



South of Scotland Economic Partnership

Scottish Government consultation response

Consultation on a new Enterprise Agency for the South of Scotland

The Scottish Council for Development and Industry (SCDI) is an independent and inclusive economic development network representing all sectors and all geographies of the Scottish economy. Our mission is to convene our members and partners across the private, public and third sectors to collaborate to deliver inclusive and sustainable economic growth.

This paper is a copy of SCDI's response to the National Council of Rural Advisers (NCRA) consultation on the opportunities in Scotland's rural economy and the potential recommendations for the Scottish Government.

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What we want for the South of Scotland

1. Do you agree with our ambition outlined? Please explain your answer.

Yes – The South of Scotland agency will bring together the private, public and social economy sectors, with the wider population, to deliver a fresh approach to economic development in the South of Scotland.

SCDI has members spanning across all sector in the south, including the public and private sectors, charities and social enterprises, faith groups and trade unions. Additionally we have convened two business roundtables in the south, as well as, attend the recent National Economic Forum and four consultation roadshows across the region providing us with a good knowledge and feedback on the needs of businesses in the region.

SCDI agrees in general with the ambition outlined and additionally from both member evidence and recent round tables held with south of Scotland businesses that the ambition also needs to reflect key economic drivers around increasing inward investment into the region, a region connected to economic opportunities outwith it and one which supports innovation throughout the region

2. What would you like to see for the South of Scotland?

Firstly, SCDI is supportive of an agency which is 'of the south, for the south' but also one which is connected to the opportunities outwith the region to ensure the ambitions of the communities and people are realised. We want the region to be connected to the economic opportunities locally, nationally and globally and be in a position to realise them to support inclusive economic growth throughout the region.

Both SCDI's membership and recent business roundtables in the region have also suggested that there is a lack of awareness around the benefits and opportunities that the region has and there needs to be a sustained marketing campaign to create positivity about the region as a place to live, work and invest – e.g. quality of life.

Both SCDI's membership and recent business roundtables in the region have suggested that it is important that the South of Scotland Economic Partnership 'hits the ground running' and focuses on both 'quick wins' - that build confidence with businesses across both the private and public sectors, social enterprises, the third sector and beyond - and long term strategic objectives. This will only enhance the sense of a shared identity and vision for the region and further encourage collaboration which is a prerequisite of growth and increased productivity. We would like to see a south of Scotland which progresses both economically and socially and believe the agency needs robust outcomes to deliver on in these areas. Whilst stating what the ambitions are it is also important that the agency and interim agency ensures we can measure the progress made to support progression of the south and further contribution to the wider Scottish economy.

Ambitions for the new South of Scotland Enterprise

3. What are your ambitions for the future economic success of the South of Scotland?

What are your ambitions for the future economic success of: SCDI key ambition for the region is: 'A sustainable growing and inclusive south of Scotland economy which supports social and economic prosperity for all'

To achieve this, we believe the south of Scotland needs to realise these ambitions below:

- Sustainability and growth of businesses of all sizes across the region
- Increased GVA and productivity across the region above the national average
- Reduction in social deprivation and better health outcomes
- An increasingly skilled population to both increase retention and attraction of new talent
- Growth of historically important key sectors and industries as well as new sectors
- Better and more effective connection between education and business to support innovation, productivity, higher wages and both the attraction and retention of talent.
- Increase in productivity across the region
- Increased connectivity to national and global businesses and investment opportunities
- A region linked into national policy discussions and opportunities for investment and innovation. For example, the UK Industrial Strategy, Scotland Economic Strategy and future investment opportunities
- More prominent business leadership to support growing business ambitions at a regional and national level
- Greater sense of vision and identity across the public and private sector and the social economy to work together to deliver inclusive economic growth

The economic context of the South of Scotland

4. What are the strengths you would like to see the Agency build on?

As a region the South of Scotland is home to many major success stories with potential to see continued growth if it can attract the people and deliver the productivity increases necessary to meet its needs. There is continued growth across food and drink production and manufacturing, tourism and hospitality, creative industries and manufacturing, and strong growth in renewable energy.

One of the many positives of the region is that it has relatively low unemployment. During 2016-17, Scotland's employment rate was 73.4%, the same as the 73.4% in Dumfries & Galloway and like the 74.7% in the Scottish Borders. However, while unemployment was 4.5% nationally, it was just over this at 6% in Dumfries & Galloway and below this at 3.7% in the Scottish Borders.

Whilst there are clear challenges that lie ahead, there are reasons to be optimistic about job creation and the retention and attraction of more young people into the region. For example, the continued development of the Crichton Campus in Dumfries and Galloway, the investment in Hawick Incubator Centre, and opportunities across the renewables and tourism sectors. But steps need to be taken to ensure a plan is in place to capitalise on developments through effective business leadership and increasing productivity to support higher wages.

There is an opportunity to capitalise on the strength of micro businesses to support employment of an ageing work force through a social enterprise model. The importance of social enterprises to communities is significant in the region as many are profit-making businesses.

The location of the south as a region in its proximity to large English markets is an underplayed strength and the entrepreneurial spirit which exists in the region needs a focus, there is an opportunity to increase connections with these markets.

Universities and colleges across Scotland require meaningful, high-quality placements for their students in all sectors. The region could make a unique offer to provide these in conjunction with local private sector organisations, attracting young people/talent and developing businesses whilst supporting the need for skilled labour in the region. The assets of the south of Scotland provide a real opportunity for the energy sector around, energy generation with export infrastructure and energy storage technologies. How can we bring together to attract industry and skills?

We need to attract large businesses to develop infrastructure in the south of Scotland to support economic growth as well as build senior business leadership capacity within the region which can connect to opportunities both nationally and globally.

It was also suggested by members and businesses at the SCDI roundtables that some farmers have land and assets which are difficult to unlock to support further business growth, diversification and investment in innovation, how do we find a way to maximise these assets worth.

Members and businesses also suggested that the agency should look at costs of premises in town centres, as these are driving businesses out of towns or elsewhere and reducing the opportunities for them to connect. There are many rural assets which are empty and could be re-used to support business premises. How do we bring these back into play?

5. What are the economic challenges you would like to see the Agency address?

SCDI members and recent focus groups with businesses in the region have suggested that there are many challenges from their perspective which the agency needs to focus upon. In this answer we will concentrate on these concerns and challenges as we believe by tackling some of these problems it will improve the overall economic and social challenges in the region

National productivity GVA is £23,685 per head, compared to just £18,720 per head in Dumfries and Galloway and £17,196 in the Scottish Borders. Low productivity, an ageing population, a lower proportion of young people residing and in work than the Scottish average and low wages in comparison to the rest of Scotland, all present serious economic challenges. Looking to the future, the pace of growth is expected to slow in the short term as the consumer sector loses momentum in the face of rising inflation, businesses investing cautiously due to Brexit-related uncertainty, and fiscal policy remaining tight.

A large number of micro-businesses in the South could be viewed as a positive but a number of business suggested it was a reflection of the “lack of opportunities” and ambition in region, not a sign of economic strength and there was an urgent need to help these businesses scale-up and to attract larger employers to the region. There is concern that microbusinesses are difficult to service by recruitment agencies and difficult for colleges to ascertain their skills needs - there are successful clusters and we need to build momentum among sectors. There is concern for microbusinesses sustainability in comparison to large businesses in an age of disruption and AI.

The business base in the South of Scotland is different to Scotland as a whole, with 56% of people working for small businesses, compared to 36% across Scotland. The effect and impact low wages and insecure work have, not just on productivity but also on businesses' ability to attract and retain suitable and skilled labour to the rural economy is significant. This is magnified by the lack of affordable housing in some areas and poor quality of housing in others. This creates a pressing need to bolster productivity to support increased wages.

Young people were expected to leave the region due to a lack of employment opportunities and leisure options. Businesses suggested it was about retaining people in the region but also about attracting others to come here and those who have left to return. This position is only exacerbated by ONS data evidence which reveals that people living in rural areas earn lower than average wages with almost one in five people being paid less than the living wage. This figure rises significantly in some areas where more than one quarter of employees struggle in jobs paying less than this figure. 20.1% of all Scottish employees are paid less than the Living Wage, this rises to 23.9% in the Scottish Borders and to 30.7% of workers in Dumfries and Galloway. This creates a pressing need to bolster productivity to help increase salaries and attract a new workforce into the area and retain those who may wish to leave.

There is a concern about the retention of people within the region as a whole and the demographic shift. Currently, residents over the age of 65 account for 24.3% of the population, an increase of 23% since 2006. This is set to rise sharply again over the next ten years. The region also has a lower proportion of young people residing and working than the Scottish average; 15% of the population in Dumfries and Galloway and 14% of the population in the Scottish Borders are aged between 20 and 34, compared to 20% across Scotland. The smaller working age population is also expected to decrease as Scotland's working age population increases. By 2029, Dumfries & Galloway's population is projected to fall by 4.1%, while the Scottish Borders remains unchanged and the Scottish total increases by 4.4%. The region needs to consider how it attracts a new workforce with the rights skills for the economy it is building across the region.

A concentration of primary manufacturing in sectors such as agriculture and forestry within region was seen as a positive but a lack of secondary industries held back opportunities to add value to primary products created in the South through secondary industries and the circular economy.

A key challenge was the perception of businesses in the south and that there was more to the region than just farming and tourism and other sectors would require support from the agency.

A challenge presented itself around procurement opportunities and how local businesses based in the region can support infrastructure projects and other contracts with local social and economic impact.

There was a sense that the region was too inwardly looking and in a need of high-profile, sustained marketing campaign to create positivity about the region as a place to live, work and invest – e.g. quality of life. This ongoing perception that the region isn't connected outwith its boundaries isn't the case particularly with the Lockerbie-London rail connectivity and opportunities to connect with markets and partners in relatively accessible large urban centres in England – Manchester, Liverpool and Borderlands. The agency needs to address this issue and work with UK counterparts to do so.

Whilst digital connectivity in the South was noted still as a challenge it is also noted that the main issue for businesses now is not access, but capitalising on the digital infrastructure which is now available to support innovation and productivity.

Many business suggested that there was a need to drive increased inward investment in region as the south is underperforming in comparison to other regions. This is supported by current figures on Business Expenditure on Research and Development (BERD) in the South of Scotland which is one of the lowest in Scotland. Measured by BERD per head of the population, expenditure in the South of Scotland was £46 compared to a Scotland average of £162. The region needs investment in innovation to not only drive productivity but to develop new services and products.

Businesses also have concerns about personnel staffing the new agency. Personnel should reflect capability and diversity and should maintain a young person's voice on its Board. The idea of secondments in and out of the new agency from local private sector and academia would bring fresh thinking and links to industry and was supported by many businesses.

The dispersed and ageing population of the region will likely cause more issues in workers being attracted into traditionally lower paid roles. The development of an action plan delivering improved housing and the upskilling of workers, among other issues, needs to be advanced. There are currently 11,325 businesses operating within the South of Scotland, with 56% in Dumfries and Galloway and 44% in the Borders. The largest sectors by number of businesses within the region are Agriculture, Forestry and Fishing, this is considerably higher specifically than the national figure of 10%, reflecting the largely rural composition of the region. Whilst this could be considered a strength (in terms of infrastructure, easy access to skilled staff within the sector, for example) this over-reliance on one sector could also leave the region vulnerable to shocks and changes in the wider economy. A significant proportion of the jobs in these sectors are seasonal and insecure and can be exposed to changes in migrant labour as a potential result of Brexit and migration.

The number of business births within a region can indicate dynamism in that region's economy. By business births per 10,000 of the population, the South of Scotland ranks 13th out of 14 regions within Scotland. However, much like business density, there are local authority differences with the Borders ranked 22nd of 32 (32 per 10,000 population) and Dumfries and Galloway having the lowest business birth rate of any local authority in Scotland (26 per 10,000 population).

Looking at births, deaths and survival rates of businesses together over time enables sight of a broader picture. The business birth rate has fluctuated across the region over the past decade – a decrease during the recession has been followed by steady growth in subsequent years, with the business birth rate growing from 22 per 10,000 population in 2005 to 29 in 2015. There has also been an increase in the business death rate, over the period; it has increased from 15 per 10,000 population in 2005 to 23 in 2015. There may be many factors to this such as a lack of sufficient funding, increasing costs of running a business or a lack of access to a skilled workforce. It is clear that the root causes need to be understood to support reversing the trend.

Potential Activities for the South of Scotland Enterprise

6. What currently works well in the South of Scotland?

See answer to Question 4.

7. *What would you add or take away from the potential activities that the Agency could carry out across the three areas:*

a) *drive forward the economy?*

We agree with the general points made in this section.

What is missing is the opportunities beyond the Scottish Investment Bank and Scottish Development International to draw investment into the region through accessing UK Government funding through the UK Industrial Strategy alongside connecting to opportunities for Foreign Direct Investment (FDI) are just two examples.

We have suggested in Question 5 that a significant proportion of businesses have suggested that there was a need to drive increased inward investment into the region as the south is underperforming in comparison to other regions. The region needs investment in innovation to not only drive productivity but to develop new services and products.

b) *sustain communities?*

SCDI agrees with the points made in this section.

c) *capitalise on people and resources?*

As well as the agency looking at the workforce in the region, it is crucial that we look beyond the current workforce to capitalise on people and resources beyond its boundaries. For example, Universities and colleges across Scotland require meaningful, high-quality placements for their students in all sectors. The south of Scotland could make a unique offer to provide these in conjunction with local private sector, attracting young people/talent to the region and developing businesses.

8. *What would you prioritise as the key areas of activity for the Agency?*

The key areas of priority that SCDI would see for the agency are supporting a sustainable growing and inclusive South of Scotland economy which supports social and economic prosperity for all. To achieve this the agency will need to focus on these three key objectives:

- Innovation and increasing productivity increase across the region
- Increasing investment across the region
- Stakeholder engagement and strengthening the business network, including connecting to local, national and global businesses and opportunities

9. *What specific things could the Agency do to help you, your business, your sector or your community?*

Both members from the south and businesses who attended our recent roundtables in the South have suggested a number of areas where SCDI and the agency could help them. There was a keenness to ensure the new agency was connected across the region and beyond and committed to the new approach and felt support was needed to achieve this. It was felt that both the agency should be driving local businesses to connect to their communities and invest in Place.

There was a real concern about the lack of business related events in the region to support growth. It was felt that there needed to be significantly more convening of local sectors and interests, promoting profile, provoking discussion, supporting business development. A real

consensus that few business-related events currently take place and that this is a hindrance to economic inclusive growth.

There was a feeling amongst members and businesses that the agency also needs to be held to account by the communities and business it serves and challenged to ensure it offers the right effective support to businesses and commits to change. It was suggested that agency continues its vision of an agency of the south, for the south.

There was a sense of lack of knowledge amongst the business sector on funding opportunities and identifying these was crucial for the south to capitalise on – how do we identify these opportunities and identify the right entrepreneurs to invest in?

There is a role around promoting the region to the rest of Scotland, a positive campaign about existing strengths and to define the single, unifying message behind which the region coalesces. There was a sense that this could be supported by a Convention of the south similar to one in place in the Highlands and Islands.

There was a lack of economic data available for the south causing confusion around where to invest and support going forward but also set a benchmark to move on from.

Effective boundaries

10. What could the Agency do outwith its boundaries working with other local authorities or with agencies like Highlands and Islands Enterprise to support specific projects which benefit the South of Scotland and with national agencies?

What could the Agency do outwith its boundaries working: The opportunity of the proposed Borderlands Deal, which was created by Scottish Borders Council and Dumfries and Galloway Council with Carlisle City Council, Cumbria County Council and Northumberland County Council. The initiative was launched by the Scottish Government in August 2013, a month after the publication of the Borderlands report, authored by academics at Northumbria University. Both Governments agree that the Borderland deal is positive for economic and inclusive growth. If backed, the deal could be worth over £500 million to the economy across the region. Attention needs to be focused on translating this initiative into reality.

Location of the new Agency

11. Which option, either from the list above or your own suggestion, do you think offers the best way to ensure the Agency is accessible to all across the South of Scotland?

Which option, either from the list above or your own: The location of the business needs to firstly ensure whatever model chosen that it provides access points to all across the South of Scotland and the most effective delivery.

We believe further consultation on the model for delivery should be decided upon once we are clear on what the agencies objectives are and how it will achieve them. The model of delivery should then be decided at that point to provide the most effective delivery for the objectives of the agency.

12. Which criteria should be used in reaching a decision about the location of the Agency?

See answer to Question 11.

13. If you were to use the services of this Agency, what factors are important to you in terms of reaching it?

See answer to Question 11.

14. What sort of people should be on the Board of the Agency and what sorts of skills and expertise should they have?

What sort of people should be on the Board of the Agency: There needs to be a range of diverse voices on the board who have the critical skills and experience to govern the agency. The inclusion of a young person on the board was a key suggestion by many SCDI members to support challenges faced by young people in the region.

Other issues

15. We know that young people are less likely to stay in or move to the South of Scotland than they are other parts of the country. Do you have any comments on things the Agency could do to meet the interests of children and young people?

Yes – We believe the agency should support the retention and attraction of young people to the region and have detailed this throughout the consultation response.

16. In delivering opportunity and growth in the South of Scotland, how can the Agency: promote equality for people who share one or more protected characteristic as defined by the Equality Act 2010; combat discrimination; and foster good relations between people who share a protected characteristic and those who do not?

SCDI believe that the agency should do its utmost to do all of the above and are supportive of initiatives to achieve these aims.

17. Do you have any other comments on how the Agency might address specific needs?

We have no further comments to make in this regard.