the Scottish economy. It also provides key services and vital support to communities at grass-roots level.

There is a vibrant and diverse range of community-led initiatives, including managing renewable energy projects, running childcare services, preserving the local heritage, and managing forestry enterprises. The work of these groups is having an impact from our islands and remotest rural villages to the hearts of our cities and towns.

We want to ensure that more of the money we spend is directed by communities themselves – by the individuals and organisations who know best how to tackle poverty and inequality and harness the energy of local people.

When people feel they can influence what happens in their community, and can contribute to delivering change, there can be many benefits, and our aim is to support approaches that can contribute to a growing sense of democratic renewal and change.

In support of community regeneration, the People and Communities Fund has already supported 156 projects since its launch in 2012 and will build on its support of a wide range of initiatives including training, volunteering, promoting local economic development, tackling health inequalities and supporting vulnerable people as well as funding for community facilities.

The Community Empowerment Bill will give communities more opportunities to make a difference on their own terms, by creating new rights for community bodies, placing new duties on public authorities, making it easier for communities to take on public sector land and buildings, and extending the community 'Right to Buy' to the whole of Scotland.

The Smith Commission recommended devolution of the management of and revenues from the Crown Estate in Scotland, including the seabed surrounding Scotland's coasts. The Scottish Government will use these new powers to ensure that communities enjoy greater benefits from their local assets.

We have committed to giving island and coastal communities 100% of the net revenues from Crown Estate assets in the waters adjacent to their coast and we will work with local authorities and other stakeholders to develop a framework for greater local involvement in the management of these assets.

Our Prospectus for the Islands, Empowering Scotland's Island Communities,⁵³ is the most comprehensive package for empowering Scotland's island communities put forward by any government. We have also reconvened the Islands Area Ministerial Working Group and are committed to implementing as many of the recommendations from the Prospectus as we can, including consulting on an Islands Bill.

Using our land as effectively as possible – and for the widest benefits – is central to the Scottish Government's Land Reform Agenda. In Scotland, rural land ownership is often concentrated in the hands of a small number of landowners which can have a detrimental impact on the sustainable growth of communities. The land reform agenda is actively being taken forward with a commitment to make land ownership transparent by building a land register within 10 years, a target of transferring 1 million acres to community ownership by 2020 and other step-change proposals such as forming a Land Commission which we are currently consulting on.

Our Enterprise Agencies and local authorities are also supporting locally-focused and community-based approaches (see Box 2.5).

⁵³ <http://www.gov.scot/Publications/2014/06/2708/0>

↓ Box 2.5 – Locally-focused and community-based approaches

Highlands and Islands Enterprise is working with around 50 communities in some of its most rural areas to help develop and implement plans for local growth.

Working in partnership with local authorities and other public agencies, the community account management initiative has identified and engaged with selected communities that are keen to lead their own development. Local Development Officers (LDOs) assist with community consultation and planning, taking forward projects.

Some projects include aspirations to develop sustainable community-controlled income streams, and Crofting Community Development.

Recognising the persistent economic challenges in North Ayrshire, Scottish Enterprise has worked with the council and other partners, as part of Team North Ayrshire, to boost support to local businesses.

Around 150 companies have been supported to grow their businesses and create much-needed employment in the area. This has involved building up the account management team at the council, supported by the sharing of best practice from Scottish Enterprise's Business Growth model.

Re-designing our approaches to procurement can also help better secure benefits for communities. The Scottish Government's promotion of Community Benefits in public procurement has enabled a range of public bodies to maximise social and environmental benefits from public spending, including providing local training and employment opportunities and sub-contracting opportunities for small businesses and the third sector.

The Scottish Government is committed to using public contracts to deliver Community Benefits (see Box 2.6), and is encouraging its further use.

↓ Box 2.6 – Community Benefit Clauses

Community Benefit Clauses are contractual clauses which can be used to build a range of economic, social or environmental conditions into the delivery of public contracts. Such conditions can include:

- Employment and training opportunities;
- Creating opportunities for SMEs and third sector organisations to deliver public services;
- Support for community initiatives; and
- Environmental benefits.

Community Benefit Clauses have been adopted in a range of major projects including:

- The Glasgow City Council Commonwealth Games contracts which created 500 new entrant trainees.

- Greater Glasgow and Clyde Health Board contract for Southern General Hospital including 113 apprenticeships, 202 work placements, and 504 training opportunities.⁵⁴
- The Scottish Government's contract for the Energy Assistance Package which included 26 apprenticeships, 31 work placements, and 454 training opportunities.⁵⁴

It is expected that Community Benefit Clauses will be more routinely used with the commencement of the Procurement Reform (Scotland) Act 2014.

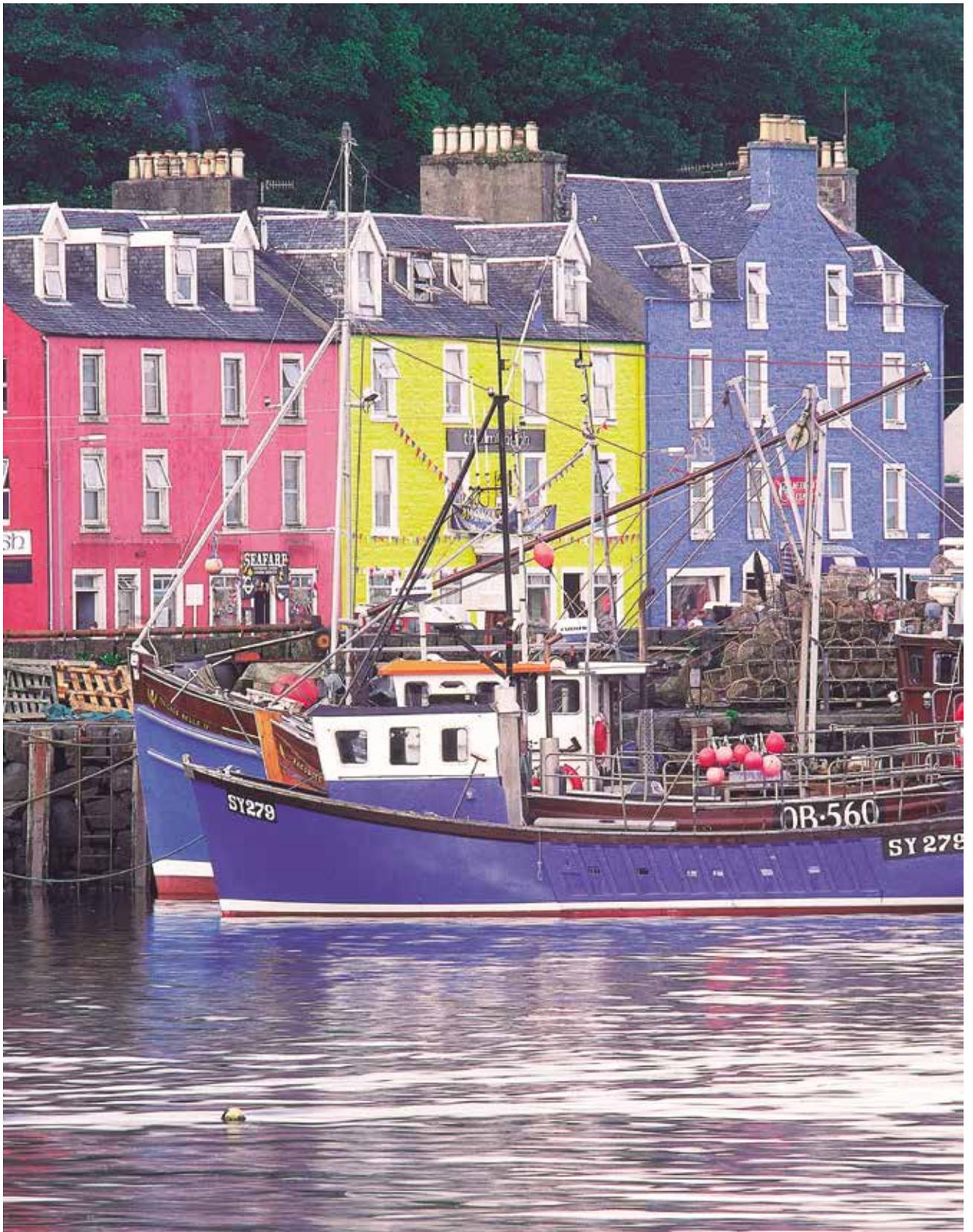
As we deliver our Economic Strategy we will bring an increased focus on local communities and consider how they connect into supply chains to ensure that local communities have the best possible opportunity to benefit. We will also look at how communities across Scotland can benefit from a community-based approach to economic development.

The aim is to look at particular areas of the Scottish economy where supply chain linkages could be strengthened and explore options to better exploit these linkages and ensure that local businesses benefit.

Consistent with our commitment to community empowerment, local communities will have the opportunity to take an active engagement in shaping their local economy.

⁵⁴ University of Glasgow (Forthcoming), Analysis of the Impact and Value of Community Benefit Clauses in Procurement

⁵⁵ Ibid



Tobermory,
Isle of Mull,
Inner Hebrides

2. Fostering a culture of innovation



This strategy sets out how we will:

- Support the development of highly-innovative businesses across the Scottish economy;
- Encourage more of Scotland's diverse business base to engage in innovation and research and development as part of their day-to-day activities;
- Continue to support the high-impact, world-class research of Scotland's universities and improve levels of commercialisation of academic research;
- Develop, with key partners such as business organisations and trade unions, innovative approaches to developing progressive workplace practices; and
- Develop and deliver new approaches to public service reforms and make better use of our public procurement to drive innovation.

Introduction

Innovation is a fundamental driver of long-term competitiveness and sustainable growth. It encompasses the development of new processes, products, services, workforce design and business models.

Innovation is a key driver of growth. New technologies have changed how we communicate, work and deliver services. Its application is key to all areas and we need a whole economy approach.

More innovative economies are also more likely to have the capacity to be more resilient to changing economic conditions and have greater ability to succeed in international markets.

Scotland has a strong base of innovation to build on. It has a tradition of commitment to research and science, a highly-skilled workforce and world-renowned universities producing high-impact research.

If we are to become more competitive we need to ensure that Scottish businesses understand the benefits of investing in innovation and research and development (R&D). This is not just limited to technology firms but applies across all sectors. For many, workforce innovation will generate real benefits. We also need to improve levels of commercialisation of academic research and stimulate innovation by the public sector.

Fostering this culture of innovation, and creating a new spirit of entrepreneurship across the country, is also vital to identifying solutions to long-term societal challenges, such as finding new and improved methods of delivering public services.

Our Economic Strategy builds on the vision and framework set out in Scotland CAN DO – which was co-created with public, private and third sector partners – for making Scotland a world-leading entrepreneurial and innovative nation.

Business innovation and entrepreneurship

Business innovation means profiting from new ideas. The development of new products, services and business models is only part of the story. What matters is how these new developments are then applied and able to make a positive and profitable economic impact. For businesses, such developments can enable them to become more competitive, grow more quickly, enter new markets and become more resilient to change. Innovation is therefore a key driver of productivity growth and internationalisation.

Improving Scotland's innovation performance is a top priority of this strategy, and a key aspect of the Business Pledge. It will mean seeking to shift business perceptions of, and ambitions for, innovation, making best use of public sector levers and funding to drive change and developing a truly collaborative approach to tackling these issues. A core element of this collaborative approach will be the creation of an Innovation Forum.

Led by the Deputy First Minister, the Forum will set challenging objectives for innovation in Scotland, develop a set of shared outcomes and scrutinise progress towards delivery. Vital to this will be the link between our higher education sector and industry. This is crucial to ensuring that the world-class research undertaken at our universities is translated into greater commercial opportunities and growth for the economy.

Our strategy will also support innovation and entrepreneurship through close collaborative working with our delivery agencies and the private and third sectors. Key activity includes:⁵⁶

- Scottish Enterprise has refocused its innovation approach to increase the number of Scottish businesses that are innovation active, including promoting supply chain and customer-led innovation to encourage greater collaboration between large and smaller firms.⁵⁷
- HIE's 'Innovate your Business' programme⁵⁸ supports company innovations with growth potential across the HIE area. Participating companies have access to signposting; assessment; innovation clinics; specialised advice; and an innovation grant scheme;
- The SMART: SCOTLAND programme, offers a range of products to businesses of all sizes to improve productivity and help with the development of new products and the adoption of new technologies; and
- Industry-specific initiatives to promote innovation such as Fisheries Innovation Scotland and the Scottish Institute for Remanufacture.

We will build on our participation in wider networks both within Europe and the UK. This includes participating in new European partnerships such as the Vanguard Initiative,⁵⁹ to pursue greater alignment with European innovation policy and funding, and increasing our European collaborations through, for example, the Horizon 2020 programme.

In addition, the Scottish Government will continue to work closely with UK bodies such as Innovate UK, and we will also collaborate with organisations such as the Big Innovation Centre (of which we have recently become a member), to help stimulate new ideas and thinking.

⁵⁶ Further information on the Scottish Government's approach to innovation is provided in the Scottish Government's innovation and entrepreneurship framework Scotland CAN DO - <http://www.gov.scot/Publications/2013/11/7675>

⁵⁷ <http://www.scottish-enterprise.com/knowledge-hub/articles/comment/supporting-a-new-culture-of-innovation>

⁵⁸ <http://www.hie.co.uk/business-support/innovation-r-d/innovate-your-business.html>

⁵⁹ <http://www.s3vanguardinitiative.eu/>

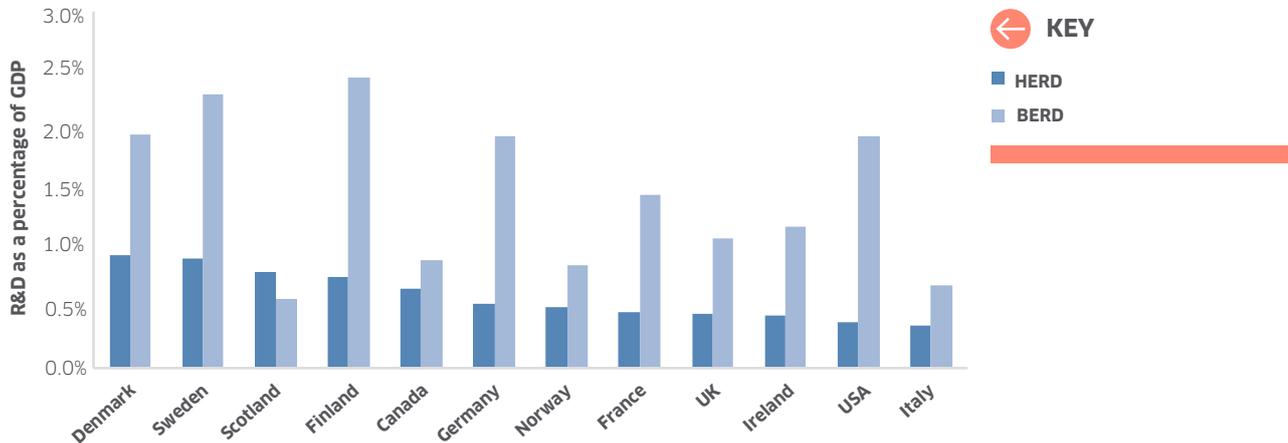
Box 2.7 – Scotland’s research and development performance

Investment in R&D is a key indicator of the level of innovation in a country. It supports the development of new knowledge and enhanced products and services.

While Scotland has notable success stories, including the research and development undertaken in our higher education institutes, a challenge remains to increase research and development investment, principally in Scottish businesses.

In 2012, Scotland’s Higher Education R&D expenditure (HERD) as a percentage of GDP ranked first of the 12 countries and regions of the UK. Scotland was fourth in the OECD. However, Business Expenditure on R&D (BERD) in Scotland remains low, equivalent to only 0.6% of GDP in 2012. Comparable countries such as Finland and Sweden spend nearly four times as much as a proportion of GDP.

Figure 2.3: International comparison of HERD and BERD as a percentage of GDP, 2012



Commercialisation of the world-class research of Scotland's universities

Scotland's universities lie at the heart of the innovation system in Scotland. They are the primary source for ground-breaking innovations and are often the key avenue through which longer-term or more speculative research can be undertaken.

Higher education research in Scotland is internationally recognised and respected for its quality and impact. The 2014 Research Excellence Framework identified 77% of Scottish university research as world leading (four star) or internationally excellent (three star) while 86% was assessed as four star or three star in terms of impact. Investing in Scotland's universities, supporting their world-class and high-impact research and helping them build links across the globe is at the heart of the Scottish Government's ambitions for Scotland.

In addition to the funding provided directly for research from the Scottish Funding Council (SFC), Scotland's universities are successful at securing research funding from a variety of sources, including the UK Research Councils, charities, Europe, and increasingly, private sector and industrial partners.⁶⁰

Scotland's universities also help develop a significant proportion of the talent that flows in and out of Scotland. In 2013-14 there were more than 48,000 students from outside the UK studying in Scotland.⁶¹ This represents more than 21% of the student body and brings people from approximately 185 countries to live and study in Scotland.⁶²

Building on this performance, and further enhancing the links between our universities and Scotland's private sector, is vital to translating the world-class research undertaken at our universities into greater commercial opportunities and growth for the economy.

As part of this we are working to improve our industry and academic networks and foster collaborations which aim to enhance knowledge exchange and promote innovation. This includes:

- Innovation Centres – Partnerships between business and academia to apply knowledge and innovation from our academic research base into business (see Box 2.8).
- The Scottish Funding Council – Plays a vital part in the Scottish Innovation ecosystem, with programmes that either support Higher Education Institutes to interact with businesses, or through commercialising new products or services developed by researchers.
- Interface – A central hub connecting businesses across Scotland, and internationally, to Scotland's higher education and research institutes.

⁶⁰ For example, in 2011-12 of the £905 million invested by universities in R&D, almost £300 million was provided through SFC with the remainder coming from other sources (such as Research Councils, and charities).

⁶¹ Student numbers: SFC publication, March 2014

<http://www.sfc.ac.uk/communications/Statisticalpublications/2014/HigherEducationStudentsandQualifiersatScottishInstitutions201213.aspx>

⁶² ibid

↓ Box 2.8 – Innovation Centres

The Scottish Funding Council is supporting a network of Innovation Centres in partnership with Scottish Enterprise and Highlands and Islands Enterprise. These Centres are collaborations between universities and businesses to enhance innovation.

There are eight Innovation Centres to date, focusing on: Stratified Medicine, Sensors and Imaging Systems, Digital Health, Industrial Biotechnology, Oil and Gas, Big Data, Construction, and Aquaculture.

We are further building on the positive work undertaken in the Innovation Centres by:

- Providing a £1 million Innovation Challenge Fund to develop collaborative projects that address major industry and societal challenges through novel multi-disciplinary approaches;
- Involving colleges, where appropriate, and enabling a broader range of innovation support to SMEs through both R&D projects and employer-led education and employee career development;
- Working in partnership with SDI, and other partners in Connected Scotland, to explore opportunities for international collaboration, trade and investment; and
- Supporting international collaboration by piloting Innovation and Investment Hubs at key global locations.

Workplace innovation and digital

In addition to research and development, transformational change in the modern economy is driven by many other types of innovation.

Exploring new approaches to business practices, workplace development, and application of new technologies are key aspects of innovation.

For example, one major driver of innovation in the workplace over the most recent two decades has been the growing application of digital technologies. The widespread reach of digital infrastructure and technologies has been central to Scotland's productivity growth over recent decades, as it has been globally, and will continue to catalyse innovation through its application across sectors.

It is therefore important that we continue to invest in digital skills to meet the needs of the modern economy. The application of digital technologies across a range of fields from robotics, to medicine, data, printing and communications also has the potential to significantly alter how the economy functions and provides an opportunity for Scotland to drive change given our strengths in this area.

Strong performance on workplace innovation is also important across all sectors and businesses of the Scottish economy and is an important driver of improvements in business performance.

Workplace innovation has the clear potential to benefit businesses, organisations and society, creating a focus on better use of organisational resources in ways that support the delivery of strategic and operational business objectives, improve the quality of work for employees and deliver better social outcomes in terms of health, participation and equality.

There is a growing evidence base on the importance of the organisation of the workplace as one of the determinants of productivity through skills utilisation, job design and inclusion.

For example, recent research⁶³ has found that workplace innovation can substantially improve efficiency, such as worker productivity, as well as quality, such as quality of goods and services, and financial performance.

With a strong, renewed focus through the Fair Work Convention (see page 62), we will look to build on the ambitions set out in the Working Together Review⁶⁴ and align them with similar work led by others, such as the Workplace Innovation Consortium, to find innovative ways to draw together all of the resources and expertise at our disposal and work together to achieve innovative workplaces and outcomes.

Public services

Our transformative programme of public service reform is a key part of the Scottish Government's approach to innovation. It is outcome-focused and has a decisive shift towards placing prevention at the centre of public service delivery. Preventing problems by intervening earlier will help to tackle persistent inequalities in Scotland and ensure the sustainability of our public services.

For example, in shifting the balance of public services away from crisis intervention and focusing instead on tackling the causes of complex problems, we recognise that very often the solutions lie within local communities and the third sector organisations that work with them to nurture flexible and innovative approaches to achieving better outcomes.

We will continue to deliver support and investment directly to communities so that they can take early action that is responsive to local people and helps tackle inequality. Early action builds people's capacity to deal with setbacks and seize opportunities. This helps to create the conditions for people to control their own destinies by giving them the confidence to influence decisions that affect them and have a stake in developing innovative approaches to service delivery, enabling them to play an active part in their community and encourage others to do the same.

⁶³ Eileen Appelbaum, Jody Hoffer Gittel and Carrie Leana (2011) High-performance Work Practices and Sustainable Economic Growth, Centre for Economic Policy and Research

⁶⁴ <http://www.gov.scot/Publications/2014/08/4647>

↓ Box 2.9 – Building Safer Communities

The Building Safer Communities programme's vision is of a flourishing, optimistic Scotland in which resilient communities, families and individuals live safe from crime, disorder and harm.⁶⁵

The programme aims to reduce the number of victims of crime in Scotland by 250,000 by 2017-18 and prevent harm caused by unintentional injuries.

The programme has already delivered an in-depth review of the evidence of what works to reduce crime and is helping to create the conditions for change by ensuring critical strategies are informed by this evidence.

Our approach is to put a premium on co-production, where services are designed and delivered with service users, building on the strengths, assets and resilience of individuals, families and communities.

To help encourage a decisive shift to prevention, the programme is supporting the delivery of holistic place-based approaches in seven places in Scotland. The focus in these places is on wellbeing rather than on any single policy and we are working closely with colleagues across the public sector in education, health and regeneration, amongst others.

Many of the places already have well-established community-led approaches. We intend to encourage further innovation in these places and capture and spread the learning.

A multi-agency national team has been established to support and help coordinate the work and each member of the Programme Board has taken on a 'champion' role for one of the seven places we are working with or one of our four priority themes: Prevention, People, Partnership and Performance.

The public sector is a major employer, investor and producer of services in the Scottish economy.

Innovation can improve how efficiently we provide public services. For example, the recent reform of the police and fire and rescue services has created new single services with the Scottish Fire and Rescue Service and Police Scotland. Providing a more cost effective and better service to the public, this innovation has protected and improved local services by reducing duplication and enhancing access to specialist equipment and expertise.

The public sector also has an important role in driving innovation in areas such as health.

NHS Research Scotland ensures Scotland provides the best environment to support clinical research and innovation in health care. This is achieved by applying best practice and processes to support

efficient working, as well as providing the infrastructure required to support all research undertaken in the NHS for patient benefit.

As well as directly encouraging innovation, the public sector approach to procurement can shape innovation in the wider economy.

The Procurement Reform (Scotland) Act 2014 introduces a Sustainable Procurement Duty on public bodies to consider how, through their procurement activities, they can promote innovation. We will issue guidance in support of that duty, which will encourage public bodies to undertake comprehensive market engagement prior to defining their requirements and launching competitions, wherever it is possible, that the market may be able to offer innovative solutions. The guidance will also emphasise the need for specifications to be as open as possible which should encourage innovation, with variant bids permitted wherever possible.

⁶⁵ <http://www.gov.scot/Topics/Justice/justicestrategy/programmes/building-safer-communities>

3. Promoting inclusive growth



This strategy sets out how we will:

- Promote Fair Work and build a labour market that provides sustainable and well-paid jobs;
- Address long-standing barriers in the labour market so that everyone has the opportunity to fulfil their potential;
- Tackle cross-generational inequality through, for example, improved child care, boosting attainment and early years interventions that give every child a fair start in life; and
- Realise opportunities across Scotland's cities, towns and rural areas, capitalising upon local knowledge and resources to deliver more equal growth across the country.

Introduction

As this strategy makes clear, a more cohesive economy that improves the opportunities, life chances and wellbeing of every citizen in our country not only improves outcomes for individuals and households but is a critical driver of economic performance over the long term.

How our economy grows and develops and the extent of opportunities for all our people is, in turn, key for the development of our communities and the wellbeing of individuals.

Scotland, like many advanced economies, experiences inequalities in the distribution of income, regional performance, and in opportunity.

Addressing such inequalities is a long-term challenge.

However, as highlighted in Section 1, the benefits from a move towards a more equal society are considerable, with the potential to strengthen long-term economic performance by improving productivity, providing more sustainable growth, maximising the potential of the workforce, and helping to address a range of wider social impacts.

To promote inclusive growth and provide opportunities for all, we need to encourage a fair and inclusive jobs market and promote regional cohesion. We also need to remove key long standing barriers to people being able to fulfil their economic potential such as boosting educational attainment.

The legacy of the global economic downturn has been to exacerbate a number of labour market challenges which existed prior to the recession - including youth unemployment, underemployment, and job security.

In addition, household incomes have been under pressure, with real earnings still below pre-recession levels and reductions in welfare budgets as a result of the austerity programme pursued by the UK Government.

Fair Work

As outlined in Section 1, reducing inequality, as well as being a key objective in itself, can also have a positive impact on an economy's wider performance. Establishing the conditions required to help reduce inequalities and increase opportunities is therefore key to achieving our purpose of increasing sustainable economic growth.

The Scottish Government believes that a labour market that is fair and inclusive, and that provides sustainable and well-paid jobs, is key to tackling income inequality and addressing wider issues within the economy.

For example, the relationships between health, work and the economy are well established. There are benefits to the economy of a healthy population, as well as physical and mental health benefits for those in meaningful work. A good job gives us a sense of purpose, a place in society, and a chance to develop ourselves.

We also recognise that while there can be both physical and mental health benefits from work, these are not inevitable. They are dependent on the quality of the job, income levels, work security, levels of autonomy and control.

A central part of *Scotland's Economic Strategy* is our Fair Work agenda, encompassing job security, fair reward, and opportunities for personal and workplace development. We recognise many features of the labour market are driven by the existing UK regulatory framework and the interaction with UK welfare policy. We will continue to press for such powers to be transferred to Scotland, but even within our limited current responsibilities there is substantial scope to take a different approach in Scotland. This will boost competitiveness and help tackle inequalities.

As part of this we will continue to take specific action to address the barriers that many people face accessing and progressing in the labour market and other spheres of public and economic life. This includes challenges facing women, the young workforce, disabled people, and ethnic minority groups. Our aim is to enable equal access to an increased range of opportunities while challenging bias and systemic institutional barriers.

Box 2.10 – Long-term wage levels in Scotland and the UK

Across the UK, the proportion of national income that is accounted for by wages has declined in recent decades.⁶⁶ This means that as the UK economy has grown, a declining share of this growth has been retained by employees through higher wages.

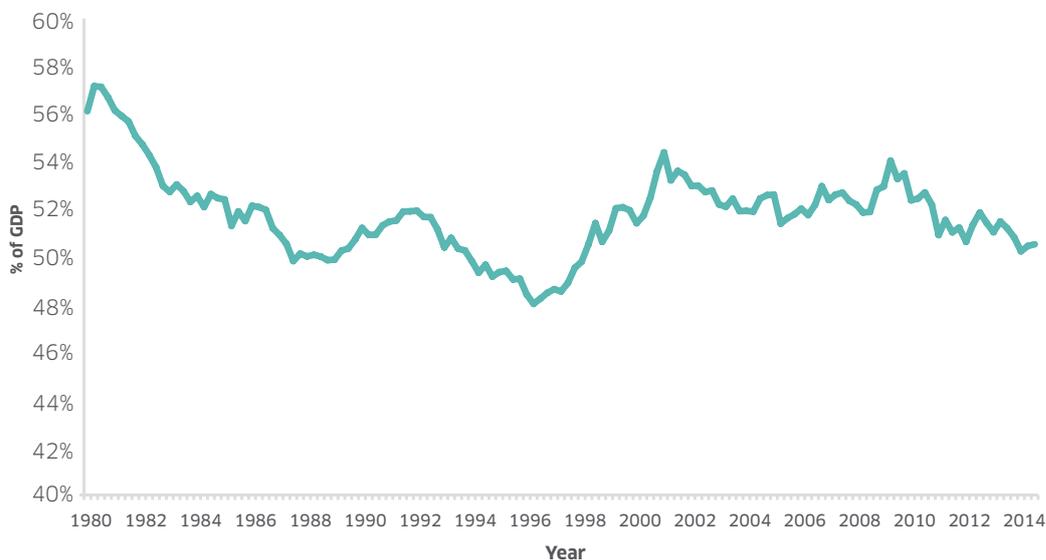
The declining share of GDP accounted for by earnings has been accompanied by a growing concentration in income at the very top of the income distribution. The highest earners have also seen the largest increases in income between 1997-98 and 2010-11. By 2010-11, the richest 1% of the income tax-paying population earned 8% of total pre-tax incomes.⁶⁷

The number of people in Scotland on low pay also remains significant. In 2012 it is estimated that 18% of employees (or around 418,000) earned less than the Living Wage.⁶⁸

These trends have contributed to an increase in in-work poverty. Among working age adults in poverty in Scotland, 52% live in households with at least one adult in employment. Fifty-nine per cent of Scottish children who live in poverty are living in these households.⁶⁹

In-work poverty has an economic cost to society in addition to the human costs that it imposes. It increases payments of tax credits and other in-work benefits that top up low incomes, and decreases tax revenues.

Figure 2.4: UK Compensation of employees as percentage of GDP, 1980-2014



Source: Scottish Government Analysis, ONS

⁶⁶ Data for Scotland on compensation of employees' as a share of GDP only covers recent years.

⁶⁷ Scottish Government analysis of Survey of Personal Incomes (Public Use Tape).

⁶⁸ <http://www.gov.scot/Resource/0042/00425244.pdf> Source: ASHE 2012, ONS

⁶⁹ Scottish Government, 'What do we know about In-Work Poverty? A summary of the evidence', 2015, <http://www.gov.scot/Publications/2015/01/3233>

Creating better workplaces, enhancing employee engagement, and fully utilising the skills of our workforce will be key to driving greater levels of productivity, bringing about benefits for businesses and the economy.

A 2013 study from Harvard Business Review⁷⁰ shows the clear impact of Employee Engagement on Performance in business. A survey of 568 senior executives from international organisations showed that 71% saw employee engagement as being very important to achieving organisational success.

Such improvements will not come from investment focused on short-term returns, but from increased promotion of corporate structures, ownership models and values that drive long-term innovation and engagement.

Our Economic Strategy depends upon coherent economic, industrial and social policies that help all people to realise their potential.

The Scottish Government will continue to lead by example in areas such as advancing greater gender equality, and by ensuring all staff covered by our own pay policy receive the Living Wage.

We are also funding the Poverty Alliance to promote take up of the Living Wage Accreditation Scheme across the wider economy. We have set the target of increasing the number of accredited employers in Scotland to at least 150 by the end of 2015 and are on track to achieve this target.

Progress towards Fair Work will, however, require a much wider group of partners – employers, employees and trade unions – to share, encourage and adopt best practice in workplaces across the country.

As part of the delivery of our Economic Strategy we will establish a Fair Work Convention to draw on best practice and facilitate a joint approach with our partners. The Convention will be to consider the best thinking and research on matters relating to Fair Work, including innovative and productive workplaces, industrial relations, and the Living Wage. It will promote a new type of dialogue between employers, employees and trade unions, public bodies and the Scottish Government. It will be a visible symbol of our commitment that will help to drive thinking forward, particularly where we have no powers to legislate, so we must rely on persuasion and influence.

We are also developing a Scottish Business Pledge to encourage and recognise good business practice (see Box 2.11).

⁷⁰ https://hbr.org/resources/pdfs/comm/achievers/hbr_achievers_report_sep13.pdf

↓ Box 2.11 – Scottish Business Pledge

Scotland's businesses drive growth and create jobs. The Scottish Government has announced its intention to develop the Scottish Business Pledge, which aims to develop a partnership between the Scottish Government and businesses by supporting businesses in return for a private-sector commitment to a range of business and social policies:

- Paying the Living Wage;
- Committing to an innovation programme;
- Not using zero-hours contracts;
- Agreeing to pursue international business opportunities;
- Making progress on gender balance, for example by committing to the 'Partnership for Change';

- Supporting Invest in Youth;
- Supporting workforce engagement and development, and other progressive workplace policies; and
- Playing an active role in the community, for example by working with local recruitment agencies and job centres.

Through our Enterprise Agencies we provide a substantial package of business support which can help businesses to become more productive, grow, innovate and export. We will offer targeted support and advice as part of our commitment to the Scottish Business Pledge.

Promoting equality and tackling inequality

The ambition for a socially just, and more equal, Scotland, has been a central objective of this Government since 2007.⁷¹

In working to make that ambition a reality, we realise that everyone has a right to participate fully in society. Promoting equality and reflecting and understanding the diverse needs and characteristics of our people is key to fully unlocking their potential. Both promoting equality and reducing inequality are inter-linked and we are committed to delivering improvements in both. Addressing both will require tailored and targeted interventions.

We recognise the duty we have to improve equality outcomes across key areas, such as maximising opportunities for women (see Box 2.12).

⁷¹ See: Scottish Government, Achieving our Potential, (2008), <http://www.gov.scot/Resource/Doc/246055/0069426.pdf>; Scottish Government, Equally Well, (2008), <http://www.gov.scot/resource/doc/229649/0062206.pdf>; Scottish Government, Early Years Framework (2009), <http://www.gov.scot/Resource/Doc/257007/0076309.pdf>.

↓ Box 2.12 – Women in Scotland's economy – Maximising opportunity

Maximising economic opportunities for women to participate fully in the economy, and recognising the wider social role they provide, is key to improving economic performance and tackling inequality.

In 2013 the Strategic Group on Women and Work was formed to advise Ministers on areas where action is required to address women's employment issues. Action is underway to support this outcome, including:

- Increasing the level of funded early learning and childcare from 475 hours to 600 hours per year – for 3 and 4 year olds, and the most vulnerable 2 year olds, as part of a major investment in our social infrastructure;
- Implementation of the equality recommendations of the Developing Scotland's Young Workforce Commission which include key performance indicators on addressing gender imbalance in vocational learning, including modern apprenticeships;

- The development and implementation of the Scottish Government's Women in Enterprise Action Framework; and
- Continued funding for a range of organisations to tackle the pay gap, address occupational segregation in science, technology, engineering and mathematics (STEM) areas and to work with employers to promote and support flexible working.

In delivering the Economic Strategy in the future, we will accelerate our interventions in this area. Alongside these current actions we have set out an ambition to almost double the number of free hours of childcare to 30 hours per week by the end of the next Parliament. This will benefit all parents, but will have a particular benefit for mothers. We have also set a voluntary target for all organisations to achieve gender parity on their boards by 2020, with a commitment to legislate on this issue as soon as we have the powers to do so.

We recognise there are a number of dimensions of inequality that remain a challenge for Scotland.

For example, differences in life expectancy and healthy life expectancy between the most and least affluent in Scotland are long term and persistent. Factors such as early life experiences, poverty, income and interactions with public services are all important drivers of health inequality.

A sustained effort on increasing healthy life expectancy, and reducing health inequalities, is essential to increasing competitiveness and tackling inequality. Our commitment to Health and Social Care integration, a system-wide and sustained focus on prevention and further legislation on alcohol and tobacco control will be important contributions to improving Scotland's health.

We are also taking action to support carers, who make an important contribution to Scotland's society and wellbeing (see Box 2.13).

↓ Box 2.13 – Carer Positive

The contribution of carers in looking after family or friends including some of the most vulnerable in society is widely recognised. Caring can affect carers' physical and mental health, resilience, finances, employment opportunities and the ability to strike a good balance between caring and participating in activities unrelated to the caring role.

In response to this, the Scottish Government, with COSLA, is implementing Caring Together and Getting it Right for Young Carers, the Carers Strategy for Scotland 2010-2015. Together, these strategies set out a range of actions to improve support to carers and young carers through better identification, assessment, information and advice, carer support, participation and partnership working. Alongside this, the Scottish

Government has developed the Carer Positive kitemark, an award scheme which recognises employers in Scotland who have a working environment where carers are valued and supported. In addition, the Scottish Government is investing nearly £114 million between 2007 and 2016 in a wide range of initiatives to support carers and young carers.

While considerable progress has been made, it is recognised that more could be done to support the estimated 759,000 carers aged 16+ and 29,000 young carers in Scotland. The Scottish Government plans to introduce carers' legislation which aims to ensure that carers are better supported to enable them to continue to care, if they so wish, in good health and to have a life alongside caring.

Attainment

An individual's socioeconomic background can also have a significant impact on their education prospects. From as early as age 3, children from the poorest income group are more likely to show lower development progress as those from the wealthiest group and the gap in attainment at school is well documented.⁷²

Giving all children the best possible start in life is crucial to improved health, social, educational and economic outcomes in later life. This is why the Scottish Government is committed to early years investments and has introduced the Healthy Start programme which aims to improve maternal and infant nutrition from the earliest years.

Our strategy is to support teachers, parents and schools – especially schools with significant intakes from more deprived communities. For example, the introduction of free school meals for all Primary 1-3 children in January 2015 is an investment which will benefit children's health, education and wellbeing.

The benefits from closing the attainment gap when children are young, will continue into secondary school and beyond. That is why our strategy is focused on addressing inequalities in educational attainment. The Scottish Attainment Challenge will improve educational outcomes with a specific focus on improving literacy, numeracy, health and wellbeing in primary schools in Scotland's most disadvantaged communities. It will be supported by a newly established Attainment Scotland Fund (see Box 2.14).

⁷² Bromly, C. and Cunningham-Burley, S. (2010) *Growing Up in Scotland: Health Inequalities in the Early Years*

↓ Box 2.14 – Scottish Attainment Challenge

The Scottish Attainment Challenge was launched in February 2015 and provides a new impetus and focus to our actions on closing the attainment gap.

The Challenge is supported by an Attainment Scotland Fund of more than £100 million over four years to drive forward improvements on educational outcomes in Scotland's most disadvantaged communities.

The Fund will initially target local authorities with the biggest concentrations of primary-age children living in deprived areas. It will focus on improving literacy, numeracy, health and wellbeing in primary schools in these areas, with the clear objective of giving all primary school-age pupils – regardless of background – the best start in life.

The Scottish Attainment Challenge will draw on international evidence of what works including the London Challenge which helped transform school performance in the city.

The first tranche of funding will see £20 million made available in 2015-16 to support children and young people in a number of Scotland's most disadvantaged communities to achieve their potential.

The Challenge will add to the other steps we have taken – for example our national numeracy and literacy drive 'Read, Write, Count', providing an attainment adviser for every local authority, and our Raising Attainment for All programme.

We also firmly believe in access to higher education based on the ability to learn and not the ability to pay. We maintain this commitment through the provision of free tuition for eligible full-time undergraduate Scottish students. With this investment, the number of Scottish-domiciled students accepted through UCAS into Scottish institutions in 2014-15 reached record levels.

However, there is still more to be done. Presently, students from the most deprived fifth of our communities only account for one-seventh of our university undergraduates. That is why we have set out a clear ambition that a child born today should have, not just a better chance, but an equal chance of attending university such that, in time, 20% of university entrants would come from the most deprived 20% of society.⁷³

In line with that ambition, we intend to introduce a target for participation in higher education to drive further and faster progress. We are also establishing a Commission on Widening Access to advise on meaningful milestones, targets and actions required to ensure more students from disadvantaged backgrounds can access higher education and attain the qualifications they need to help them develop a successful career and fulfil their potential.

⁷³ The latest data available are for academic year 2012-13, which shows 13% of Scottish domiciled entrants to full-time undergraduate courses come from the most deprived 20% of society. (Source: analysis of Higher Education Statistics Agency data)

Place and regional cohesion

Ensuring all parts of Scotland benefit from sustainable economic growth and contribute to it is essential to Scotland's prosperity and cohesion. Our approach in this Economic Strategy to regional growth considers the dynamic of Scotland's cities, wider regions, and rural areas, to encourage success and opportunity shared across the whole of Scotland.

To assess progress we will, as part of the updating of the National Performance Framework, develop new measures and processes to capture performance at a regional and local level.

There are Single Outcome Agreements in place across all 32 local authorities consistent with our national economic development priorities. Our National Planning Framework will continue to help create high quality, diverse and sustainable places that promote wellbeing and attract investment.

Scotland's cities and their regions are home to two-thirds of the Scottish economy and over half of Scotland's population, and have a disproportionate impact on the national economy.

The size and scale of Scotland's cities drives the agglomeration of business and creates a dynamic environment for knowledge sharing and innovation.

The Scottish Cities Alliance has been established to build on these opportunities. It is a collaborative partnership between Scotland's seven cities and the Scottish Government. The primary role of the Alliance is to facilitate cities and their regions to develop and deliver large-scale strategic investment propositions that support inclusive growth.

It is also important for cities and their surrounding areas to work together as functional economic areas. Maximising the contribution of Scotland's cities, improving connectivity between them, and to their surrounding regions, is essential.

The Glasgow and Clyde Valley City Deal demonstrates both the use of innovative financing, and our approach to delivering more powers to local communities. The agreement between the Scottish and UK Governments and the eight local authorities that comprise the Glasgow and Clyde Valley region will lead to a 20-year investment programme allied to labour market and private sector growth interventions.

Beyond our cities and their wider regions, the people, resources and features of rural Scotland are also vital to the nation's heritage, identity and economy. Our rural areas support a million people and are an important part of the Scottish economy, with significant amounts of economic activity in sectors such as tourism, farming, fishing, food, drink and renewables. Indeed some of the fastest growing sectors of the Scottish economy in recent years, such as the food and drink sector, have a significant presence in rural areas.

The rural economy is heavily interlinked with our cities, providing vital natural resources and skilled people which help other sectors of the economy to flourish.

However, it is important to recognise the diverse nature of the rural economy, with areas subject to a number of challenges relating to their geography. There are a number of fragile communities which we have supported over a number of years and will continue to do so going forward.

Scotland's new £1.3 billion Rural Development Programme (SRDP) over the 2014-20 period will support actions that benefit Scotland's natural heritage and in doing so, provide a basis for the growth in areas such as tourism and hospitality. The SRDP will also foster networking and innovation in land-based businesses, promote growth of the Food and Drink sector and strengthen local economies.

Policies to remove bridge tolls, expand the rail network and improve accessibility of ferries and airports are particularly important for rural parts of Scotland.

We are also taking steps to improve digital connectivity.

Our Digital Scotland Superfast Broadband (DSSB) programme is rolling out superfast broadband to rural communities and businesses; whilst Community Broadband Scotland⁷⁴ has been established to support innovative community-led solutions in the hardest to reach areas not covered by our DSSB programme.

We are also taking steps to make sure that the funding available from the EU is targeted in the most effective way. This will benefit rural businesses in all sectors but is particularly important for industries such as farming and fishing, where businesses with long histories are often at the heart of rural communities.

⁷⁴ <http://www.hie.co.uk/community-support/community-broadband-scotland/>

4. Internationalisation



This strategy sets out how we will:

- Support Scotland's exporters to grow into new markets and expand their presence in key traditional markets such as the EU and North America;
- Encourage a more export-orientated focus across all businesses and sectors in Scotland, and in particular amongst our small and medium sized enterprises;
- Create the underlying conditions which will continue to make Scotland a major destination for investment;
- Use Scotland's influence in Europe and, more widely, to support our international ambitions and continue to make the case for Scotland to remain a member of the EU;
- Promote Scotland's international brand, and showcase both Scotland and Scottish goods and services internationally and secure major international cultural and sporting events; and
- Publish an International Framework, which will set the context for how the Government, its Agencies and Public Bodies engage externally to promote Scotland – its economy and broader interests – and influence the world around us.

Introduction

Scotland's economic success will be increasingly realised through strengthening our links with the global economy and the opportunities this brings for increasing trade; attracting investment; for sharing skills; expertise; and for collaborating with others to support innovation and sustainable economic growth.

To support this activity, the Scottish Government has an internationalisation agenda that is twofold:

- To create an environment within Scotland that supports a better understanding of international opportunities and a greater appetite and ability to seize them; and
- To influence the world around us on the issues that matter most in helping Scotland flourish.

Our updated International Framework will set four strategic objectives that seek to: enhance our global outlook to set the domestic conditions for success; strengthen our external relationships, roles and networks; build our reputation and international attractiveness, boosting our trade and investment; and encourage engagement in the European Union.

The forthcoming framework update will cover the full range of our international ambitions. At its heart will be its links to this Economic Strategy and how Scotland's approach to internationalisation supports boosting competitiveness and tackling inequalities.

International markets – both traditional markets, such as the EU, and new emerging markets – offer enormous potential for Scottish companies to grow their exports.

Moreover, as businesses become increasingly international, evidence shows that they themselves become more productive as they benefit from new ideas, new technologies, and a more outward focus. Additionally, attracting skilled workers to Scotland is key to boosting our skills base and tackling the challenges of demographic change.

Securing inward investment is also important both in terms of generating local employment and in creating positive spill-over benefits to the wider economy – for example, by leading to knowledge and innovation transfers and supporting growth in local supply chains.

Scotland already has an established network of global connections and a strong international reputation; a number of our firms and sectors compete in international markets and we have a strong record in attracting investment. Scotland, however, cannot afford to become complacent, we must continue to develop domestic capability and promote Scotland internationally to ensure Scotland is viewed as an attractive partner, exporter and location to invest and do business in.

Trade and investment

Ensuring that Scotland is an attractive location for investment and that Scottish-based companies are able to expand into international markets is integral to boosting Scotland's economic performance.

Scotland has a strong international reputation and was ranked 17 of 50 nations on the Anholt-GfK Roper Nation Brands Index in 2014.⁷⁵

Scotland also has a strong track record of attracting inward investment. In 2013, foreign investment to Scotland was at its highest since 1997. Of the 11 UK countries and regions outside London, Scotland has ranked first or second every year since 2006 for attracting inward investment.

We build upon our success in this area by working to attract greater investment which strengthens our economy, boosts our innovation performance and contributes to jobs and prosperity across sectors and regions. Through Scottish Development International, we will focus on new opportunities to attract further investment, projects and jobs to Scotland, as well as encourage those investors already operating in Scotland to consolidate and expand their business.

A key part of our Economic Strategy will be continued support to Scottish Development International, our other Enterprise bodies and our Scottish Government staff overseas, to build on existing success in attracting such investment to Scotland. We will take a particular interest in high-end investment, which both supports high-paid and productive employment and maximises opportunities.

Scotland also has many successful and growing trade links across the world, as summarised in Box 2.15. This has helped to increase Scottish exports by 20% in nominal terms between 2010 and 2013,⁷⁶ meaning we are on target towards boosting exports by 50% over the period 2010 to 2017.

⁷⁵ The Anholt-GfK Roper Nation Brand Index (NBI) is an annual global survey from GfK Public Affairs & Corporate Communications, which measures the image of 50 nations: <http://www.gov.scot/Publications/2014/12/4339/0>

⁷⁶ Scottish Government, Global Connections Survey 2013, 2015, <http://www.gov.scot/Topics/Statistics/Browse/Economy/Exports/GCSIntroduction/GCS2013PDF>

Whilst Scotland's overall export performance has improved in recent years, opportunities for further growth remain. Exports are concentrated within a limited base of firms, with around 100 companies accounting for 60% of Scotland's exports.

Also, Scottish exports to large emerging economies such as China and India remain low relative to our exports to more established markets. For example, Scottish exports to Ireland are worth nearly five times more than exports to India.

With the rise in spending power in new markets, there will continue to be scope for Scottish companies to benefit from trade across the world. Growing and diversifying Scotland's export base by helping Scottish companies recognise and grasp international opportunities is essential to rebalancing the Scottish economy and improving long-term economic performance.

In the context of our International Framework, we will develop a Trade and Investment Strategy which sets out the Scottish Government's approach to international trade and investment and how we will work with businesses, the wider public sector and the third sector, in Scotland and internationally, and with international partners and institutions to achieve specific trade and investment goals.

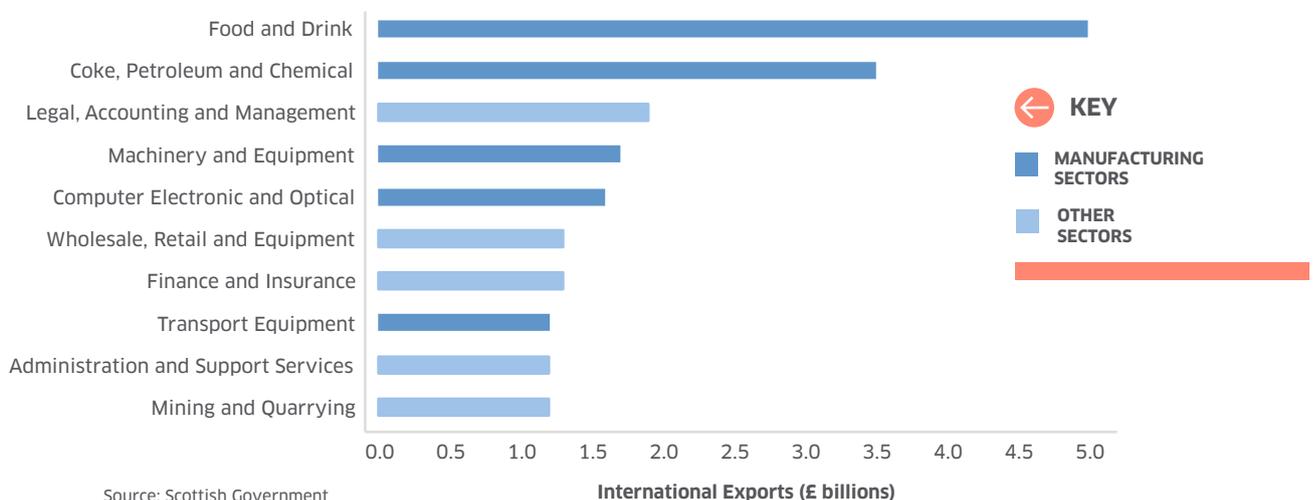
Box 2.15 – Scotland's main export industries and markets

Scottish exports to the rest of the UK were worth £46.2 billion in 2013, whilst export sales to the rest of the world were £27.9 billion (excluding oil and gas).

Scotland's international exports are currently heavily concentrated in Europe and North America, which together account

for around 62% of Scotland's international exports in 2013. Exports to the BRICS countries – Brazil, Russia, India, China and South Africa – collectively only account for around 6% of Scottish exports, however, they have increased by 12% over the past three years.

Figure 2.5: Scotland's international exports, top 10 sectors, 2013 (£ billions)



A range of initiatives are currently in place to support companies wishing to grow their international sales and we will build on these as we deliver this Economic Strategy.

For example, the Scottish Investment Bank prioritises lending to support SMEs with international ambitions; SDI's International Manager for Hire programme provides companies with dedicated support from individuals with proven international commercial expertise; and a High Growth Market Unit has been established to support companies to access market specific advice and guidance, and accelerate export sales to emerging high opportunity markets such as China, India and the Middle East.

There have been a number of success stories across a range of sectors in Scotland where companies have expanded into international markets. For example, the Food and Drink industry has increased exports to the rest of the UK and overseas by over 50% since 2007. Our renowned Scottish food and drink exports include whisky, but we also have major players in other markets. For example, Scotland is the largest producer of farmed salmon in the EU, and the aquaculture industry as a whole makes a substantial contribution to our rural economy, with ambitious targets to grow it further.

Another example of our international reach is in the oil and gas industry (see Box 2.16).

In addition, therefore, to encouraging a greater proportion of our businesses to export, a key aspect of our strategy will be supporting particular sectors where we have an international comparative advantage.

↓ Box 2.16 – Internationalisation in the oil and gas industry

North Sea operators rely on an extensive supply chain of companies in both Scotland and the rest of the UK. These companies make a substantial contribution to the economy, generating more than £35 billion of turnover.⁷⁷

As a maturing basin, the North Sea oil and gas sector faces a range of challenges, including oil price fluctuations. An appropriate fiscal and regulatory regime for the industry is critical to ensure that the sector continues to contribute to the Scottish economy in the future. The forthcoming refresh of Scotland's Oil and Gas Strategy also aims to both reflect the challenges now facing the industry and the future opportunities, with a strong focus on the structure and capability of the domestic supply chain.

It is important that Scotland's supply chain positions itself to take advantage of the future opportunities that the sector offers both in the North Sea and internationally.

A growing market for the Scottish supply chain is the decommissioning of oil and gas platforms. Approximately £46 billion is projected to be spent on decommissioning facilities in the North Sea over the next 25 years. This presents a significant opportunity for supply chain companies in Scotland. It also provides an opportunity for Scottish-based companies to establish themselves early in the decommissioning market, providing a strong base to export their skills and expertise in the future.

Companies in the supply chain are also increasingly diversifying into international markets. International sales by the Scottish oil and gas supply chain reached £10 billion in 2012-13, accounting for over half of total oil and gas supply chain sales from Scotland.⁷⁸ The Scottish Government and Enterprise Agencies have an important role in supporting this work. This includes ensuring that it has access to adequate information and resources on international markets and growing its ability to compete for contracts abroad.

International connectivity

International connectivity plays an important role in facilitating trade, tourism and investment.

Scotland is served by direct flights to over 32 countries. As we deliver this strategy we will be committed to improving both long-haul connections to Scotland and connectivity through world hubs.

The devolution of Air Passenger Duty (APD) to the Scottish Parliament, which has been agreed as part of the Smith Commission recommendations, will enable the Scottish Government to design a replacement

tax which better supports our objective to improve connectivity. The Scottish Government has already confirmed its intention to reduce APD by 50% within the term of the next Parliament, with a view to eventually abolish the tax when public finances allow.

In addition to securing new air routes to Scotland and, as highlighted earlier, our digital connectivity work and broadband rollout will be important for improving business opportunities and connectivity between Scotland's communities and networks across the world.

⁷⁷ EY, UK upstream oil and gas supply chain, Economic contribution, 2014, <http://www.oilandgasuk.co.uk/knowledgecentre/economic-contribution.cfm>

⁷⁸ Scottish Enterprise, Survey of International Activity in the Oil & Gas Sector, 2014, <http://www.scottish-enterprise.com/knowledge-hub/articles/insight/scottish-oil-and-gas-exports-reach-10-billion?intcmp=hp08-2014wk20>

The Digital Economy Business Scotland Survey (2014) found that businesses that had a high use of digital technologies were far more likely to export than other businesses. Our digital connectivity work and broadband rollout therefore plays a critical role in helping businesses internationalise.

Global outlook, influence and networks

In a globalised and interconnected society, an international outlook and understanding of the world is vital. The Scottish Government is committed to embedding internationalisation across our areas of competence to ensure that Scotland remains internationally competitive and our people have the right skills and attitudes to seize new opportunities.

The development of an international mind-set requires a holistic approach. This can be seen in our policy on increasing foreign language proficiency for school-aged children through to our commitment to improving our transport links and digital infrastructure.

It is also important that we build on our strong reputation and brand with cultural and tourism promotion.

Further strengthening our international influence, external relationships and networks will also bring benefits to Scotland's economy.

Scotland's membership of the European Union is particularly important in this regard. As a member of the European Single Market, Scotland benefits from being part of the largest free trade zone in the world.⁷⁹ That is why we will make the case for Scotland to remain a constructive member of the EU with access to over 500 million potential customers for Scottish products and services.

Scotland has also built a wealth of international experience and networks, with connections established through migration, trade, tourism and major events.

Scotland benefits from the extensive international presence, networks and reputation of our universities, from the collaborative Connected Scotland initiative and from the many international students who choose to study in Scotland. Organisations across Scotland also benefit from Scotland Europa's support in fostering successful European relationships and guidance on European policies and funding. Furthermore, the GlobalScot network of over 600 business leaders, entrepreneurs and executives across 51 countries with a connection to Scotland provides Scottish businesses with invaluable insights and advice on doing business in particular markets and sectors.

The Scottish Government and its agencies also undertake a broad range of international activity and provide sectoral expertise. For example:

- There are four Scottish Government overseas offices – Brussels, Beijing, Washington and Toronto;
- Scottish Development International has 29 offices in 17 countries; and
- Our agencies, including VisitScotland and Creative Scotland have a strong international outlook, supporting successful major events such as Scotland's Festivals, the 2014 Commonwealth Games, the Ryder Cup at Gleneagles and the MTV Europe Music awards in Glasgow.

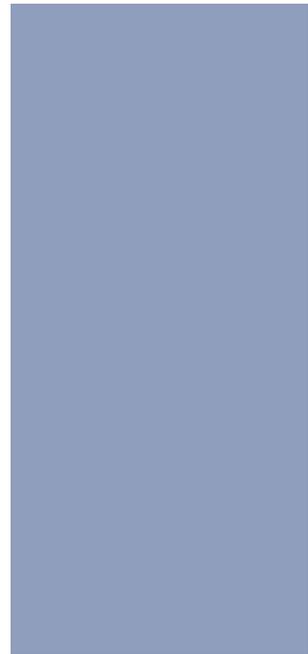
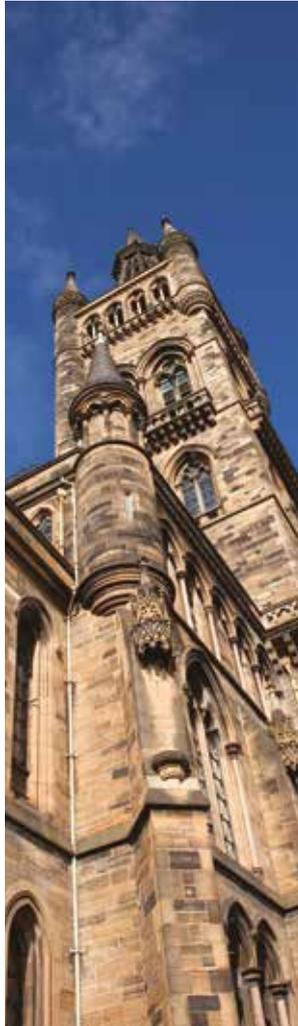
⁷⁹ European Commission, EU position in world trade, Retrieved 19 February 2015, <http://ec.europa.eu/trade/policy/eu-position-in-world-trade/>

These organisations will continue to work together to promote Scotland as a great place to live, learn, visit, work and invest.

Our strategy builds on these strengths, in particular through our commitment to establishing One Scotland Partnerships. These Partnerships will set clear trade and innovation goals for specific international markets and ensure that activity is co-ordinated to maximise impact and make the best use of resources.

We will also work with partners to pilot Innovation and Investment Hubs. These Hubs will play a key role in promoting the research and innovation capacity and capability of Scottish companies and universities, including our network of Innovation Centres, in attracting investment and funding, and in supporting international collaboration which delivers economic benefits and helps address societal and global challenges. The scale, scope and focus of these Hubs will vary depending on the specific opportunities in a particular country or market.

SECTION 3: IMPLEMENTING THE STRATEGY



The Scottish Government's purpose remains: to focus government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth. This is the overarching objective of *Scotland's Economic Strategy*.

Our Economic Strategy sets out a framework for Scotland to use its full powers to fulfil this purpose with a clear focus on two mutually reinforcing objectives – increasing competitiveness and tackling inequality.

As the Economic Strategy documents, we are able to use our existing devolved responsibilities in areas such as local economic development, infrastructure, transport, housing and planning, education, and health and social care to boost the Scottish economy. We have also set out ways in which we can use further powers such as control over the Crown Estate and Air Passenger Duty which have been agreed by the Smith Commission. We believe there is a strong case for further powers to better enable us to achieve the ambitions of boosting competitiveness and tackling inequality.

All sectors have a role to play in creating the best conditions for Scotland to succeed in achieving the framework and ambition outlined in this strategy.

The Scottish Government, its agencies and partners in Scotland, will work together to implement this strategy. Further detail and direction on policy priorities and initiatives on the areas set out in the Economic Strategy, including Scotland's International Framework, Trade and Investment Strategy, Scotland's Oil and Gas Strategy, Fair Work, and Social Justice, will be published in the coming months.⁸⁰

As this strategy makes clear, improvements in Scotland's economy and society cannot be delivered solely by the public sector. Growth, innovation, investment and risk-taking in the private sector are key to unlocking Scotland's economic potential. Cooperation between Scotland's employers and employees is also essential to making the vision of Fair Work, for example, a reality.

Working with our partners

The Scottish Government's agencies play an integral part in the delivery of the Economic Strategy under existing devolved powers. For example:

- Scottish Enterprise and Highlands and Islands Enterprise work to support business and economic development across Scotland;
- VisitScotland helps attract visitors to Scotland and provides advice and support to Scotland's tourism industry;
- The Scottish Funding Council is responsible for funding teaching and learning provision, research and other activities in Scotland's colleges, universities and higher education institutions; and
- Skills Development Scotland is responsible for supporting Scotland's people and businesses to develop and apply their skills.

Each of our partners' activities will be aligned with the priorities laid out in our Economic Strategy, and each has played a role in shaping this strategy.

⁸⁰ As these documents are published further information will be provided on the Scottish Government website - <http://www.gov.scot/78/Publications/Recent>

Alongside these agencies, an increasingly broad range of organisations now play a central role in shaping and supporting the Scottish Government's economic ambitions. These include local government, Zero Waste Scotland, the Scottish Environmental Protection Agency, the National Parks, Forest Enterprise Scotland, and Scotland Food and Drink.

Businesses in Scotland also play a role in helping deliver this strategy. Since 2007 the Scottish Government has engaged directly with business and civic leaders in the bi-annual meetings of the National Economic Forum, on a range of issues including youth employment, energy, and digital economy. This promotes greater opportunities for partnership working towards common goals and complements the regular dialogue that the Scottish Government maintains with business organisations and their members.

The Scottish Government has a close and productive working arrangement with the Scottish Trade Unions Congress and affiliated trade unions. This covers a wide range of economic and social policy themes and is underpinned by a Memorandum of Understanding that provides a framework for developing genuine partnership.

The Scottish Government recognises the critical role the third sector plays in addressing issues of inequality and the needs of disadvantaged communities, and the contribution that the sector makes to Scotland's economy. The sector is essential to the design and delivery of public services, and to helping us find solutions to the economic and social challenges that Scotland faces.

As we deliver our Economic Strategy we will bring an increased focus on local communities. Consistent with our commitment to community empowerment, local communities will have the opportunity to participate in shaping their local economy.

In implementing *Scotland's Economic Strategy* the Scottish Government will build on these partnerships to improve Scotland's economic performance and reduce inequalities in communities and in the workplace.

Further economic powers

Whilst the existing devolved responsibilities will continue to be used to boost the Scottish economy and tackle inequality, the key powers to support businesses, to shape the economic structure of the economy and reduce inequality remain reserved to the UK Government.

The Scottish Government will continue to make the case that a more powerful Scottish Parliament with full social and economic responsibilities would be better able to support and stimulate our economy and tackle inequality.

Scotland's responsibility for taxation and welfare is particularly limited. Once the Scotland Act 2012 is fully implemented, responsibility for only 16% of tax revenue in Scotland will be devolved. Under the Smith Commission Agreement this will increase to 29%, at the same time just 14% of welfare expenditure will be devolved to Scotland. This means that our ability to tailor a tax and welfare system for Scotland's circumstances and preferences is particularly limited. Moreover, it means that the resources we have available for devolved spending, which accounts for around 60% of the total public spending in Scotland, are effectively determined by the UK Government's priorities, including their commitment to ongoing austerity and rapid deficit reduction.

The Smith Commission agreement, once implemented in full by the UK Government, will transfer a number of additional responsibilities to the Scottish Parliament, as summarised in Box 3.1.

The Scottish Government will use these new responsibilities to support the implementation of our Economic Strategy when they become available. For example:

- Powers over employment programmes will provide an opportunity to respond to the economic priorities in Scotland and to improve economic outcomes by moving more people closer to, and into, sustainable employment.
- Responsibility for Air Passenger Duty will enable us to set a policy that helps support our internationalisation ambitions, and in particular improve connectivity with major airport hubs.
- Responsibility for the Crown Estate will improve management of strategic assets and integration of Scottish policies relating to use of the seabed (including for renewable energy development) and wider marine planning, as well as providing direct benefits for communities across Scotland, especially our island communities.
- In finalising the detail of the capital borrowing provisions with the UK Government as part of the fiscal framework, we will look to ensure that there is sufficient flexibility to enable the Scottish Government to better prioritise and plan investment in Scotland's infrastructure, boosting productivity across the entire economy.

The new powers will also provide opportunities to complement our existing responsibilities, for example by linking the new powers on ill health and disability benefits to already devolved areas such as health and social care.

↓ Box 3.1 – Smith Commission agreement

The key areas for further devolution of economic policy put forward by the Smith Commission include:

- The power to set Income Tax rates and bands, although the UK Government will continue to control the personal allowance, as well as all other reliefs and allowances and tax rates and thresholds for savings and non-dividend income;
- Devolution of Air Passenger Duty and Aggregates Levy;
- Devolution of control of the housing element of Universal Credit;
- Control over some benefits, including the Disability Living Allowance, Personal Independence Payment, Attendance Allowance, Carer's Allowance and the benefits that make up the Regulated Social Fund;
- Powers over support for unemployed people through employment programmes currently contracted by DWP;
- Licensing of onshore oil and gas extraction;
- Responsibility for the Crown Estate's economic assets in Scotland;
- Devolution of decisions on public sector bidders for rail franchises;
- The power to introduce gender quotas in respect of public bodies in Scotland; and
- Consumer advocacy and advice.

The Smith Commission recommendations are a step forward for Scotland. However, they remain modest and fall short of the powers that the Scottish Government believes are required to help deliver a fundamental change in Scotland's economic performance and tackle rising inequality.

We have been clear that our priority is to secure the full powers that will enable the Scottish Parliament to be able to do what the Scottish people want it to do.

For the Scottish Parliament to be able to create jobs and tackle inequality, it needs more than control over one or two taxes. It needs control over a range of taxes, both personal and business. It needs control of key economic levers like employment policy. It needs full control of welfare policy and the minimum wage. However, under the Smith Commission proposals over 70% of tax revenue raised in Scotland will continue to be controlled by the UK Government, as will 86% of welfare expenditure. Key job creating powers will also remain reserved to the UK Government.

The Scottish Government's priority over the next few years will therefore be to secure further economic powers to tailor policy to maximise the country's strengths and address the specific challenges that we face. Access to such levers will not only assist in responding to the long-term challenges that many advanced economies face, such as demographic change, but also enable us to re-invest the proceeds of our success back in the public finances and public services.⁸¹ This is key for many of our policies in this strategy which are about enhancing the participation and productive potential of people in Scotland.

Whilst fiscal autonomy and responsibility for all domestic expenditure would enable the Scottish Parliament to respond more fully to the challenges and opportunities Scotland faces, of particular importance is to secure powers for the Scottish Parliament which help both to boost competitiveness and tackle inequality. For example, our priorities include the following economic levers:

- Responsibility for key elements of employment taxation, such as Employers' National Insurance, which would provide opportunities to reduce the cost of employment in key sectors and for key groups of workers such as those engaged in R&D activities. Employees' National Insurance combined with Income Tax determines the level of an individual's post-tax income and it would be more logical for both to be the responsibility of the Scottish Parliament to better deliver fair and rewarding work.
- Similarly, greater responsibility for business taxes – such as Corporation Tax and Capital Gains Tax – could be used to help support the rebalancing and reindustrialisation of the Scottish economy, particularly in manufacturing. Northern Ireland will shortly be granted the responsibility to set a lower rate of Corporation Tax relative to the rest of the UK. The Scottish Government has made clear that we have no intention to engage in a 'race to the bottom'. Instead, we will use these powers to create a long-term competitive advantage, not through a blanket approach, but by using targeted changes in tax allowances to encourage higher levels of investment in capital or R&D, and encourage the growth of SMEs.

⁸¹ For example, policies which successfully increase labour market participation, or increase the size of the working age population, would boost tax receipts whilst potentially also reducing expenditure via the welfare system. Likewise, policies which successfully close the gap in Scotland's productivity performance compared to many other advanced economies could in turn feed through to higher tax receipts.

- Responsibility for employment rights, including the National Minimum Wage, would provide greater opportunity to set policies to improve working conditions, address in-work poverty and encourage more people to enter the workplace.
- Genuine responsibility for social security in Scotland, such as full powers over working age benefits and full devolution of employability policy including the running of Jobcentre Plus would support our existing work improving employment outcomes, helping to boost economic growth and reduce inequality at the same time as providing coordinated support to those out of work.
- Greater responsibility for energy policy and regulation would ensure that the energy market better-serves the Scottish economy. Policy designed in Scotland would help maximise the economic return from our substantial energy reserves, supporting the growth of a sustainable industry for the benefit of the people of Scotland. Joint oversight of UK energy regulation would ensure that the issues facing Scottish consumers of gas and electricity are fully taken into account.
- Increased powers over aspects of immigration such as Post-Study Work Visas would improve Scotland's ability to retain highly-skilled graduate students from around the world, helping boost the working age population.

A desire for greater responsibility over such powers is shared by many in Scotland.

Securing key economic levers for the Scottish Parliament would provide much greater opportunity to grow Scotland's economy. Such powers are important not just in their own right but for the interactions they have with existing and newly devolved powers. For example, the level of the minimum wage, the tapering of benefits to reflect income, and support to sustain employment could all be considered together when developing economic policy.

In summary, the Scottish Government believes that greater access to further economic powers would provide Scotland with the tools to tailor economic policy in Scotland to maximise the country's strengths and address the specific challenges that we face.

Commitment to continuous engagement and monitoring progress

Scotland's Economic Strategy sets out the overarching framework and priorities to provide a shared direction for the Scottish Government and its partners towards boosting competitiveness and tackling inequality.

As part of the refresh of the Economic Strategy, we have considered the requirement for both environmental assessment and equality considerations (see Box 3.2).

We see this as the starting point for continuous engagement and further development and will progress the partnership approach to developing and implementing the policies and objectives set out in this report. In particular:

- The Council of Economic Advisers will provide authoritative and independent advice to the Scottish Government on how to improve the competitiveness of Scotland's economy and tackle inequality.
- In the spirit of our One Scotland approach, we will continue to work with our delivery partners, businesses, local authorities and communities to identify best practice, share ideas and learning from all areas of Scotland.
- The progress we make against delivering the purpose and the priorities articulated in our Economic Strategy will continue to be monitored through Scotland Performs, based on the approach set out in our National Performance Framework.

Further details and updates on *Scotland's Economic Strategy* are available at www.gov.scot/economicstrategy

↓ Box 3.2 – Strategic Environmental Assessment and Equality Considerations

Strategic Environmental Assessment

As required by the Environmental Assessment (Scotland) Act 2005, the Scottish Government has considered the requirement for Strategic Environmental Assessment (SEA) of the refreshed strategy. Given the overarching role of the strategy, it has been concluded that the strategy itself will have no or minimal environmental effects and can therefore be exempted through pre-screening.

Any proposals set out here that could have environmental implications when they are developed into more specific policies and plans would be subjected to SEA where it is determined that they are likely to generate significant environmental effects.

Equality Considerations

Scotland's strong commitment to equality is core to the economic framework outlined in this strategy. In developing the strategy, a consideration of equality has informed the economic analysis that underpins the framework and its priorities. The strategy's development was also informed by a series of discussions on key themes with stakeholders and policy officials, including representatives from the Equality and Budget Advisory Group. The strategy provides an overarching framework and provides a strong focus on promoting equality, tackling inequality, promoting inclusive growth and providing opportunities for all. Any proposals set out here that may be developed into specific policies and plans will be informed by assessment of their impact on equality, where appropriate and in line with the Public Sector Equality Duty, as they are developed.



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