# CONTENTS

## FOREWORD

## 1. AN OUTWARD AND ENTERPRISING NATION

### 1.1 ECONOMY

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1.1 Economic Overview</td>
<td>10</td>
</tr>
<tr>
<td>1.1.2 Rebalancing the Economy</td>
<td></td>
</tr>
<tr>
<td>1.1.3 Finance and Financial Services</td>
<td></td>
</tr>
<tr>
<td>1.1.4 Public and Private Sector Investment</td>
<td></td>
</tr>
<tr>
<td>1.1.5 Public Spending and Services</td>
<td></td>
</tr>
<tr>
<td>1.1.6 Pensions</td>
<td></td>
</tr>
<tr>
<td>1.1.7 Scotland's Constitutional Future</td>
<td></td>
</tr>
</tbody>
</table>

### 1.2 GLOBAL AMBITIONS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.2.1 Internationalisation Overview</td>
<td>20</td>
</tr>
<tr>
<td>1.2.2 Exports</td>
<td></td>
</tr>
<tr>
<td>1.2.3 Food and Drink</td>
<td></td>
</tr>
<tr>
<td>1.2.4 Life sciences</td>
<td></td>
</tr>
<tr>
<td>1.2.5 Digital Media</td>
<td></td>
</tr>
<tr>
<td>1.2.6 Higher and Further Education</td>
<td></td>
</tr>
<tr>
<td>1.2.7 Inward Investment</td>
<td></td>
</tr>
<tr>
<td>1.2.8 Scotland's International Activity</td>
<td></td>
</tr>
<tr>
<td>1.2.9 Tourism</td>
<td></td>
</tr>
<tr>
<td>1.2.10 Culture and Major Events</td>
<td></td>
</tr>
</tbody>
</table>

### 1.3 RECOMMENDATIONS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
</table>

## 2. MAXIMISING SCOTLAND’S ASSETS

### 2.1 ENERGY AND SUSTAINABILITY

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1.1 Energy Policy Overview</td>
<td>31</td>
</tr>
<tr>
<td>2.1.2 Energy Efficiency and Micropower</td>
<td></td>
</tr>
<tr>
<td>2.1.3 North Sea Oil and Gas</td>
<td></td>
</tr>
<tr>
<td>2.1.4 Electricity</td>
<td></td>
</tr>
<tr>
<td>2.1.5 Grid</td>
<td></td>
</tr>
<tr>
<td>2.1.6 Transmission Access and Charging</td>
<td></td>
</tr>
<tr>
<td>2.1.7 Heat</td>
<td></td>
</tr>
<tr>
<td>2.1.8 Waste</td>
<td></td>
</tr>
</tbody>
</table>
2.1.9 Biomethane
2.1.10 Transport
2.1.11 Environment and Rural Development
2.1.12 Register of Scotland’s Assets

2.2 CONNECTIVITY

2.2.1 Capital Spending
2.2.2 High Speed Rail and North-South Rail Infrastructure
2.2.3 Rail
2.2.4 Roads
2.2.5 Aviation
2.2.6 Ferries and Shipping
2.2.7 ICT
2.2.8 Mobile Broadband
2.2.9 Mobile Coverage
2.2.10 A Networked Scotland

2.3 RECOMMENDATIONS

3. REALISING THE POTENTIAL OF OUR PEOPLE

3.1 SKILLS AND PRODUCTIVITY

3.1.1 Skills and Productivity Overview
3.1.2 Schools
3.1.3 Further and Higher Education
3.1.4 Innovation
3.1.5 Skills Development
3.1.6 Economic Inactivity
3.1.7 Population and Migration

3.2 RECOMMENDATIONS
**FOREWORD**

**Nation, Assets, People: A 2020 Vision for Scotland**

The Scottish Council for Development and Industry is a diverse, inclusive and independent development organisation which seeks, through its wide-ranging networks, to innovate and influence economic policy to deliver sustainable growth for Scotland.

We are a unique organisation representing the corporate and civic groups which underpin the social and economic foundations of Scotland. Building on a heritage of meeting the challenge of change through driving innovation and bold thinking, we share a common vision for the future of Scotland.

That unity of purpose is delivering sustainable economic growth for Scotland through our Nation, our Assets and our People.

**Our Vision for Scotland:**

We believe in a Scotland that is ambitious, enterprising and outward-looking and measures success in its ability to maximise its natural assets, its potential and its people

It is a confident nation that is ambitious about its place in the world and is collaborative, creative and innovative in delivering sustainable economic prosperity

It is an inclusive and diverse society which allows individuals to realise their full potential and enables participation and contribution from across its regions

It is a nation which values its natural assets and its people and focuses resources on delivering maximum economic and social benefit, balancing the need for investment and consumption

It is a nation that commits to creating a powerhouse generation whose energies and aspirations are unlimited

It is a nation committed to delivering a sustainable legacy

It is a Scotland of bold thinking, tough choices and clear focus
Making it Happen: Blueprint for Scotland

To achieve this vision for Scotland as a nation we need an action plan for growth and a commitment to succeed, by ensuring we:

- Create a sustainable and aspirational environment that encourages and supports enterprise and growth
- Are innovative and world-class in our public service delivery, balancing the needs of investment and consumption across our society
- Measure and harness the full potential of our natural and national assets to meet the challenges and opportunities of change and growth
- Enable innovation, collaboration and knowledge-sharing across regions, businesses, services and generations
- Define and deliver ambitious targets for international success, maximising Scotland’s reputation and key strengths
- Create an inclusive and connected nation and regions through investment in our physical and digital infrastructure
EXECUTIVE SUMMARY

SCDI Key Policy Priorities

Scotland requires bold thinking, tough choices and a clear focus if it is to be a strong and successful competitor in the global marketplace and a smarter, fairer nation. To deliver on these challenges Scotland must maximise its assets, its potential as a nation and its people.

SCDI’s policy priorities for Scotland are focused in three key areas:

1. Nation
2. Assets
3. People

1. AN OUTWARD AND ENTERPRISING NATION

Scotland is an outward-looking and enterprising nation. To grow our reputation and our markets, we must be ambitious about our place in the world and be successful at collaborating and delivering innovation.

To deliver growth, Scotland’s SME sector must be encouraged to upskill, innovate and internationalise and the successful realisation of this international vision will create the foundations of Scotland’s future economic growth.

Growing and internationalising Scotland’s businesses will improve export earning, build more sustainable businesses, attract more inward investment, improve our international reputation, support a skilled workforce and make Scotland a desirable home for global talent, a powerhouse of creativity and innovation.

As a nation, we must set clear goals and develop international strategies for our key sectors, our cities and our regions. Scotland has global strengths in key economic sectors such as food and drink, tourism, life sciences, financial services and education. Our reputation for excellence must be retained. We also have the potential to create a vibrant hub for vital future industries and centres of excellence in areas such as renewables.

Scotland must also broaden and embolden its innovation to include non-technological and imaginative responses and innovations in sectors such as tourism and events. These sectors have the potential to be sources of rapid growth.

Successful innovation is interactive and collaborative. It is no longer simply invention or the process of research and development. Innovation can and must be found in a wide range of activities, such as applying different business models and testing and delivering organisational change.
Over the next decade, employment will be a challenge throughout Europe, with the OECD predicting unemployment levels of 10% (or 57 million people) within the OECD area.

In addition, entrepreneurial activity will become increasingly important to generate growth in the Scottish economy, especially in view of public spending reductions. It is the high-growth SME sector which will be vital in delivering most of the growth potential for jobs – and Scotland’s international growth potential. New and small firms unconstrained by existing business knowledge will have a key role to play.

Scotland must set ambitious targets for international growth – not least a commitment to double the value of exports over the next decade. To maximise its potential, we must support capital spending, R&D and skills. This requires fiscal funding mechanisms which maximise the benefits to Scotland and to the UK, creating economic stability and supporting growth.

To maximise our natural assets, our potential and our people, Scotland must be a connected, enterprising and collaborative nation with clear international ambitions which are supported by world-class infrastructure and public service delivery.

2. MAXIMISING SCOTLAND’S ASSETS

Scotland has a wealth of natural and created assets which must be maximised to deliver their full economic growth potential. The natural environment already supports a large part of our economy and we have the potential to lead the world in sustainable cities, sustainable regions and sustainable communities.

We can deliver carbon neutral cities – every home, community and business carbon neutral – and create world-leading distributed cities connected digitally, delivering economic success and high quality of life indicators.

We have the opportunity to grow a world-leading green economy which creates ‘green-collar’ jobs, drives innovative technology and delivers against renewable energy and climate change targets. In renewable energy terms, Scotland has 25% of the useful wind in Europe blow across our shores. The Pentland Firth and the waters around Orkney deliver the best assets for tidal power in the Western Hemisphere.

Scotland has competitive advantages in offshore wind, wave and tidal, carbon capture and storage, both in technologies and generation potential. We acknowledge that Scotland’s natural resource of water offers huge potential, but to achieve this, infrastructural investment in both generation and transmission technology is key.

In traditional energy terms, the indigenous oil and gas industry has a key role to play in ensuring the UK’s future security of supply. Investment and policy support is needed to sustain the mature basin and to enhance the potential of North East Scotland as an energy hub for the Eastern Hemisphere, delivering leading global engineering capabilities, construction and supply businesses.
Scotland has some of the most compelling, best-known natural and cultural tourism assets in the world. We must ensure our ability to sell our assets is first class.

The connectivity of our infrastructure also remains a challenge to growth. We must change the mindset within Digital Britain which has said that investment to deliver 90% super-fast broadband coverage is sufficient for future prosperity.

An economically-successful Scotland must maximise its assets by ensuring they are fully connected to the world – in transport, digital and energy terms.

Creating a register of Scotland’s business, natural and capital resources would introduce a mechanism to capture for long-term investment a share of the value of developing Scotland’s natural resources, especially renewable energy.

3. REALISING THE POTENTIAL OF OUR PEOPLE

People are Scotland’s greatest resource and our greatest source of potential. To compete effectively Scotland’s people need 21st century skills such as innovative and critical thinking, the ability to collaborate, to think cross-culturally and internationally, and to understand and utilise technology.

Our people need skills matched with industry demands and in pace with the growth of knowledge. A workforce that is highly-skilled, highly-motivated and productive is fundamental to our future economic competitiveness.

We must also tackle the long-term structural challenges such as the 1 in 6 of the working-age population neither in work or study and the 1 in 5 in the population who have problems reading and writing.

We must deliver a transformational skills agenda, which dynamically embraces up-skilling, re-skilling, innovation and support for STEM subjects. Scotland is home to some of the world’s best-regarded and most dynamic centres of learning both in the university and college sector. We have an ethic for excellence, a desire to explore new ideas and the advantage of relatively fast lines of communication.

Our challenge is to be more effective at fast-tracking innovation to market, to create and support research & development, invest in top-class infrastructure (and use it well) and to invest in skills. We must ensure our young people are given opportunities to work, train and learn.

Importantly we must inspire our people and our nation to believe we can.
## KEY PRIORITIES

### AN OUTWARD AND ENTERPRISING NATION

<table>
<thead>
<tr>
<th>Short Term – next five years</th>
<th>Long Term – next ten years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broaden the business base of Scottish exporters and establish a network of Scottish Trade Centres</td>
<td>Double the value of Scotland’s exports</td>
</tr>
<tr>
<td>Managed restoration of public finances to ensure public sector net debt falls as a share of GDP, but ensuring we support capital spending, R&amp;D and skills</td>
<td>Return public spending growth to be in-line with the GDP growth trend in the long term</td>
</tr>
<tr>
<td>Restore the strength, reputation and competitiveness of Scotland’s financial sector and its support for higher business investment and manufacturing</td>
<td>More balanced and sustainable growth across business sectors, with manufacturing a stable or growing share of GDP, and support for new world-class financial services headquartered in Scotland</td>
</tr>
<tr>
<td>Strengthen the Scottish Parliament’s responsibility for tax and spending decisions which promote sustainable economic growth. Increase the supply of skilled people for the Scottish economy</td>
<td>Increase sustainable economic growth and supply of skills</td>
</tr>
</tbody>
</table>

### MAXIMISING SCOTLAND’S ASSETS

<table>
<thead>
<tr>
<th>Short Term – next five years</th>
<th>Long Term – next ten years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Begin construction of offshore wind, CCS, marine energy parks and new onshore and offshore grids, with Scottish supply chains</td>
<td>Meet 2020 renewable energy, climate change and green economy / ‘green-collar’ jobs targets. Transform every Scottish city into a low carbon city. Create low carbon zones around renewable power stations, CCS infrastructure and water resources to attract new industry to Scotland</td>
</tr>
<tr>
<td>Phase out supplementary corporation tax on the North Sea oil and gas industry</td>
<td>UK oil and gas to supply 60% of the UK demand for oil and 25% of its gas. Establish Aberdeen as the world’s leading energy services hub</td>
</tr>
<tr>
<td>Support the market-led roll-out of high-speed broadband with public funding for the areas where the market will not deliver. Establish Scotland as a first-choice location for green data centres and build outsourcing excellence within Scotland supported by technology</td>
<td>Full wire Scotland to high-speed broadband, and transform business practices to achieve world-leading productivity growth performance. Create new ‘distributed cities’ in the Highlands and Islands and southern Scotland</td>
</tr>
<tr>
<td>Grow Scotland’s international air route network, including direct flights to China and India</td>
<td>Commence construction of high-speed rail in Scotland</td>
</tr>
</tbody>
</table>
# REALISING THE POTENTIAL OF OUR PEOPLE

<table>
<thead>
<tr>
<th>Short Term – next five years</th>
<th>Long Term – next ten years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent review of university and college funding in Scotland to maintain international competitiveness</td>
<td>Focus more resources on centres of excellence</td>
</tr>
<tr>
<td>Refocus innovation schemes, create a single Office of Higher Education Technology Transfer and ring-fence 0.5% of the procurement budget to stimulate innovation across the economy</td>
<td>Increase business R&amp;D to at least the UK average of 1.08% of GDP</td>
</tr>
<tr>
<td>Deliver a transformational skills syllabus and prioritise places in STEM subjects</td>
<td>Maintain high employment levels and reduce economic inactivity, re/up-skill workforce and deliver skills for priority industries</td>
</tr>
</tbody>
</table>
1. AN OUTWARD AND ENTERPRISING NATION

1.1 ECONOMY

1.1.1 Economic Overview
The global, UK and Scottish economies have recently emerged from the most serious recession since the 1930s. The UK economy contracted for six quarters in a row, the first time this has happened since quarterly figures were first recorded in 1955. Recovery has been later and slower than nearly every other developed economy, partly as a result of the UK’s larger financial services sector. Business confidence is returning, but is fragile, and unemployment is projected to rise further.

In Scotland, the picture is similar. While the recession was shorter it was also slightly deeper. A number of independent economic forecasters are of the view that Scottish economic recovery may be weaker than in the UK because of its relatively larger public sector, greater impact from fiscal consolidation and the ‘leaking out’ of demand.¹ This would increase the challenge Scotland faces in raising its long-term economic growth rate and achieving the Scottish Government’s targets.

Following the credit crunch, co-ordinated action by the Scottish and UK governments and the Bank of England has stabilised the economic position. But the IMF has warned that sovereign risks in advanced economies could undermine financial stability gains and extend the crisis. There are particular concerns at present about the Eurozone, our biggest export market. The Bank of England has estimated a permanent loss of UK output of just over 5%. Falling tax revenues, bank rescue packages and the fiscal stimulus has led to public borrowing approaching 12% of GDP², far higher than in previous peak deficits. Budget 2010 estimated that over 70% of this is structural. In response, the previous UK Government planned to implement fiscal tightening cumulatively worth 4.8% of GDP by 2016/17. It has been estimated that it will take 12 to 15 years before 2009/2010 levels of expenditure are reached once again and, over this period, Scottish expenditure could cumulatively forego between £25bn and £35bn in real terms.³

The UK and Scotland face interlinked challenges: rebalancing and growing the economy to replace lost demand; managed restoration of the public finances; and investing in the economy and public services for the long-term. The new model it puts in place needs to address economic, social and environmental challenges.

1.1.2 Rebalancing the Economy
As with the rest of the UK, in the last decade the Scottish economy has become more of a service sector economy as the manufacturing share has declined and the economy become more dependent on domestic demand. This is likely to be weaker over the next ten years and the key challenge will therefore be to rebalance the economy with more resources devoted to business investment and net exports and fewer to consumption.

¹http://www.strath.ac.uk/media/departments/economics/fairse/Latest-Fraser-of-Allander-Economic-Commentary.pdf
²http://www.hm-treasury.gov.uk/d/Budget2009/bud09_chapterc_463.pdf
Accelerating globalisation, especially in the last decade, has acted to intensify global competition and specialisation in sectors where countries’ comparative advantage is greatest. The implications for Scotland are that it will need to build on its comparative advantages and expertise. Public investment should be focussed on those sectors which will generate long-term demand for goods and services, most especially if that demand is outside Scotland or is highly additional and supports new or existing supply chains. Scotland should position itself as a world leader for higher-value industries which are expected to experience strong growth in the next few decades.

The low carbon sector, in which £60-70bn of investment is planned for Scotland in the next 10 to 15 years, and higher exports, are the most likely sources of replacement demand.

Seven priority sectors have been identified for the Scottish economy and SCDI’s specific comments on these sectors are included in the sections listed alongside them:

- Energy - Energy and Sustainability, Chapter 2.1
- Financial services - Economy, Chapter 1.1
- Tourism - Global Ambitions, Chapter 1.2
- Digital economy – Connectivity, Chapter 2.2 and Global Ambitions, Chapter 1.2
- Food & Drink - Global Ambitions, Chapter 1.2
- Life sciences - Global Ambitions, Chapter 1.2
- Universities - Skills and Productivity, Chapter 3.1 and Global Ambitions, Chapter 1.2

Scotland’s existing strengths and weaknesses and long-term targets for these sectors are widely known, but the medium-term growth paths are not as clear. While welcoming the work to improve Scotland’s economic statistics, these are backward-looking. SCDI believes that economic policy would be strengthened and better aligned across the public and private sectors through independent forecasts of progress along these growth paths that plot opportunities and barriers with required policy interventions.

A key comparative advantage for Scotland should be its internationally-leading academic research. There is a long-standing need to end the mismatch between this output and demand from Scotland’s industrial base. Scottish businesses need to increase their R&D investment, participate in programmes such as Technology Strategy Board funding streams and R&D tax credits. Public sector innovation schemes should be refocused to offer more effective incentives and a strengthened pipeline of support. More funding should be allocated directly to entrepreneurs on a co-investment basis. Public procurement of goods and services should have a role in stimulating innovation. IT-related R&D spending in Finland continued to grow during its fiscal consolidation and its rebound was helped by the upturn in the IT sector.

Further detailed comments on Innovation are in the Skills and Productivity section (Chapter 3.1).

Scotland’s comparative advantages are not limited to specific sectors. As set out in the Energy and Sustainability section (Chapter 2.1), the development of onshore CO₂ transport infrastructure and low carbon electricity generation could be attractive to a wide range of carbon intensive industries.

Growing businesses outwith these sectors should also be encouraged and the role of small businesses in improving economic prosperity should be recognised. SCDI recommends that the threshold for VAT registration should be increased significantly from the current £68,000 to support new and small businesses. In a fragile economy with weak demand, Government should be particularly conscious of the impact of tax and regulatory changes on the sustainability of businesses and employment levels.

Public procurement must operate within a European legal framework and deliver value for money, but it should also be accessible for SMEs and encourage business growth. Pooling public sector contracts has a number of risks, not least the demise of SMEs which now find themselves unable to handle the scale of super-contracts on offer, with the commensurate reduction in tax revenues. SCDI welcomes Scotland’s voluntary, non-statutory Suppliers’ Charter, but it believes that further steps should be considered. SCDI recommends that all public bodies should jointly publish annually the percentage of their contracts awarded to Scottish firms. This transparency could lead to public bodies and businesses going beyond statutory obligations.

SCDI welcomes the performance of Business Gateway and believes there is scope for more flexibility for local authorities in its delivery to reflect local circumstances.

1.1.3 Finance and Financial Services

Growth in these key sectors and the wider economy requires a Scottish banking sector which is able to support sustainable economic growth, by providing access for businesses to sustainable finance and for consumers to mortgages. This remains a concern. SCDI welcomes plans for a Scottish Investment Bank to provide lending to higher growth and exporting SMEs. The Financial Services Authority has also suggested that new countercyclical capital requirements for banks could be varied by sector to support access to finance for manufacturing and production.

SCDI supports increased competition in banking and steps to attract new entrants. Scotland retains many advantages as a place to be based, including its skills base and embedded knowledge, the significant inward investment incentives which are currently available from Scottish Government agencies, and its business and property markets.

The financial services sector will continue to form a significant part of the Scottish economy. The Scottish banking sector is on course to recover in the next 3-5 years and the wider financial services sector has continued to outperform many competitors.
New entrants would further strengthen the sector and the restructuring agreed between banks which have received public funding and the European Commission should result in further competition in the SME market. The potential for Edinburgh and for Glasgow’s International Financial Services District to host not just group headquarters functions, but also to be the site for business divisions and units, brings business opportunities for professional and associated services.

Steps should be taken to incentivise and encourage the creation of more world class financial services firms in Scotland. Consideration should be given to whether there are currently, or could be created, any unique features of the Scottish legal system which might make the Scottish market a more desirable jurisdiction for financial services. Incentives for the location in Scotland of investment funds dedicated to providing seed capital to early stage companies should also be considered.

Tighter regulation of financial services is necessary. The UK Government and EU should seek to agree and implement this globally. This would help to safeguard the competitiveness of Edinburgh – and London – as financial centres and improve the effectiveness of the new regulatory regime. UK economic regulators should have the Scottish dimension properly represented at the top level within their staff and boards, as Scotland has some specific issues that need to be approached in a different manner by regulators. Resolution agencies could be created which have responsibility to plan for and enforce orderly public interventions in banks, especially safeguards for retail deposits. Scotland needs to consider and respond to new national and international regulation as quickly as possible, to position itself at the forefront of the new international financial services industry that is emerging. This means interpreting and implementing change ahead of competitors. Tighter regulations for banks may require the recruitment of staff with the appropriate expertise to address such issues, and Scotland could specifically try to develop and attract these skills.

1.1.4 Public and Private Sector Investment
The banking crisis has resulted in unprecedented public borrowing and spending, which was necessary to prevent economic collapse. Budget 2010 estimated that UK public sector net debt will peak at 74.9% (or £1.4tr) of GDP in 2014/15, more than double the ratio in 2007/08\(^5\). With the private sector still weak, it is important that support for the economy is not withdrawn too rapidly. However, once solid growth has been resumed, a managed restoration of the public finances should be an overriding priority of the new Parliament. The scale and timing of these measures is vital. The UK has been able to finance its debt, but a clear plan will be necessary to retain the confidence of the markets and avoid long-term interest rate increases. This will require tough choices on both sides of the tax and public expenditure equation.

International comparisons demonstrate that it is possible to undertake fiscal consolidations and bounce back relatively quickly with renewed economic growth.\(^6\) However, it is important that tax rises should not be growth-inhibiting. The previous UK Government made progress in recent Budgets in clamping down on tax

\(^5\) [http://www.hm-treasury.gov.uk/d/public_finances_databank.xls](http://www.hm-treasury.gov.uk/d/public_finances_databank.xls)

avoidance\textsuperscript{7} and further anti-avoidance measures should be introduced where cost-effective. There is likely to be an increased role for user charging for certain services. Analysis by PricewaterhouseCoopers has shown that if the UK were to raise the level of non-tax revenue from around 4% of GDP to nearly 6% - in line with Australia, Canada, Japan and the US - it could close half the fiscal gap.

Surveillance of the fiscal adjustment process should be undertaken by a new independent agency, and the UK should adopt the approach taken by Sweden from the 1990s, after its own budgetary difficulties, of a goal of running a budgetary surplus over the economic cycle.

In Scotland, SCDI would recommend greater independent analysis of public spending as a development of the National Performance Framework. This would involve objective assessment of and advice on existing and new commitments and proposals to change or cancel programmes or projects. This would be against clear criteria and benchmarks, including the Government Economic Strategy and independent growth forecasting. One suggestion would be to establish the recently announced new Independent Budget Review panel as a permanent feature of the budgetary and spending review processes.

The public sector plays an important role in driving sustainable economic development, for example stimulating innovation, regeneration and rural development, particularly in areas where the private sector has less of a presence. The contribution of the public sector resources to growth needs to be maximised. There should be greater focus on strategic interventions with long-term economic benefits.

SCDI is especially concerned that the UK has set out an intention to halve net investment as a percentage of UK GDP. If capital spending by the Scottish Government is consistent with the forecasts for the UK, it will fall by £1.7bn (42.8\%) in real terms between 2009/10 and 2014/15\textsuperscript{8}. SCDI calls for the UK and Scottish Government not to disproportionately reduce investment in capital spending.

In Scotland, the Finance and Sustainable Growth portfolio has been subject to the largest percentage budget cut. SCDI has questioned whether, with economic growth projected to stay below the long-term trend rate, the allocation of funding to the enterprise networks should not be greater. Scottish Enterprise plans that, for every £1 it will invest during 2010/11, it will generate an additional £8.80 for Scotland’s economy by 2020. This represents an additional £2bn for Scotland’s Gross Value Added\textsuperscript{9}. This return is evidence of the value of the continuing role of both Scottish Enterprise and Highlands and Islands Enterprise within and outwith their regional economies.

\textsuperscript{7} http://www.tuc.org.uk/economy/tuc-17311-f0.cfm
\textsuperscript{8} http://www.scotland.gov.uk/Resource/Doc/20768/0097898.pdf
\textsuperscript{9} http://www.scottish-enterprise.com/publications/business-plan-2010-2013.pdf
Restructuring of the banking sector has also led to concerns regarding the future of joint funding ventures. A new financial paradigm exists. It is clear that traditional lenders will reduce their market share and invest far less in property. Banks will no longer provide upfront funding for infrastructure and are only prepared to make financial contribution to infrastructure when a capital receipt has been generated or an income stream created. They will generally only support projects in prime locations, not in sub-prime locations.

There remains a housing shortage in Scotland and a need for commercial development. With public spending under pressure, Government must seek new ways of enabling investment and delivering projects. The role of the private sector will be critical. Decisions will need to be taken between public investment in infrastructure for prime locations which will attract further private sector expenditure and for sub-prime locations which will not. Regeneration projects will need far higher public subsidy in the future.

SCDI welcomes the Scottish Government’s and the Scottish Futures Trust’s exploration of Tax Increment Finance funding for key projects that will deliver significant economic stimulus. SCDI encourages local, Scottish and UK Governments to explore a range of private sector funding mechanisms to deliver essential projects across all sectors.

Consideration should be given to how local authority pension funds could be encouraged to invest in local infrastructure projects.

The new UK Government could support affordable housing by changing the Enterprise Investment Scheme & Venture Capital Trusts to make property development a qualifying sector. This could attract new money and provide a solution for the provision of this housing, and fill the identified gap between social housing and home ownership.

Private sector investment in the economy should be promoted by a planning system which is an enabler, not a barrier to development. Developer contributions should be proportionate, potentially phased and not endanger project viability. Reintroduction of enterprise zones, with flexible planning laws and tax incentives, should be considered.

1.1.5 Public Spending and Services
In the last decade, Scottish Government departmental expenditure has grown by over 5% a year on average in real terms. It is projected that between 2011/12 and 2014/15 it could fall by an average of 2.9% in real terms per annum and be £3.5 to £4bn lower.\(^\text{10}\) The scale of this challenge demands political leadership, cross party working and support, and independent scrutiny.

SCDI does not believe that particular spending budgets should be protected at the expense of others. Ring-fencing large proportions of public spending would seriously impact on other areas that are vital to sustainable economic growth and wellbeing.\(^\text{11}\)


\(^{11}\) [http://www.cppr.ac.uk/media/media_128833_en.pdf](http://www.cppr.ac.uk/media/media_128833_en.pdf)
The focus should be on identifying priority outcomes, their relative value and how best to achieve them efficiently, rather than on “protection” versus “cuts”. All spending programmes should be realistically re-evaluated and decisions should be based on an analysis of their long-term contribution to Scotland’s sustainable economic growth and wellbeing, as defined in the National Performance Framework.

The task is not to protect the sectors, but rather challenge them to sustain, or better still improve, the quality of their services while reducing their costs. Across all areas, there are opportunities to look at shared services, integration and smarter working, and at private, public and voluntary sector partnerships.

Scotland’s public sector has reported outperformance of annual efficiency targets. These should be developed and expanded, but, as Audit Scotland states, the scale of the financial challenge is such that the Scottish Government must take a more strategic long term view of priorities and develop new ways of delivering services. The shared services agenda for Scotland’s public sector has made slow progress.

In the current climate the Scottish Government will need to support organisations in urgently developing a cooperative approach, particularly in the provision of back office services. Decisions should be evidence-based. A more comprehensive and consistent approach to benchmarking would enable decisions on whether external providers should be commissioned to deliver public services, if they can demonstrate value for money and quality. As plans are developed, the public sector should consult fully with their staff.

Social enterprises are particularly well-placed to provide service delivery in local communities. The community benefits of their work should be reflected in public procurement frameworks which include stability of contracts and fair funding. Government should also maintain resources, re-examine support structures and ensure that financial institutions assist the development of social enterprises. Government should explore whether private sector involvement with social enterprise, for example in mentoring, could be incentivised in accounting procedures.

In considering government programmes, demographic changes and future projections of the falling ratio of the working age population to their dependants should be considered. Since devolution the Scottish Government has committed itself to a larger range of universal benefits than other parts of the UK. Certain universal entitlements may need to be limited because they are not achieving their objectives, or are no longer fiscally and economically sustainable in these changed circumstances.

Reform of local government finance, public sector structures and shared services should be explored if they will help meet budgetary and local service commitments. SCDI members welcomed the debate around the council tax and the possibility of reform. While the current council tax freeze has helped consumers in the downturn, it limits the ability of local government to manage effectively local needs, services and

demands, particularly given the growing financial constraints from national government. SCDI members have also expressed concerns that while local government has enhanced responsibilities for economic development, it does not have the funding; and that, with competing priorities, these budgets will be squeezed even further. A debate is needed on options for local authorities to raise more money locally in response to local needs and on further incentives for local authorities to encourage start-up businesses.

In a fragile economy with weak demand, government should be particularly conscious of the impact of tax changes on businesses and employment levels, but there will also be scrutiny of tax policy for businesses going forward. Any changes should not make Scotland a less competitive location than the rest of the UK.

1.1.6 Pensions
With demographic change, the funding of pensions is, perhaps, the greatest long-term challenge to public finances. A substantial under-funding of public sector pensions is projected. Private sector employers have been cutting the cost of their pension schemes in the current downturn, which will inevitably impact on the UK’s level of pension preparedness in the long-term. This is a challenge which involves a complex range of issues, including opportunity, affordability, poverty, inequality and inter-generational equity. Encouraging higher levels of saving is also important in rebalancing the economy. This is a challenge which should be addressed on a cross-party basis with the establishment of a Royal Commission.

1.1.7 Scotland’s Constitutional Future
SCDI believes that the debate about Scotland’s future is wider than the constitution – the global recession has been a turning point for the economy and Scottish society. Members have expressed a particular desire for certainty and for policy to take into account the impact of any proposed constitutional changes on trade barriers within the UK, across Europe and in emerging markets. SCDI has made contributions to the debate on Scotland’s constitutional arrangements, commissioning a report on Scotland’s Economy: The Fiscal Debate\(^{15}\) and publishing members’ views on it, and contributing to the Scottish Government’s National Conversation and the Scottish Parliament/ UK Government’s Commission on Scottish Devolution.

Recommendations to the Scottish and UK Governments agreed by members following the publication of Scotland’s Economy: The Fiscal Debate\(^{16}\), included the following:

- The current financial arrangements do not provide sufficient incentive or discipline on the Parliament regarding spending decisions, due to its lack of responsibility for raising substantial revenue.

- The current arrangements, as represented by the ‘Barnett’ process, are unsustainable in the long term, and an evidence base must be built to ensure


good quality information is ready and available to feed into consideration of any new system which may be established.

- Any new funding mechanism must provide benefit to Scotland.
- The Scottish Parliament should commission an independent, comprehensive review of Scotland’s fiscal arrangements, which should aim to identify a small number of key fiscal policy measures that would promote sustainable economic growth in Scotland and address some of the weaknesses in accountability and transparency present in the existing arrangements:
  - It should be conducted by a panel of independent academics, including members from outside the UK who have not previously engaged in the Scottish debate.
  - It should consider Scotland as a discrete economy within the larger UK and EU economies, but should not assume either independence or continued membership of the UK. Instead, where Scotland’s political status is a key factor in assessing a particular fiscal measure, the options with and without independence should be set out.
  - The review should also pay close attention to the implications of recent European Commission and ECJ decisions on the legality of different proposals for fiscal autonomy within Member States.

- A new comprehensive needs assessment for the regions of the UK, identifying appropriate English regions for comparison with the territories of Scotland, Wales and Northern Ireland is required.
- There is mixed evidence that devolving greater powers to sub-national governments to raise and spend their own public funds is in itself enough to promote economic growth.
- The majority of SCDI members that participated in consultation discussions regarding the fiscal debate were not convinced by the arguments either for the status quo or for different models of either fiscal autonomy or further devolution. The key problem is the lack of independent evidence which might help inform the decision. There is a strong case for more independent research into the pros and cons for small countries like Scotland of adopting different fiscal powers.

SCDI has welcomed the work of the Commission on Scottish Devolution’s Independent Expert Group and of the Scottish Government in its National Conversation publications. However, members are concerned that greater consensus has not been achieved on the fiscal policy measures which would promote sustainable economic growth. This has reduced certainty about which proposals are being taken forward and when they might be implemented, and the ability of businesses and organisations to engage in the debate. Members remain concerned about the lack of means of assessing the impact of the proposals on their businesses and organisations, and on the wider Scottish economy. SCDI recommends, therefore, the creation of an independent Fiscal Policy Commission which would analyse and provide this information on all proposed fiscal policy changes.

For members, the most important issues for economic growth are likely to remain:
• improving the skills of the workforce and increasing productivity.
• encouraging greater private sector research and development.
• ensuring an effective contribution from the public sector in support of growth.
• improve transport and ICT infrastructure to help attract and stimulate growth.
1.2 GLOBAL AMBITIONS

1.2.1 Internationalisation Overview
In the next 10 years emerging markets are forecast to grow faster than developed markets, and global trade is predicted to grow three times faster than global GDP. Emerging market economies outperformed those of developed countries in 2009, with China and India in particular continuing to enjoy high growth.

Rebalancing the economy with more resources devoted to business investment and net exports has been outlined as the key economic challenge for Scotland and the UK. The latest UKTI survey shows that global firms continue to see a greater proportion of future revenues coming from emerging markets. Almost 60% of companies expect to derive more than one fifth of their global revenues from emerging markets in five years' time - almost double the current proportion.

Internationalisation will create the foundations for the future success of the Scottish economy. Exporters, including inward investors, tend to have relatively higher productivity and invest more in both R&D and skills. Promoting higher exports would:

- Improve export earnings.
- Build more sustainable businesses.
- Improve our international image.
- Attract more foreign capital.
- Attract more human talent to complement local skills.

Tourism and events are among Scotland’s most vital future industries. The growth in consumer wealth in emerging markets offers opportunities to attract many new visitors.

This section proposes specific support from government for internationalisation of the economy, particularly for key sectors. (Energy is discussed in the Energy and Sustainability section (Chapter 2.1)). Governments should also focus on reducing trade barriers in the UK, Europe and in emerging markets. However, exporters and inward investors highlight the importance of wider actions to improve economic competitiveness, in particular on skills and transport and ICT connectivity. Scotland’s skills agenda should be clearly linked to Scotland’s internationalisation agenda, for example through the teaching of economically advantageous language skills, such as Mandarin, and the skills which will be needed by priority industry sectors. The reinstatement of a Scottish Government fund for the development of international air routes would be welcome.

Scotland’s enterprise networks, Scottish Enterprise and Highlands and Islands Enterprise, are the main delivery agencies in supporting the global ambitions of Scottish businesses. In 1997-98, spending by the enterprise networks was nearly £600m. In 2010-11, funding for Scottish Enterprise fell to £201m and for Highlands

17 Alan Keir, Group General Manager, Commercial Banking, Europe and Global Co-Head, Commercial Banking, HSBC Group, Presentation to SCDI conference on Global Ambitions: Scotland’s International Future, Tuesday 1 September 2009
and Islands Enterprise to £54m. SCDI welcomes the additional funding in recent years for initiatives such as the Scottish Manufacturing Advisory Service, which should support exports. The overall reduction partly reflects Scottish Government decisions on capital expenditure, the transfer of skills development and the business gateway. But SCDI questions whether, in view of the economic challenge, the allocation of funding to SE and HIE should not be greater. There is a need for a fundamental review of funding to the enterprise agencies to determine their role in rebalancing the economy. At the same time, there needs to be greater market determination and input into the allocation of resources and budgets.

1.2.2 Exports
Scotland has real strengths in exporting in sectors including electronics, energy, food and drink, chemicals, financial and business services, and education. The recently published Global Connections Survey for 2008 showed a very creditable performance with Scottish exports increasing by 8%. However, due to the global recession, it is estimated that there were large falls in Scottish manufactured export sales in 2009. Scotland’s export performance appears respectable in a UK context. However, figures suggest that while, on average, Scottish exporters sell a higher value of goods, there are fewer exporting companies. Increasing the total business base of Scottish companies exporting should therefore be a priority.

SCDI believes that a stretching target should be set for Scottish exports and that - given the ambitions of sectors such as the oil and gas supply chain, renewable energy and food and drink - it should be possible to double the value of Scottish exports over the next decade. This should be a challenge for industry as a whole to raise its sights. This should be underpinned by a more co-ordinated, long term export strategy at UK and Scottish levels, with greater focus and resources allocated on supporting companies to access markets. This needs to be informed by a more detailed understanding of Scotland’s export performance.

No single public or private sector organisation can address all the needs which have been identified and deliver a Scottish export strategy and target. Partnership working which accentuates the powerful ‘Scottish brand’, especially in emerging markets, is essential. There is a need for joined-up thinking and marketing, recognising the role that organisations such as VisitScotland can play in co-ordinating international branding and reputation.

The low level of Sterling against other major currencies is an opportunity which should be maximised by the new UK and Scottish Governments, investing in increasing the support and advice to companies looking to start exporting or increase foreign sales. Access to finance remains a problem for businesses. SCDI welcomes plans for a Scottish Investment Bank (SIB) and the consideration of a Scottish export credit scheme. SCDI recommended that a key priority for the SIB should be to provide lending to exporters. It welcomes the announcement on this by the First Minister.

21 http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/Exports/IMEIntroduction
An HSBC survey of around 500 SMEs highlighted that, of the companies which were trading internationally, 88% believe internationalisation is ‘pivotal’ in achieving growth. SCDI has suggested that the rate of corporation tax levied on SMEs that export over 40% of their turnover should be lowered from the current small companies' rate of 21%.

Market-specific intelligence is vital to improving the ease, efficiency and accuracy with which an SME assesses specific overseas market opportunities and needs. It is important that Scottish Enterprise, Highlands and Islands Enterprise, Scottish Development International (SDI) and UK Trade and Investment (UKTI) provide a consistently high-quality service and consider the growth potential of each business – not just whether it is in a priority sector - and that these services are made available to all companies which may benefit from them.

SCDI believes that training and advice should be more widely offered in order to encourage companies in manufacturing and service sectors to internationalise their businesses. SCDI is a partner, with SDI and Scottish Chambers International, in the Smart Exporter initiative, an innovative collaboration which will allow the number of companies being supported to export to be doubled over a three year period. There is an appetite amongst many larger Scottish exporters and successful Scottish-based entrepreneurs to mentor SMEs trading overseas, but this has not been fully exploited to date. To tap into this expertise, SCDI recommends a higher profile for, and agreed access to a domestically-based GlobalScot network.

International trade visits are a proven way of facilitating entry to new markets by SMEs, mentoring and generating new business. There is no better way of learning about exporting and assessing a market than with support from peers in the market. Trade visits also help SMEs to sustain their market presence and placement when economic times are tougher. Both sectoral and cross-sectoral trade visits have particular advantages. Research and results demonstrate that cross-sector trade visits enable greater interaction and mentoring between participants. SDI and UKTI should support the expansion of this activity and introduce a guaranteed 3 year rolling programme of trade visits. Larger emerging markets can be very challenging for SMEs because of the competition, costs, risks and cultural differences. They would benefit from visiting “less difficult/ nursery” markets first. The programme should include a mixture of larger emerging markets and more accessible markets e.g. Eastern Europe.

Increasingly, governments prefer evidence of investment in local infrastructure and workforces when awarding contracts to foreign businesses. Scottish companies should be supported and given access to information to enable them to incorporate community-based propositions in international markets. Scotland’s public sector and trade unions have developed links with their counterparts overseas, for example in China. These networks could open doors for Scottish companies in these markets, and Scottish trade visits would be strengthened by their participation.

http://www.hsbc.co.uk/1/2/business/paid/business-support
Supporting the successes and expansion of existing and potential exporters through domestic policy is important. All relevant government action at home should be subject to an ‘Exports Test’ and informed by the possible impact on trade. A more commercial, export-orientated mindset should be ‘mainstreamed’ in all parts of government, not just enterprise.

SCDI has the following comments to make on key sectors:

1.2.3 Food and Drink

Following the addition of three additional sectors - fishing, aquaculture and agriculture - Scotland Food and Drink has recently announced a new target to grow Scotland’s food and drink exports from £3.8bn to £5bn by 2017. SCDI believes that the creation of this new leadership organisation has created opportunities for better joined up thinking and marketing across the sector which will support this ambition. A number of Scottish products have been granted a Protected Geographical Indication by the European Commission. There are currently global opportunities to grow, in a sustainable way, the Scottish farmed salmon sector which should be supported through the planning system.

Scotch whisky now accounts for over 20% of Scotland’s manufactured exports and distillers are often trail blazers for Scottish food business in global markets. The UK alcoholic drinks sector as a whole directly employs more than 650,000 people in the production and retailing of alcohol and supports a further 1.1m jobs in the wider economy. The industry currently contributes 2% of the UK’s total output (£28.6bn).

There are major opportunities for Scotch whisky in emerging markets, especially if trade barriers can be removed. For example, removal of India’s 150% import tariff on Scotch whisky would result in a five-fold increase in exports, valued at over £150m. However, measures which make the UK’s market less attractive discourage the investment which is necessary to meet this demand. They are also regularly used by foreign jurisdictions to justify discriminatory tariffs on the imports of Scotch whisky.

Excise duty on Scotch whisky is higher than for competing alcoholic beverages and the industry has also absorbed the full impact of the alcohol duty regulator in just one year. The UK Government should end this discrimination by progressively moving towards taxing its alcohol content at the same level, and excise duty on whisky should be frozen.

The introduction of minimum pricing in Scotland would be used as an excuse in overseas markets for anti-competitive tariffs on imports. It is estimated that international copy-cat practice would depress exports by £600m a year, a 20% drop from current levels. This amounts to risking 4% of total Scottish manufactured exports (by shipment value). SCDI believes that the Scottish Government should fully assess the impact on exports and work with the industry on more effective alternative measures.

---

25 [http://www.wsta.co.uk/Facts-and-Figures.html](http://www.wsta.co.uk/Facts-and-Figures.html)
26 Scottish Whisky Association, *Minimum Pricing – The Economic Cost*
1.2.4 Life sciences
In the life sciences sector, the aim should be for more Scottish and UK companies to achieve scale over the next 10 years. The UK Government has announced corporate tax relief for large companies which take on the losses of smaller UK companies developing products to encourage investment in UK R&D. However, these incentives will not come into effect until 2013 and SCDI believes they should be accelerated.

The NHS should be encouraged to offer greater support to Scottish life sciences. Product development and clinical trials in Scotland would be supported if their home market purchased them at an early stage rather than lagging behind overseas markets.

1.2.5 Digital Media
In the digital media sector, the aim should be for more platforms to be owned and managed from Scotland, to shorten the journey to market and increase the value which they retain here. The global gaming industry now makes more money than the film industry and contributes £1bn to the UK economy. It generates about £20m for Scotland’s economy and employs more than 700 workers. However, international competition for the sector is fierce and tax breaks are now being offered to firms to locate in France and Canada. SCDI welcomes the announcement in Budget 2010 of tax relief for the games industry. Industry body TIGA has calculated that this will create 3,550 jobs in the UK over the next 5 years and allow £457m of investment.27

1.2.6 Higher and Further Education
Scottish universities and colleges are at the vanguard of internationalisation and there are significant opportunities, especially in the emerging markets. Capitalising on the highly regarded Scottish education and qualifications systems, there are opportunities for colleges, universities and employers within key industry sectors, to form alliances which export learning and skills development to global employers and governments.

There are currently over 27,000 international students in Scotland, representing about 12% of the full-time total. They are an important source of income and, with funding already under strain, UK visa entry rules should sustain their international work.

1.2.7 Inward Investment
If the Scottish economy is to be rebalanced, its high-value manufacturing exports base will need to grow substantially and diversify. This will require the attraction of major inward investment. UK and Scottish Governments and agencies should work together on a strategy to focus a range of targeted support for inward investment in key sectors.

Achieving scale in the Scottish life sciences sector over the next 10 years is a case in point. SCDI believes that the new UK Government should speed-up the introduction of reductions in taxes on intellectual property held in the UK in order to incentivise more investment by large pharmaceutical companies in R&D. SCDI is concerned that Scotland’s enterprise networks are not at present able to offer

---

sufficiently large grants to inward investors to compete with countries such as Ireland and Singapore in the sector.

International investors should be embedded within and encouraged to nurture the local business community, and specific supply chain gaps should be targeted. Feedback from SCDI members suggests that there is a need to ensure that aftercare for inward investors in Scotland from Scottish Development International (SDI) and the wider public sector is more consistently excellent. It is also important that investors should be supported when they restructure, to encourage confidence of other investors.

As has been previously identified, in financial services, there are particular opportunities to attract the headquartering of banks and asset management companies.

1.2.8 Scotland’s International Activity
There is a continuing need to join-up international activity by the Scottish Government, Scottish Development International, and the wider public sector, and work with UK embassies and trade agencies. Ministerial activity, trade visits and tourism visits should be co-ordinated, especially in emerging markets.

It is vital to make best use of Scotland’s international presence of three Scottish Government offices and Scottish Development International’s 21 offices. Trade promotion needs to be at the core of the role of all Scottish Government staff in overseas markets. SCDI believes that these overseas offices have the potential to develop into ‘Scottish Trade Centres’. These would attract investment to Scotland, and provide information and research on opportunities in their markets, and facilities and services for visiting Scottish companies. The private sector itself could have a significant role to play in the development and support of this Scottish Trade Centre network, working in partnership with the Scottish Government and SDI.

The Scottish Government has published a number of plans which outline their aims and aspirations for engagement with particular countries, including their contribution to Scotland’s sustainable economic growth. The engagement of Scotland’s private sector in these plans is, however, weak and key industries may not feature. Communication with businesses needs to improve, with clearer links drawn between objectives and activity, such as increased trade visits, and with clear measurements and outcomes attached.

Scotland’s cities and regions have key strengths which should be globally marketed. SCDI believes that international strategies should be developed for each of Scotland’s major cities and regions which align with Scotland’s overall international strategy, and deliver against city and regional economic development agendas.

The benefits of the GlobalScot network should be maximised by making it more open and accessible for Scottish businesses and linking members to Scottish Trade Centres. International and knowledge collaborations should also be encouraged. For example, a sectoral approach could be taken to catalysing the energy and digital media Diasporas.
1.2.9 Tourism

International tourism is expected to grow strongly in the next decade, especially with the increasing size of the middle-classes in emerging markets. China is likely to offer growing opportunities because it seems certain that the Chinese renminbi will be allowed to rise over the next few years, which will increase the affordability of travelling to Scotland. Research suggests that the industry’s added value contribution to the UK economy will grow at 3.5% per annum over the next decade, 250,000 jobs will be created and spending by foreign visitors will almost double from £16bn to £31bn.28

The Scottish tourism industry and VisitScotland have set a number of key targets. The top line is to increase revenues by 50% between 2005 and 2015 by:

- Increasing visitor numbers;
- Increasing spend per visit;
- Encouraging visitors to stay longer; and,
- Eliminating seasonal lows.

For this target to be achieved, Scotland must build on the £44m boost of the economy, worldwide marketing and PR awareness delivered by Homecoming Scotland 2009. This will involve investment in large scale tourism developments and investment in existing hotels, guest houses and visitor attractions, and global marketing by tourism businesses via ICT. The industry must strengthen collaboration and be more flexible in capitalising on new market opportunities. Skills development and the attractiveness of careers within the industry also need to be addressed. Business tourism, which accounts for almost a quarter of tourism spend, will have a central role. All Scots, especially business people travelling to new markets, can play their part as ambassadors for tourism in Scotland.

SCDI is supportive of the concept of a new public-private tourism investment vehicle. However, it is concerned that the proposed budget cutbacks at the enterprise networks and VisitScotland will impair their work to capitalise on the momentum generated by Homecoming Scotland 2009, to attract transformational inward investment in new high-value developments and support smaller scale investment in the current economic climate.

VisitScotland and Scotland’s major airports have worked closely together to attract inbound flights from leading airlines. It has a number of partnerships in place. If it is forced to reduce its spending on marketing, which includes the partnerships, this would put these services in danger and could reduce connectivity for businesses and tourism.

Tourism marketing has direct, measurable and immediate results, and it is important that VisitScotland is able to lead, innovate and collaborate with the industry, which will require an increasing, or at least a stable, tourism budget.

1.2.10 Culture and Major Events
There should be greater synergy between Scotland’s trade, tourism, education and cultural activity. Scotland’s well-known strengths should be hooks for less well-known ones. It should aim to capitalise where cultural or education links could be used to improve business links or vice versa, for example the links which Edinburgh International Festival has established with other festivals.

Scotland boasts a range of world class facilities and resources, making it one of the leading event destinations in the world. The Scottish Government can help to build the international capacity of Scottish businesses in major cultural and sporting event delivery in partnership with Business Club Scotland. SCDI believes that the potential for growth in Scotland’s events industry should make it one of the priority sectors.
1.3 RECOMMENDATIONS

- The key challenge is to rebalance the economy with more resources devoted to business investment and net exports and fewer to consumption.

- Public investment should be focussed on sectors with competitive advantages which will generate final demand for goods and services in the long run.

- Business R&D must be raised, with public funding schemes refocused and more funding allocated directly to entrepreneurs on a co-investment basis.

- The VAT threshold should be raised for new and small businesses. Incentives for location in Scotland of private sector investment funds dedicated to providing seed capital to early stage companies should be considered.

- Increased competition in the Scottish banking sector will improve access to finance, and incentives should be offered to attract new entrants to the market.

- Scotland’s financial service sector remains strong, and steps should be taken to take advantage of skills and embedded knowledge and any unique features of the legal system which incentivise the creation of more boutique firms.

- The UK economic regulators should have Scottish representation.

- Public spending in the economy should be reduced carefully. Once solid growth has resumed, managed restoration of the public finances should be an overriding priority. Tough choices are required on tax and spending and surveillance of this should be undertaken by a new independent agency.

- Long-term sustainable economic development should be a high priority for public spending, with a greater focus on more strategic interventions.

- Funding for Scottish Enterprise and Highlands and Islands Enterprise should be reviewed in view of the increased need to stimulate enterprise and growth.

- A range of mechanisms should be explored at local and national levels to generate more private investment in economic and social programmes.

- Planning reforms should be speeded-up and developer contributions realistic.

- There should be no ring-fencing of public sector spending budgets. All spending budgets should be reviewed, and government programmes which are not now realistically sustainable in the long-term should be reformed.

- Across all areas, there are opportunities to look at shared services, integration and smarter working, and at delivery partnerships between private, public and voluntary sectors. Social enterprise should be supported.

- Funding options for local government needs to be reviewed to finance local service delivery, and promote economic development and business growth.

- A Royal Commission should review the sustainability of pension provision.

- Constitutional changes should avoid increasing fiscal and regulatory complexity for businesses and creating new barriers to trading.
- The future of the Barnett formula remains uncertain. Evidenced based research should be undertaken to determine long term financial settlement options which will be of benefit to Scotland.

- The Scottish Government, Scottish Parliament and Scotland Office should enable businesses and organisations to assess the impact of changes to fiscal policy powers on their businesses and organisations, and the Scottish economy. SCDI recommends creation of an independent Fiscal Policy Commission.

- Scotland’s international strategy should clearly link with other government strategies, such as Curriculum for Excellence, skills and transport investment.

- Government and industry should work together to seek to remove trade barriers.

- Establish a target to double the value of Scotland’s exports in the next 10 years and increase the total business base of Scottish companies exporting.

- Develop a co-ordinated, long-term Scottish export strategy based on partnership working across all sectors which accentuates the powerful ‘Scottish brand’. Improve statistics on Scotland’s export performance.

- The Scottish and UK Governments should offer increased support, advice and market intelligence to companies starting to export or increase their overseas sales, through the Smart Exporter and other programmes. A higher-profile, domestically-based GlobalScot network should help to facilitate business-to-business mentoring on international trading.

- SDI and UKTI should expand trade visit activity by introducing a guaranteed three year rolling programme of larger emerging and more familiar markets.

- Support for exporters should be a priority for a new Scottish Investment Bank.

- UK Government should consider lowering corporation tax levels for small and medium size enterprises that export 40% or more of their goods to 21%.

- SCDI calls for a comprehensive review of whether funding levels for Scotland’s enterprise networks are sufficient for Scotland’s internationalisation agenda.

- Domestic government policies must take into account the positive and negative impacts on trade and should be subject to an ‘Exports Test’.

- The new UK Government should accelerate incentives for investment in R&D in the life sciences sector and implement tax relief for the gaming industry.

- UK visa entry rules should support universities and colleges’ international work.

- UK and Scottish Governments and agencies should work together on a strategy to focus a range of targeted support for inward investment in key sectors. Enterprise networks should be able to offer competitive investment incentives.

- Embed investors in the local business community and improve aftercare.
- Join-up Scottish and UK international activity to support Scottish businesses. Develop Scotland’s overseas offices into ‘Scottish Trade Centres’, offering market information and facilities for visiting companies.

- Make the GlobalScot network more open and accessible for Scottish businesses.

- Link Scotland’s national engagement plans with activity supporting businesses in these markets. Develop international strategies for all of Scotland’s cities and regions.

- Maintain funding levels for tourism to develop new marketing initiatives following the success of Homecoming, and attract investment for transformational projects.

- Build the international capacity and success of Scottish businesses in major cultural and sporting event delivery in partnership with Business Club Scotland. Specify Scotland’s events industry as a priority sector for future economic growth.
2. MAXIMISING SCOTLAND’S ASSETS

2.1 ENERGY AND SUSTAINABILITY

2.1.1 Energy Policy Overview
For the first time since the Second World War, the UK faces a potential resource shortage. Securing and making more sustainable use of scarce global resources, especially energy, but also water and food, will be an increasing priority for the UK. However, as a resource rich country, Scotland also has great economic opportunities.

SCDI believes that the debate about Scotland’s future is wider than the constitution; new climate change legislation will lead to another turning point. There is a need to debate and create a vision for Scotland in a changing world, with a clear route map for delivery.

International leadership is necessary post-Copenhagen, and mandatory climate change targets should put the UK on the path to decarbonise electricity supply by 2030 and use significant amounts of renewable energy in heating and transport. The market needs to send stronger signals in support of a sustainable economy. The European Emissions Trading Scheme needs to produce a sensible and stable price for carbon. If it does not, a European carbon tax will need to be considered.

Concerns over winter gas supplies highlight that - with the exception of upstream oil and gas - there has been significant under-investment in the UK energy industry over many decades. A substantial percentage of electricity generating capacity is scheduled to close over the next 15 years. Unprecedented investment is needed to exploit fully the UK’s indigenous resources and enable imports to ensure security and affordability of supply for the economy, in parallel with the transition to a low carbon economy. SCDI supports a balanced mix for electricity generation in the UK, believing that a range of technologies will be needed to meet this challenge. Harnessing Scotland’s resources will have a pivotal role in UK delivery. Joined-up policy-making is essential to attract investment and supply the required skills.

The UK, especially Scotland, enjoys many competitive advantages in positioning itself as a world-leading sustainable economy. The natural environment already supports a large part of Scotland’s economy and Scotland should aim to become a world-leader in sustainable cities. It will be vital to capture the maximum economic benefit from the sustainable development of Scotland’s natural resources, especially energy.

Scotland should explore the creation of ‘energy havens’ for businesses. SCDI recommends that low carbon industrial zones in the vicinity of onshore CO₂ transport infrastructure could encourage carbon-intensive industries to locate (or re-locate) to Scotland. Renewable energy projects in more remote locations could be developed to supply cheaper power to local businesses which may reduce regional growth.

http://www.ofgem.gov.uk/markets/whlmkts/discovery/Documents1/Discovery_Scenarios_ConDoc_FINAL.pdf
disparities. Scotland could also attract industries based on the greater availability of water, providing that the carbon intensity of wastewater treatment can be reduced.

2.1.2 Energy Efficiency and Micropower
Energy conservation has the highest priority, but SCDI’s report on The Future of Electricity Generation in Scotland forecast that demand would rise 10% by 2020.

The Scottish Government is developing an Energy Efficiency Action Plan, but it will be important to monitor the regulatory and fiscal incentives which are now in place to promote energy efficiency and ensure that they are working in practice. A streamlined and properly funded accreditation scheme should be introduced in Scotland and across the UK for micro generation and small systems technologies.

In the private sector, the Scottish Climate Change Bill introduced powers for the ‘greening’ of business rates to incentivise reductions in carbon emissions. SCDI supports amendment to the UK Carbon Reduction Commitment policy to provide recognition for the carbon benefits of on-site renewable energy generation.

In the public sector, the introduction for the first time of carbon accounting in the draft Scottish Budget should incentivise organisations to implement Carbon Reduction Plans, and this has the potential to kick start a low carbon economy.

The water industry is the largest single energy user in Scotland and has a higher carbon intensity of wastewater treatment than in England. Scotland could, in the future, attract industries based on the availability of low carbon water supply. It is important that Scottish Water is financed to invest in renewable energy and energy efficiency.

With regard to housing, it is vital that Government initiates an energy efficiency audit of the existing stock to assist householders with emission and bill reductions. Consideration should be given to reducing VAT on building maintenance to 5%.

ICT should have a critical role. It can be used for monitoring and controlling the use of energy and the production of carbon e.g. better traffic monitoring and provision of real-time information can reduce congestion and associated carbon. Large scale adoption of new work styles will reduce travel energy costs and carbon emissions. Government could do more to stimulate uptake of these flexible practices not only across the public sector, but in the private sector too.

2.1.3 North Sea Oil and Gas
Even if the UK’s renewable energy targets for 2020 are achieved, the country will still rely on oil and gas to provide 70% of its primary energy. A key question is whether the majority of supplies will by then be imported, with security of supply implications, or will continue to be extracted from the UK’s own reserves.

Indigenous oil and gas could still be satisfying 60% of the UK’s demand for oil and 25% of its gas requirements – enough to meet all the needs of homes across the country at that time. But UK oil and gas production is at an important juncture. The North Sea is a mature basin where production has peaked, but there are still 20 to 25bn barrels of oil and gas to be recovered and a broad range of commercial
opportunities which could attract investment in the right circumstances. However, the industry’s current development plans will deliver less than 10bn barrels.

There has been continuing challenge in the competitiveness of the North Sea. Capital investment is still high, but needs to be sustained at around £5bn a year and the North Sea increasingly has to compete with other options overseas which sometimes offer higher rates of return. Without such investment, infrastructure will be decommissioned and the UK’s reserves will risk being left unrecovered.

UK policy-makers now need to ensure that policy is aimed at maximising the North Sea’s longer term contribution to security of supply and the economy, by promoting the substantial investments required to sustain exploration, development and operational activity, rather than near term tax revenues. Simplification and reduction of the overall taxation of the industry are required. In the medium term, the supplementary corporation tax charges on North Sea oil and gas are unsustainable for a province of advancing maturity and should be phased out.

SCDI is supportive in principle of the creation of an oil fund, but is keen to hear more detail about the options, especially the impact on intra-UK financial arrangements and on the fiscal regime for a mature and highly-taxed province. The revenues generated for an oil fund should not be from additional taxation, but from the hypothecation of taxes which would otherwise flow. The structure of an oil fund should be such that the fund and potential income from it do not distort the domestic economy.

SCDI has supported the recent introduction of incentives for the industry as modest steps. With the gas price forecast to stay relatively low, it particularly welcomes the tax relief for the £2.5bn investment for development of production west of Shetland, where a fifth of the UK’s remaining gas resources are located. But SCDI considers that the Value Allowance will need to be extended to more existing and new fields if it is to be effective in attracting higher investment and improving the economics of recovery from more marginal fields.

The attractiveness of investment in the North Sea would also be enhanced by simplification of the regulatory regime. Policy and constitutional changes should avoid a multiplicity of regulators. Decommissioning of oil and gas infrastructure is a major economic opportunity. Consideration of a range of environmentally sustainable solutions from the industry to decommissioning structures would enable Scottish firms to specialise and gain a competitive edge.

Scotland has an oil and gas supply chain which is at the cutting edge of technological development and is exporting globally. The annual survey by SCDI and Scottish Enterprise of activity in the oil and gas sector has shown that overall sales have trebled in the 10 years of the research to £15.4bn and international activity now accounts for over 42% of the total. The subsea sector alone estimates that annual international exports could more than double to around £6.4bn in the next 5 years. The supply chain can be as important a wealth creator for Scotland and the UK over

30 http://www.oilandgasuk.co.uk/cmsfiles/modules/publications/pdfs/EC006.pdf
32 http://www.subseauk.org/item.asp?item=1001&pid=5
time as North Sea production, but its growth would be curtailed by a premature decline in North Sea oil and gas, and the industry would be less likely to anchor in the UK. Policies should support a strong indigenous supply chain and in particular the North East Scotland as the energy hub for the Eastern Hemisphere for leading global engineering, construction and supply businesses. Access to locally sourced skills, new technologies and expertise are especially important.

2.1.4 Electricity
SCDI supports a balanced mix for UK electricity generation. All technologies are likely to be necessary to ensure security of supply and to tackle climate change. It is clear that maximising development in Scotland is fundamental to the UK’s targets. SCDI’s report on The Future of Electricity Generation in Scotland\(^{33}\) found that Scotland can exceed its target of 50% of electricity from renewable sources by 2020 and keep exporting electricity to England and Northern Ireland. The report assumes that gas will have a role in the low carbon energy mix. This would mean that Scotland’s electricity sector will produce a third less carbon dioxide. It projected that onshore wind will provide more than 80% of the increase in Scotland’s renewable electricity by 2020. Expansion at this rate will require £10bn of investment in new electricity generation between now and 2020, and in a competitive global market, this finance will only be attracted if there is a stable, attractive and reliable market environment for projects. SCDI welcomes the intention to maintain the Renewable Obligation Certificates system to 2037.

Beyond 2020, the report stated that if Scottish demand is to continue to be served by Scottish generation, it is highly likely that new base load capacity will be needed. Carbon capture and clean coal may be available at that time. However, the report argues that as a proven, low carbon technology, new nuclear should remain an option as a potential part of the longer-term generation mix.

Scotland has competitive advantages in offshore wind, wave and tidal, carbon capture and storage, both in technologies and potentially electricity generation. The skills and offshore engineering expertise built up by the North Sea oil and gas sector based in Scotland will be critical in realising these opportunities. There is a need for clarity of responsibility for licensing and regulation, both between reserved and devolved governments, and between them and The Crown Estate.

Renewables now represent the fastest growing form of global industrial investment, and capital expenditure for offshore wind in Europe over the next 10-15 years has been estimated at £150bn. More than half is in the UK. The total capital expenditure for developing 30GW of offshore wind in the UK by 2020 is an estimated £72-84bn, with an estimated £15-18bn by 2020 in Scottish territorial waters.\(^{34}\) Scotland and the UK have the opportunity, not simply to exploit their renewable energy potential, but to create world-leading technology hubs.


The drawing up of a spatial framework for the development of key infrastructure, the identification of early investment needs at port and near port locations, and the investments already announced are welcome. SCDI recommends that the Scottish Government and enterprise agencies should target their support, including packages of grants and R&D incentives, at manufacturers of cabling, turbines, installation vessels and foundations, and at a near-shore testing facility for offshore wind technology. Public investment should be made in operations which are sustainable in the long-term. At the same time, Scotland has high-skill, high-value installation and maintenance capabilities which are likely to be as profitable and more adaptable.

It is vital that public funding facilitates an improved flow of public and private capital at an early stage. The Scottish Fossil Fuel Levy fund is approaching £200m\(^{35}\), but, under current Treasury rules, it cannot be released to the Scottish Government without an equivalent reduction in the Scottish Consolidated Fund. These rules should be changed to enable investment in developing low carbon energy projects within Scotland and speed-up progress towards a sustainable UK economy. Support for projects in Scotland should also be secured from the UK Green Investment Bank.

Wave and tidal devices have been identified as a particular opportunity for the Scottish economy, especially in the Pentland Firth area. These are nascent technologies and their development will be costly and require government support. SCDI welcomes the initiatives in place, but has been concerned that there is a funding gap for ongoing development between early stage R&D and deployment. This needs to be addressed by the additional funding for wave and tidal energy which was secured in the Scottish Budget.

The UK Government has estimated that the combination of retaining the existing power engineering industry and establishment of a new supply and service industry for CO\(_2\) capture, transport and storage will be able to sustain 70,000-100,000 high value added jobs by 2030 and generate £3-6.5bn a year\(^{36}\). At Longannet, Scotland has the best opportunity to deliver the UK’s first big carbon capture and storage project in the Government’s timescale. The bid should therefore be supported by the new UK Government through the Carbon Capture and Storage Competition. There may be further opportunities in Scotland, for instance at Peterhead and Hunterston. There is therefore a need for clarity and consistency on leasing and licensing around the UK. Industry and Government will have to make rapid headway with exploration and appraisal of saline aquifers to identify suitable stores in time for full-scale deployment of carbon capture and storage. Significant investment is needed to prove-up storage and springboard development. An appropriate approach should be taken to liabilities and fiscal concerns in the reuse of petroleum infrastructure.

Mechanisms which would retain more of the economic benefit of renewable electricity and heat generation in local communities thereby increasing support for new projects, but without discouraging new investment should also be encouraged.

\(^{35}\)http://www.scottishrenewables.com/MultimediaGallery/107288a4-d89c-4848-8aba-074f29fab9de.pdf

\(^{36}\)http://www.decc.gov.uk/en/content/cms/what_we_do/uk_supply/energy_mix/ccs/ccs/occs/occ.aspx
2.1.5 Grid
The UK electricity networks were designed for a different age in which electricity has been mainly generated from a relatively small number of large scale plants. To support the investment in new generation, substantial network reinforcements and upgrades are required, coupled with an enduring transmission access and charging regime. Investment in networks should look decades ahead and not simply replace like with like. There is a pressing need for developers, grid companies and regulators to work together in order to join up transmission, generation, regulation and planning.

The network is under severe strain in Scotland as this pattern changes, especially from North to South. The Beauly-Denny upgrade, further onshore reinforcements and subsea cables are all necessary. The development of grid connections to the Scottish islands would harness their high-capacity renewable resources. This is a once-in-a-generation socio-economic opportunity for the communities which should be supported by consents for sufficient generation capacity to make the links viable.

Incremental development of the European super-grid is supported by SCDI. A North Sea Grid including Scotland would ultimately form part of a Europe-wide electricity system which would balance variable power from renewable sources.

The commitment to the roll-out of smart metering by 2020 should be integrated with a move to a smart grid network by 2030. Smart meters will enable customers to focus on economic value. The Department for Energy and Climate Change has suggested that the roll-out of electricity and gas meters could deliver total benefits of £14.6bn over the next 20 years, mostly from reduced demand. Recently published evidence from Canada is that the roll-out of smart grid technology alone can reduce consumption by 6.5%[^37], which would meet around 6% of the UK’s 2020 CO₂ emission cuts. Ofgem’s Distribution Price Control contains a £500m Low Carbon Networks Fund, which it is hoped will stimulate interest in smart grids.[^38]

2.1.6 Transmission Access and Charging
SCDI welcomes the changes which have been made to the transmission access regime. However, the current system of transmission charging results in higher charges for Scottish based generators, which can be perceived as a disadvantage to those companies developing renewable energy projects in the Highlands and Islands where there are the UK’s best and the most reliable sources of renewable power. SCDI endorses the recommendation from the UK Parliament’s Energy and Climate Change Committee for an independent review of locational charging.

SCDI has supported proposals by the Scottish Government, ScottishPower, Scottish and Southern Energy, and the Scottish Renewables Forum for UK transmission network charges being levied at a uniform rate for each unit of energy that enters the system[^39]. The Scottish Government has also proposed a devolved system of regulation. SCDI would be keen to understand how this would operate and whether it would result in reduced charges for Scottish generators which are exporting power to England.

[^37]: http://www.metering.com/node/12823
SCDI understands that a forthcoming consultation from National Grid could propose charges for wind generators which better reflect their variability. This could be a welcome step. SCDI would also hope for proposals which support other technologies and reduce charges for generation on Scotland’s northern and western isles.

2.1.7 Heat
There is a need for a strategic plan for infrastructure, including local heat distribution networks, and appropriate support for the gas grid and its infrastructure. Government and industry should work together rapidly to explore opportunities and technologies around renewable heat and the reduction of heat waste.

Industrial and commercial heat, representing 50% of heat use, has probably the most significant, large scale and cost effective (yet to be realised) opportunities with the shortest payback times. District heating projects are often the best solutions for new and existing housing because they do not require costly infrastructure networks. There has invariably been a funding gap between costs and what it is fair for consumers to pay, and SCDI welcomes the proposed Renewable Heat Incentive, which will need to bridge this funding gap. The successful feed-in tariff in Germany was also accompanied by a system of low-cost loans to consumers for installations.

The planning system also has an important role to play. Planning authorities should be incentivised and empowered to approve low carbon developments. SCDI has also taken the view that future small thermal generating plants near population centres should have specific arrangements for the use of waste heat.

Government must ensure that new public procurement framework agreements do not exclude Combined Heat and Power on the basis that they will never be practicable everywhere. Mechanisms should be put in place to provide reassurance to early adopters regarding supply, maintenance and competition.

2.1.8 Waste
The environmental benefits of energy recovery from waste are reaffirmed in the Scottish Government’s Zero Waste plan. But community support for the energy from waste infrastructure is often undermined by negative campaigning. Scottish and local government and the private sector will need to improve information and show leadership on this issue if Scotland is to meet its environmental targets.

To enable business to meet their obligations and targets, SCDI would like to see a network of thousands of small Anaerobic Digestion plants across the UK to process organic waste, farm waste and purpose grown crops, with embedded methane production sites for injection into the gas grid. Scottish and UK governments should work with the EU to create a policy that allows certain kinds of heat-treated waste to be declassified as waste and reclassified as renewable fuel.

2.1.9 Biomethane
Injecting biomethane into the gas network is one way of reducing the carbon intensity of heating. SCDI believes that it should be made at least as attractive to introduce biomethane into the gas distribution system as to burn it on-site. This could be achieved through greater flexibility in renewables incentives which would encourage the location of biogas plants in rural areas close to where the waste is
sourced and where the digestate can easily be spread on the land as high quality fertiliser, and away from population centres where there may be planning difficulties.

### 2.1.10 Transport

Despite £140bn of investment planned for the UK over the 10 years to 2014\(^{40}\), the Eddington Review forecast that, without further action, there would be a 30% increase in congestion on the roads, with the annual additional cost to the English economy alone of £22bn\(^{41}\). SCDI supports higher investment in public transport and roll-out of low carbon vehicles and alternative fuels, but studies show that carbon reduction targets for transport could only be approached with significant action on the demand side.

Electric vehicles are likely to be the first technology to be influential in reducing Greenhouse Gas emissions from the transport sector. SCDI has recommended that the public sector is likely to take more of a lead in the roll-out, help to establish the market through its procurement purchasing power, and support the development of charging infrastructure in streets and public places.\(^{42}\)

SCDI supports the use of Smart Measures, better travel planning to reduce CO\(_2\) emissions and the promotion of active travel. Softer measures in workplaces and communities, such as providing information on travel options, work without imposing a heavier burden on vehicle usage, which in some areas is a necessity. Flexible working should be promoted through better access to ICT, video conferencing, and workplace travel plans. Planners can also discourage locating new housing where commuting and access to services and amenities is only achievable by lengthy car journeys.

SCDI has supported the introduction of a variable UK-wide road pricing system to replace fuel duty. By charging at the point of use for the real costs of driving, this would encourage rational decision-making between transport modes for specific journeys. This would reduce congestion and carbon emissions, and benefit rural areas of Scotland and the UK where public transport is generally less available.

### 2.1.11 Environment and Rural Development

The natural environment supports £17bn (or 11%) of Scotland's GDP. This includes much of Scotland’s high-value food and drink products, our water supply, the tourism industry and the attractiveness of Scotland as a place to live and work.\(^{43}\) It is important that public and voluntary sector action to safeguard and enhance Scotland’s nature and landscapes continues to receive sufficient funding.

Security, affordability and sustainability of supply are also important issues in food and water, especially with oil and energy prices expected to rise. With support from Government, Scotland’s food production sector can make a major contribution to its economic growth and climate change targets. SCDI believes that GM crops could have food security and environmental benefits. Continued investment in water supply

---

\(^{40}\) [http://www.dft.gov.uk/about/strategy/whitepapers/previous/fot/annexaspendingreview2004cm623](http://www.dft.gov.uk/about/strategy/whitepapers/previous/fot/annexaspendingreview2004cm623)


\(^{43}\) [http://www.snh.gov.uk/docs/B304460.pdf](http://www.snh.gov.uk/docs/B304460.pdf)
is needed to promote economic growth and meet environmental standards. If the current model of funding proves unsustainable within tightening public expenditure limits and economically and socially acceptable charges, other external funding streams should be explored. The take-up of smart meters by businesses should be encouraged and, following the pilot, a route-map developed for the roll-out to households over 10 years.

2.1.12 Register of Scotland’s Assets
Debate about Scotland’s future is often weakened by lack of specific, independently-produced, widely-accepted, easily understood, accessed and measured statistics. This could be addressed through a ‘Register of Assets’ which would bring together information on Scotland’s economic, human and natural resources. This could make available - in an easily digestible form - facts on Scotland’s labour market, education performance, availability of language and STEM skills, renewable energy potential and oil and gas reserves, and so on. This ‘Register of Assets’ would broaden understanding of economic policy and be the core of Scotland’s investment proposition. It would be linked to medium-term sectoral growth plans and the National Performance Framework. This Register would include information on Scotland’s renewable energy resources and a key objective would be to capture, for long-term investment, a share of the value of their development.
2.2 CONNECTIVITY

2.2.1 Capital Spending
Competitive infrastructure and connectivity enables globally ambitious Scottish businesses to grow and internationalise. It also attracts to Scotland inward investment in high-value manufacturing and services, and people to live, work, learn and visit. Through investment, government can create the conditions for the future growth of the Scottish economy. Countries such as Finland have made decisions to protect investment in a fiscal consolidation, and benefited in the longer-term.\(^{44}\)

However, capital spending is projected to bear a relatively larger share of the planned UK fiscal adjustment. The UK Budget 2010 estimated that gross investment will fall from 4.9% of GDP in 2009/10 to 2.6% of GDP in 2014/15. If capital spending by the Scottish Government is consistent with the forecasts for the UK, it will fall by £1.7bn (42.8%) in real terms between 2009/10 and 2014/15.\(^{45}\) SCDI believes that this is a false economy which will damage the pace of recovery and long-term economic growth and job creation. It has been estimated that congestion on UK infrastructure networks presently costs businesses £23.2bn per year.\(^{46}\)

The challenges faced by the UK and Scotland should mean that capital investment - in transport, ICT, electricity networks, housing and commercial development - is a priority for government and is not especially targeted as in previous recessions. Investment in improved accessibility and connectivity is required across the country, including rural areas, to enable all parts of Scotland to contribute to and benefit from sustainable economic growth.

The Scottish Government already has flexibility in respect of funding from the UK Government to make its own choice on the level of capital spending. In SCDI’s view the Scottish Government will need to place a higher priority in its own resource allocation to capital spending than has been projected by the UK Government. If it does not, investment in the replacement Forth Crossing and new Southern General Hospital will put a serious squeeze on all other capital projects across the country.

However, it is clear that Government investment alone will be insufficient to match the scale of the challenges or ambitions for economic growth. Private sector investment and partnership will be necessary to stimulate and deliver many key projects. It will be important to identify, enable and explore opportunities to invest alongside private sector capital investment. The Scottish Government will need to find innovative ways of securing additional private capital to fund Scotland’s infrastructure at a reasonable and defensible long-term cost. Some proposals from SCDI are included in the Economy section (Chapter 1.1). The Scottish Government should seek to explore methods by which it can maintain and increase levels of capital spend on key infrastructure projects, for example through increased borrowing powers. National projects also need to be fast-tracked in planning to address the economic and climate change challenges.

\(^{46}\) [http://www.britishchambers.org.uk/publications_4](http://www.britishchambers.org.uk/publications_4)
2.2.2 High Speed Rail and North-South Rail Infrastructure

A UK high-speed rail network would generate revenues and benefits worth almost £55bn\(^47\) and the Scotland-London route has a sound business case which is better than routes stopping in the West Midlands, Greater Manchester or Yorkshire. The rest of the UK is Scotland’s most important trading partner and Greengauge21 has calculated that a high speed rail network reaching Scotland would deliver economic benefits, including wider impacts, of £19.8bn\(^48\), the highest figure for any region outside London.

As High Speed 1 and European routes have demonstrated, in addition to the economic benefits of shorter journey times, improved connectivity would promote modal shift which benefits the environment as rail services offer lower carbon emissions than aviation.

SCDI welcomes the all-party vision to create a UK high speed rail network which is linked to the continental systems. It recognises the questions over the affordability of the project which will necessitate incremental development. However, it is very concerned about the lack of a firm commitment to construct high speed rail north of the Border.

SCDI recommends that the Scottish Government and the new UK Government should make a firm commitment to high speed rail between central Scotland and London. The Scottish Government (working closely with northern English cities) should immediately begin to prepare the way through the planning process and preferably there should be an agreement to start work simultaneously at both ends. Plans should also be made to ensure that this links to the existing network, so all of Scotland benefits. The UK and Scottish Governments should explore the opportunities for freight, either from high speed freight or greater access to the existing main lines.

Even with this commitment, high-speed rail is unlikely to be fully operational in the next 20 years. If improvements to services are not sustained in the meantime, the contribution of cross-border connectivity to the economy will not be maximised. On both the West and East Coast Main Lines, there is the opportunity to undertake incremental and comparatively inexpensive improvements which would act as stepping stones on the way to a full high-speed rail line and, once High Speed 2 is built, would provide fast inter-regional travel where there is large scale demand. Upgrades on the West Coast Main Line would reduce the Glasgow to London journey time to 3 hours 30 minutes by the end of the next decade\(^49\). It has previously been suggested that a 3 and a quarter hour service could be achieved on the East Coast Main Line between Edinburgh and London\(^50\) and the new InterCity East Coast franchise offers the opportunity to consider incremental improvements between Edinburgh and Newcastle.

\(^47\) http://www.networkrail.co.uk/documents/About%20us/New%20Lines%20Programme/5886_NewLineStudy_synopsis.pdf
\(^49\) Virgin Trains’ Vision: A new era for the West Coast Main Line
\(^50\) http://www.scotland.gov.uk/library3/transport/ecmpcr-00.asp
SCDI welcomed proposals by the previous UK Government for faster journey times between Edinburgh Waverley and London Kings Cross, but calls for the reintroduction of a sub-4 hour ‘Flying Scotsman’ service for business travellers. The new franchise should also ensure that connectivity is maintained between the west of Scotland and north east England.

2.2.3 Rail
SCDI welcomes the new UK Government's commitment to grant longer rail franchises. SCDI believes that longer, carefully structured franchises of up to 20 years could deliver additional private funding for improvements in train and station infrastructures where the life of assets can be 30 years or more. These would improve integration by giving train companies greater responsibility over stations, maintenance and trains, and deliver maximum benefit for passengers and the public purse by incentivising investments from the private sector. SCDI is concerned that the review of procurement of super-express trains may result in further delays or cancellation. It recommends that the review should give the private sector the opportunity to procure them.

SCDI welcomes proposals identified in the Strategic Transport Projects Review for rail infrastructure projects, including electrification. The Edinburgh Waverley-Glasgow Queen Street Improvement Programme, including electrification, is being progressed by Network Rail on behalf of the Scottish Government, but there is a lack of detail over the timing of many other projects. Improvements have been prioritised for the Highland Main Line and Aberdeen-Inverness, but electrification to the North is not scheduled for over 20 years. SCDI believes that with Scotland projected to generate ten times the renewable electricity it consumes, and challenging climate change targets for 2050, there should be a more ambitious programme of electrification and investment in improving line speeds on the Scottish rail network. The next phases should be between Central Scotland and Dundee, including the Fife Circle, and around Aberdeen and Inverness, from where it should be extended.

Moving more freight from road to rail would reduce congestion and carbon emissions. However, industry often finds that investment processes are slow and expensive, and would like more say over projects. The industry believes there is a need to relieve operators of risks, improve integration and support new services over key routes such as Glasgow-Inverness, Caithness/Elgin/Aberdeen-South, and Fort William-Mossend.

2.2.4 Roads
Road infrastructure is fundamental to the movement of people and goods in Scotland. The Scottish Government should hold firm on investment in the existing motorway and road network and on major transport projects which will improve Scotland’s connectivity.

SCDI welcomes progress with the M74 completion and the recent announcement by the Scottish Government on the Aberdeen Western Peripheral Route, but calls for construction to be accelerated. SCDI looks forward to more detail on projects, including a replacement Forth Crossing and dualling of the A9. SCDI members are particularly concerned about a lack of capacity and journey time reliability on the M8,
A96 and A82. Funding for road maintenance is needed to address the deterioration in the network.

High and volatile fuel prices are a barrier to opportunities, particularly in rural communities. SCDI backs proposals for a fuel duty stabiliser and to help with fuel costs in remote rural areas. Support should be offered for low carbon vehicles and alternative fuels. SCDI has set out its views on reducing the environmental impact of transport in the Energy and Sustainability section (Chapter 2.1).

2.2.5 Aviation

The development of a good airport infrastructure and direct air links to other economic centres are vitally important to the competitiveness and internationalisation of an economy. The expansion of Scotland’s route network has stalled in the last few years after cancellation of the Scottish Government-funded Route Development Fund, following more restrictive guidelines from the European Commission (EC) and the economic downturn. The EC is at present reviewing its guidelines and is expected to consult on any proposed revisions later this year. SCDI believes that the Scottish Government should seek to reinstate this support, subject to European legislation.

The UK’s only hub airport, Heathrow, is a gateway to international centres for Scottish businesses and tourism. As a result of domestic flights being replaced by long-haul flights, only six UK regional airports, including Aberdeen, Edinburgh and Glasgow, have access to Heathrow and these slots are also expected to be threatened. High-speed rail is not expected to relieve this pressure on capacity or be a realistic alternative to access Heathrow, especially from the North. SCDI believes it is essential that airport capacity at Heathrow should be able to accommodate increasing demand and the economic needs of the whole of the UK. SCDI has strongly supported additional capacity with, as part of the planning conditions or traffic regulations for the expansion, a proportion of the new slots ring-fenced for flights from the main Scottish and English regional airports as well as from Ireland. The new UK Government must explain how it will ensure connectivity through the UK’s hub airport for Scottish businesses and tourism if capacity at Heathrow is not increased.

2.2.6 Ferries and Shipping

Ferry services are vital economic enablers and lifelines for Scotland’s peninsular and island communities. The Scottish Ferries Review has identified decades of under-investment in vessel and port infrastructures which needs to be addressed over a number of spending reviews. Faster, lower carbon ships would release the economic potential of these communities and help to tackle climate change. Opportunities for procurement from Scottish shipyards should be fully explored. SCDI would welcome government funding support for extended trials of cross-Forth and Clyde ferry services.

Opportunities for short-sea shipping to remove freight from the roads network should continue to be supported. Capacity at Scottish ports is inadequate to handle the largest container vessels and this should be addressed through investment and the National Planning Framework 2. SCDI would suggest that work is commissioned by Scottish Enterprise and Highlands and Islands Enterprise to explore the
opportunities for Scotland from the opening of the Northwest and Northeast passages as shipping lanes.

2.2.7 ICT
Competitive ICT infrastructure can make an important contribution to sustainable economic recovery and growth, skills development and utilisation, and public sector productivity. Scotland and the UK also have significant potential to develop an innovative and world class digital economy sector. With its renewable energy resources and cool, stable climate, Scotland is an ideal location for data centre development. There is also evidence of a link between higher broadband speeds and increased exports.51

The UK generally has a competitive broadband network at present. However, broadband bandwidth demand has been doubling every 21 months (Neilsen’s Law). It can be reasonably assumed that this will continue and this should form the basis for planning over the medium term. Countries in Asia and Europe are now prioritising the roll-out of super-fast networks and there is a risk that the UK will be left behind and companies, especially digital media, will (re)locate elsewhere.

The increasing momentum behind the commercially funded roll-out of super-fast broadband is welcome, but there is recognition that it is unlikely to extend beyond 40% of the country52, particularly into rural and remote areas53.

No country in the world has managed to secure the necessary investment for a national network without government support. Without a national network, areas would be permanently economically disadvantaged. The proposal for a levy on all fixed lines to provide funding to support the deployment of next generation broadband by 2017 was a creative and pragmatic solution which was strongly supported by SCDI. The new UK Government’s proposal to use, instead and if necessary, the part of the TV licence that is supporting the digital switchover must be shown to provide at least as much funding for super-fast broadband in areas that the market alone will not reach.

SCDI believes that the target should be to ‘full-wire’ the country. Digital Britain’s ambition of 90% coverage of UK properties would disadvantage large areas. In the last ten years, the roll-out of first generation broadband has helped enable the Highlands and Islands economy to become – for the first time in recent history – a net contributor to the Scottish economy. Super-fast networks linking enterprises and homes in rural areas could lead to the creation of a ‘Distributed City’, which releases their potential to support increasing sustainable economic growth for Scotland.

The UK and Scottish Governments should work in partnership with the telecoms industry, wider public sector, businesses, higher and further education providers and community groups on a Scottish strategy to deliver the Digital Britain vision and secure funding from the UK Next Generation Fund. This strategy should identify future demand so that investment in telecoms infrastructure can be accelerated and prioritised. Investment and co-operation on 21st century ICT infrastructure for the public sector would create the critical mass for a network which would benefit public and private sector alike, particularly SMEs. It will also be important to identify at an early stage which areas will not receive next generation broadband so that alternatives can be put in place, potentially involving EU LEADER funding. A mix of technologies should be supported in the planning system.

2.2.8 Mobile Broadband
The availability of 3G mobile broadband is limited to urban areas of the UK. Following Digital Britain, it is expected that mobile operators will gain access to new spectrum that will allow them to increase 3G coverage to match 2G coverage in the medium term. This should include all major settlements and transport routes in rural areas. Operators need to be encouraged to deploy mobile broadband once new spectrum is available. SCDI would support the introduction of Wi-Fi on ScotRail, particularly on the routes between Scottish cities, which are especially important for businesses.

2.2.9 Mobile Coverage
In Scotland, the overall picture is slightly worse than for the UK, with 58% of consumers and small businesses experiencing problems with their mobile coverage, 41% of them regularly54. SCDI recommends that Ofcom should work with mobile network providers to improve 2G coverage, including efforts to enhance coverage whilst on the move.

2.2.10 A Networked Scotland
Citizens with fast and reliable access to the internet enjoy access to a wide range of economic, social and educational opportunities. Those without such access will be disenfranchised and this will reinforce social exclusion. In the 21st century, ensuring universal access to the internet will be as important as ensuring universal literacy.

An Information Society has greater opportunities for globally competitive businesses, accessible public services and in tackling issues like climate change. Technological innovation enables economic, social, educational and cultural innovation. Higher demand from consumers and businesses will stimulate further roll-out of broadband and mobile networks and ensure that the potential productivity benefits are fully realised.

It has been estimated that closing the gap with UK best practice in ICT exploitation could boost Scotland’s economy by £2.8bn over the next 5-7 years55. Large scale adoption of new work styles will deliver increased output, improve efficiencies and make better use of corporate assets such as expensive office space.

54 http://www.communicationsconsumerpanel.org.uk/06%2010%2009%20Consumer%20Panel%20calls%20for%20try%20before%20you%20buy%20solution%20to%20coverage%20problems%20Scotland.pdf
In the public sector, this could provide significant savings in property and improvements in productivity that will help achieve the efficiency targets and free up resources to redeploy into priority frontline services. Private sector experience has shown that productivity improvements of 10-15% can be achieved through the introduction of flexible working.

Universal access to next generation broadband and mobile networks will play a central role in increasing flexible delivery of, and widening access to, higher and further education across Scotland. It will also offer significant benefits for skills development and attainment, ensuring graduates are equipped with the ICT skills they need.

Roll-out of ICT infrastructure and a Networked Society would support the delivery of more personalised, effective and efficient services, through greater citizen self-service, assisted service and remote service. There are particular opportunities with eHealth.

Government should support organisations and programmes dedicated to increasing internet literacy and usage in areas with limited broadband, by supporting community hubs or libraries providing access to the internet and publicising the work-life benefits.

Smart electricity meters and smart grids which will be enabled by digital technologies will have critical roles in meeting renewable energy and climate change targets.
2.3 RECOMMENDATIONS

- Scotland should position itself as a world-leading sustainable economy, capitalising on its outstanding natural environment and resources, developing them in a sustainable way and becoming a world-leader in sustainable cities.

- Security of energy supply is critical for keeping and attracting businesses. Sustainability of their supply will grow in importance. Governments at all levels should work closely to ensure security and sustainability of supply, and attract the unprecedented investment required from the private sector.

- A balanced energy mix for the UK is needed in the transition to a low carbon economy with a stable, attractive and reliable market environment for all projects. In Scotland, new nuclear should be an option post-2020.

- Oil and (particularly) gas will continue to play a major role. North Sea exploration and development should be maximised with incentives extended in the short-term for incremental investment in existing fields and for new fields, and in the medium-term by the elimination of supplementary taxation.

- Government should position Scotland as a world leader in renewables, promoting technology transfer and knowledge-sharing with oil and gas.

- The creation of world-leading technology hubs would maximise the economic benefit from clean energy. Support should be targeted at the offshore wind supply chain, marine energy technology and Carbon Capture and Storage.

- Government should set out how early investment will be delivered in key infrastructure for marine energy at port and near port locations.

- Scotland’s fossil fuel fund should be released by the UK Government, without reducing the Scottish Consolidated Fund, for investment in developing low carbon energy projects within Scotland.

- Business rates should be reformed to reflect environmental priorities. Government should do more to stimulate the use of ICT to reduce travel.

- Opportunities to create low carbon ‘energy havens’ for businesses near onshore CO₂ transport infrastructure or renewable energy projects, and to attract industries based on low carbon water supply, should be explored.

- The electricity transmission charging regime should be reformed to maximise investment in renewables generation in the areas with the best resources, and pave the way for the creation of a European super-grid network.

- Scottish and UK Governments should work with the appropriate agencies to enable the use of biomass co-products in heat generation and electricity. Amendments to the ROCs regime should be considered.

- Further devolved powers over energy policy may be beneficial, however sustaining and growing the energy industry should be the priority.

- The Renewable Heat Incentive will need to bridge funding gaps to the development of small-scale projects. The successful feed-in tariff in Germany was accompanied by low-cost loans to consumers for installations.
Government should show leadership on energy from waste and anaerobic digestion to enable business to meet their waste and recycling targets.

Alongside investment in public transport, further action by Government is needed on the demand side to reduce congestion and transport carbon emissions. SCDI supports introduction of a UK wide road pricing system.

Investment should continue in safeguarding and enhancing Scotland’s nature and landscapes, and support sustainable water supply and food production.

A ‘Register of Assets’ of Scotland’s business, human and natural resources should be created to inform a wider debate on Scotland’s future.

Increase planned capital investment levels to support long-term sustainable economic growth and utilise private funding to boost spending and spread the financial risk.

A firm commitment to high speed rail between central Scotland and London, with work beginning immediately to prepare the way through the planning process. Upgrading the existing mainlines would provide significant benefits in the short to medium term and could act as stepping stones to a high speed line. Improved links should also be planned with the wider Scottish rail network.

Introduce longer franchises for rail services of up to 20 years to incentivise additional private funding for trains and stations, and to improve integration.

Utilise new renewable energy generation in the North for a more rapid and ambitious programme of electrification across the Scottish rail network.

Freight services should be expanded with infrastructure improvements across Scotland to enable the transfer of goods from road to rail where possible.

Road infrastructure remains a priority, especially M8 capacity; upgrading the A9, A96 and A82; a replacement Forth Crossing; and accelerating the completion of the Aberdeen Western Peripheral Route.

Heathrow is the UK’s hub airport and decisions on expansion should reflect the economic interests of the whole UK. The UK Government should protect regional access to Heathrow by ring-fencing a proportion of any new slots. The Scottish Government should reintroduce a form of the Air Route Development Fund.

Significant long-term investment is essential in faster, greener ferries and ports.

Scottish ports capacity needs to be increased and opportunities from the opening of the Northwest and Northeast passages as shipping lanes should be explored.

‘Full-wire’ the country with next generation broadband to underpin economic competitiveness, digital media and the ‘Distributed City’ concept. Public investment is needed and Government cannot adopt a “do-nothing approach”. The levy proposed in Digital Britain was a creative and pragmatic solution, and any alternative should provide at least as much funding.
• Ofcom should work with operators to improve mobile broadband and coverage.

• A partnership approach is needed on a Scottish strategy to deliver *Digital Britain* to accelerate and prioritise investment. Co-operation in the public sector would create the critical mass for a network which benefits public and private sectors.

• Government should lead the creation of a more Networked Society, which would benefit the economy, society and the environment. By sharing existing services and creating new networking hubs across Scotland, the public sector could save money and energy, improve service delivery, enhance skills development, and encourage business start-ups.
3. REALISING THE POTENTIAL OF OUR PEOPLE

3.1 SKILLS AND PRODUCTIVITY

3.1.1 Skills and Productivity Overview
The productivity gap between the UK and developed economies such as France, Germany and the US remains significant. This needs to be addressed by encouraging and enabling higher long-term capital investment, infrastructure and innovation by the private and public sectors, and through skills development.

Skills development has been SCDI members’ number one strategic priority. Scotland has a strong performance on skills and qualifications and on employment. However, this strong performance does not feed through effectively enough to productivity, unemployment is rising and there is a need to re-engage significant numbers of people who are economically inactive with employment.

The economic opportunities and challenges reinforce the conclusion that there should be greater attention to skills in the workforce. It is recognised that employers who continue to invest in their workforce will be strongest coming out of the recession and best placed to take advantage of renewed global growth.

The UK Government’s Leitch Review and the Scottish Government’s Skills for Scotland both emphasise the need for decisions on investment in skills development and productivity to be based on real and collective industry need. This will require better links between employers and education and skills providers, a simplified and streamlined system of funding and delivery, and information, advice and guidance.

SCDI believes it is especially important for the education and skills systems to supply a pipeline of economically-useful skills for the key industry sectors, with an appropriate mix of high-level and intermediary skills. Science, engineering and technical skills are needed to rebalance and internationalise the economy. It has been estimated that the UK economy will need 2.4m people to work in scientific occupations by 2014.  

Funding is a major issue. Government, educational institutions and business need to explore new and innovative ways of accessing and delivering finance.

Higher levels of innovation should be encouraged. This includes addressing Scotland’s underperformance in R&D, but the understanding of innovation should also be broadened to encompass training, testing and organisational change.

---

3.1.2 Schools
International evidence shows that the early years of a child’s life are crucial to his or her development and the Scottish Government and COSLA should therefore continue to take forward implementation of the Early Years Framework.

Schools are key to creating a highly productive workforce. Spending per pupil in Scotland is well above that provided in any of the other nations of the UK, but it is not clear that this has been reflected over the last 10 years in improvements to attainment.\(^57\) SCDI is particularly concerned that Scotland has fallen to near the bottom of OECD countries in maths and science\(^58\). This suggests there needs to be an evidence-based focus on outcomes.

SCDI believes that solid numeracy, literacy and learning skills are especially important. Softer skills like communication and self management are highly valued. Schools should encourage those young people who are tomorrow’s leaders and entrepreneurs. SCDI supports the Determined to Succeed enterprise education programme, but consideration should also be given to introducing specific qualifications in entrepreneurship. Sport can help to foster a culture of leadership, teamwork and competitiveness, and there is a need to invest in sports infrastructure.

There should be a greater emphasis on Science, Technology, Engineering and Maths (STEM) in the curriculum, including encouragement for the reinstatement of Technological Studies, which has declined in many areas.

The principles behind the Curriculum for Excellence are welcome. It should facilitate inter-disciplinary learning which is vital to bring STEM subjects to life. However, there needs to be more consultation in the redesign of science subjects and guidance and support for teachers in planning for these changes.

There should be a more joined-up approach by the Scottish Government and Skills Development Scotland to promoting STEM subjects and STEM careers. There are many important opportunities for young people in science, engineering and technology professions. Their crucial role in shaping the future of society should be highlighted, along with the attractive rewards on offer and job security.

3.1.3 Further and Higher Education
Scotland’s colleges and universities have critical roles in meeting the short-term and long-term skills and productivity challenge. It is important to ensure that the education delivered through colleges and universities is appropriate for business, graduates acquire the necessary work etiquette and soft/ interpretive skills for work, and their skills are utilised effectively by employers. This means employer engagement and industry representation and participation. SCDI welcomes the additional places funded by the Scottish Government as a result of the recession. It is important that these courses should contribute to economic recovery and growth.

Colleges and universities have key roles in re-skilling and up-skilling the existing workforce, which will be essential in improving skills utilisation. Part-time, flexible

\(^{57}\) [http://www.cppr.ac.uk/media/media_133107_en.pdf](http://www.cppr.ac.uk/media/media_133107_en.pdf)
delivery is the only way that most people in employment can engage effectively with higher education. Both institutional funding and learner support need to be re-examined to ensure that they reflect the shift to increasingly flexible delivery.

SCDI supports the aspiration that, over the next 10 years, the proportion of Scots who access colleges should be raised from 1 in 10 to 1 in 5. Vocational education is critical to the provision of a highly skilled workforce in some of Scotland’s key sectors like tourism and hospitality, and it is important that it has parity of esteem with the academic route. While the Scottish Government has strongly supported the sector, it is recognised that there will be funding challenges and some of the existing structures of Scottish colleges should be reviewed, with a view to increased autonomy and more ‘light touch’ regulation. The sector needs to explore new ways of raising funding for capital and infrastructure projects, including local partnerships with the private sector. Colleges should also be able to operate outwith their geographical boundaries to potentially raise funds or transfer best practice across Scotland.

Universities produce over 50,000 graduates each year, a third higher than a decade ago. It is critical that they supply the high-level skills which will determine Scotland’s success in key industries such as carbon capture and storage and life sciences. Universities also make an increasing contribution to lifelong learning and the up-skilling of the workforce through vocational training, shorter degree courses and more flexible lifelong learning in areas such as engineering and ICT.

SCDI is concerned about the reintroduction of a limit on the recruitment of students in STEM subjects. The Scottish Government and Scottish Funding Council should request industry input from the demand side on future decisions about places. They should also consider innovative ways of generating extra funding for them.

The contribution of higher and further education to Scotland’s long-term economic growth needs to be maximised within a context of a public spending squeeze. Following the introduction of variable top-up fees in England and expectation that the cap on them will be raised, there is concern that the competitiveness of Scottish universities will be eroded. This could lead to staff being poached by England, Europe and North America, and a decline in academic standards. There is a wider concern that the Scottish Government has not articulated how it will ensure the long-term competitiveness of Scottish higher education. SCDI recommends that a wide-ranging debate on the future of education funding in Scotland is now needed. Some funding options include:

- Increase funding from Scottish Government
- Reintroduce flat-rate tuition fees for full-time students – with bursaries for poorer university students
- Reintroduce graduate endowment
- Introduce variable fees
- Graduate tax – applied retrospectively on income tax
- Increased philanthropic funding – UK tax breaks for employers wishing to collaborate should take into account Scottish circumstances.
- Increased joint business / university links
Other funding changes could be made through efficiencies. These could include:

- Reductions in vacation time, reducing the time required to complete a degree
- Closer college / university collaboration
- Stronger focus on recognising and building upon existing skills
- More flexible delivery of learning to students in employment

Some of these are included in *New Horizons*\(^{59}\), the report by the Universities Scotland/Scottish Government Joint Future Thinking Taskforce on Universities.

This debate would be an opportunity to consider how to maximise the international reputation, profile and impact of Scotland’s higher education institutions. This could include whether there is a case for a ‘University of Scotland’ and an ‘Adam Smith Business School’ brand, with resources focussed on centres of excellence.

### 3.1.4 Innovation

Expenditure on research in the higher education sector in Scotland is 12.45% of the UK total. By contrast, business R&D conducted in Scotland under-performs the rest of the UK, contributing 0.56% of GDP in 2006 compared with 1.08% for the UK as a whole\(^{60}\). Scotland’s universities should, in consequence, have key roles in raising the level of business birth rates and business R&D in Scotland.

SCDI would also suggest that consideration should be given, in any wide-ranging review of funding, to how it could be distributed in order to promote innovation and maximise the economic impact of the higher and further education sectors.

A combined approach by all of Scotland’s universities should be taken to managing the exploitation of their intellectual property rights. This could include the creation of a single Office of Technology Transfer.

Following the announcement by the previous UK Government of its intention to double Knowledge Transfer Partnership (KTP) activity and introduce shorter KTPs, limits to funding in Scotland should be addressed to further encourage links between university and business research. This should also make KTPs more attractive, particularly to SMEs. Academics should be supported to participate directly in spin-offs without compromising their academic careers, start thinking commercially at a much earlier stage in the innovation cycle and build more concentrated communities of entrepreneurs and academics, helping to secure additional talent.

Public sector funding schemes should be refocused on the most effective. Proof of concept funding should be expanded to include business innovation from sectors of the economy other than Universities, Research Institutes and NHS.

Public spending on goods and services in Scotland should have a role in stimulating innovation. Ring-fencing 0.5% of the £8bn public procurement budget per year for this purpose would boost innovation funding by £40m.

---


Improving demand is also a priority. Business leaders should be encouraged to recognise and develop knowledge and insights into the value of investment in R&D innovation to generate new ideas and products, and form new companies.

Scotland’s enterprise networks are developing joint working with the Technology Strategy Board to increase business awareness of its innovation funding platforms. A competitive advantage for companies can be generated by providing early intelligence of forthcoming international standards. They should work closely with the British Standards Institution to influence international standards. Germany has been very successful because international standards are often based on its standards.

### 3.1.5 Skills Development

Skills development is critical in preparing the workforce to meet new global economic challenges. A transformational agenda has been set out in Scotland and the UK which will better match the supply of skills with industry demand. This is strongly welcomed by SCDI, but it is not yet clear how this will be delivered and meet the diverse needs of people and businesses across the country.

SCDI believes the skills arena requires further clarification. This includes the respective roles of Skills Development Scotland, the UK Commission for Employment and Skills, and the Scottish Funding Council, the future and possible devolution of the Sector Skills Councils and their relationship with employer organisations, and simplification of the delivery and allocation of funding. Easier student progression routes and flexible delivery of learning will contribute towards making skills easier to obtain.

The lifespan of knowledge is getting shorter in many sectors. Learning will become increasingly integral to the workplace. SCDI agrees with *Skills for Scotland* that employers must increase staff training and skills development. New measures to facilitate staff training need to be made with the Scottish Government in consultation with the unions and employers to ensure consistency of approach, monitoring and standards. The Scottish Qualifications Authority and other learning providers must work with employers to assist in the alignment of employer training with the Scottish Credit and Qualifications Framework and promote the benefits of the framework to employers.

Leadership and management, and employee trust and motivation, have been identified in work for the Scottish Government as two factors driving excellence in skills utilisation. Greater emphasis should be put by employers, government and education providers on the development of management and leadership skills in Scotland. Companies should be encouraged to share their talent pools and management and leadership programmes in skills hubs, and to send their new managers and leaders into college and university management and leadership programmes. Use of open educational resources should be encouraged. SCDI has been concerned for some time that too many of Scotland’s workplaces remain stuck in a lower skill equilibrium. It would suggest that a workplace development strategy is needed to accompany workforce development in order that public investment in skills is not lost because workplaces are unfit to utilise these skills effectively.
Consideration should be given to a new intervention similar to the Irish National Centre for Partnership and Performance.

SCDI welcomes the additional funding to extend modern apprenticeships. However, it believes that too often apprentice frameworks have been created to accommodate existing job roles and not business needs and long-term high-value job opportunities. Further input is therefore needed from employers. There should be more emphasis on the training which they offer for a wider age range as this would attract employers who want to shift the current skills base of their workforce to bid for new revenue streams in the economic downturn. Funding arrangements should be more flexible to accommodate the age scale above 19.

SCDI members have suggested that consideration should also be given to offering support for student placements and internships and continuing professional and career development beyond the age of 25, particularly in SMEs.

Targeted support for SMEs to enable them to engage with training and skills development should be considered. A version of the Individual Learning Account (ILA) scheme specifically tailored to the needs of SMEs could be developed.

Redundancy can, in some cases, represent an opportunity to start a business or change occupations. The new UK Government should remove disincentives to self-employment, for example in the social security system. Industries with growing skills needs, such as renewables and oil and gas, are keen to work with training providers to recruit and top up the skills of people from similar industries. The IT and Telecoms professional workforce has grown at twice the UK average over the past eight years and is forecast to grow at an average of four times the UK rate over the next ten years, with over half of new entrants recruited from other occupations. Managerial skills could also be redeployed into early growth ICT companies.

In order to realise the potential benefit of ICT for the economy, society, and the environment, there is a need for a powerful collaborative partnership for a single coherent and funded strategy to address ICT skills for every citizen in Scotland.

3.1.6 Economic Inactivity

The new UK Government should introduce new incentives and a more localised approach to support people claiming out-of-work benefits into work and employment. The pilot area for this approach could be Glasgow where numbers remain higher than average. The following proposals should be considered:

- Waiving the rule preventing unemployed people from taking up courses or training which run for more than 2 weeks per year on a case by case basis to enable benefit claimants to take up shorter training courses.
- Further incentives for private sector companies to get involved in Modern Apprenticeships by exempting them from paying National Insurance Contributions for employees while undertaking a Modern Apprenticeship.

[61](http://www.e-skills.com/cgi-bin/go.pl/newscentre/news/news.html?uid=1055)
• Local devolution of responsibility for delivery of New Deal for the disabled.
• Enabling those on Incapacity Benefit/ Income Support to work at least one day a week at the minimum wage without their benefits being affected.
• Greater cross-parliament work to development benefit and student support mechanisms that work together.

Education and skills are vital for moving people from welfare into work, offering opportunities for people to develop the skills they need to enter the workplace, and the confidence to find employment. Changes in UK-wide benefits should take full account of the differing student support systems in use across the UK.

SCDI is very concerned by statistics which suggest that school leavers have been worse affected in this recession than in previous downturns. The ScotAction skills support package has been successful, but the impact of the recession has been such that youth unemployment has increased by 89% over the two years to February 2010.\(^\text{62}\) Businesses, public sector organisations and the voluntary sector will need to work together to provide more opportunities for young people through apprenticeships, experience of work, or providing a job. SCDI calls for a specific, time-limited incentive for businesses which accelerates recruitment of school leavers and graduates.

To address the regional disparities with youth unemployment, local area skills banks should be created. These will document the skills of unemployed people in a local area to allow for more effective, targeted interventions from companies and government. Once Local Area Skills Banks have been developed, public procurement should recognise and score positively those organisations seeking to, or employing, unemployed young people from the skills bank. Best practice in employing young people in this way should quickly become the norm in the public procurement process.

The ‘Step Forward Scotland’ programme is a coordinated plan for Scotland’s private sector employers to each pledge to take on one unemployed young person for every 100 existing employees. These young people would commence a six month work and training placement integrated with local training providers.

The ILA scheme should be temporarily expanded to create a fund accessible to unemployed young people to extend their skill set. This would allow recent graduates or college leavers to take a vocational course at a level equal to or below their current training to develop the skills needed in the local labour market.

Many businesses are still unable to access bank finance. This has led businesses to put training and apprenticeships on hold as the finance has not been available. The Scottish Government should provide short-term loans to businesses to cover the costs of taking on apprentices or trainees which will be paid back over a longer period of time.

3.1.7 Population and Migration

Consistent with most European countries, Scotland is projected to experience a significant demographic shift, leading to an increase in average age. While, thanks mainly to net migration since 2003-04 Scotland’s population is no longer in decline, over the longer-term, the working age population is projected to fall.\(^{63}\)

SCDI supported the introduction of the UK points based system, but is concerned that overall UK immigration policy does not fully recognise the distinctiveness of Scotland’s demographic projections, skills needs and employment market. For example, awarding points on the basis of salaries favours people in London where salaries are higher compared to someone doing the same job in Scotland.

Scotland needs to be able to attract, train and retain the best and the brightest. It is particularly important for Scotland that tightening of UK immigration rules should not deter foreign students from entering the UK, studying at universities and college in Scotland and remaining in Scotland to work in key sectors. The problem of so-called ‘bogus colleges’ should also be brought under control.

Scotland continues to face a distinct demographic challenge compared to the rest of the UK, which will impact on the economy and public services. While Scotland’s population is growing, the ratio of the working age population to the dependent population is projected to fall over the long-term\(^{64}\). SCDI has suggested consideration of the Canadian system which devolves greater control to the provincial governments and of the policy options suggested by the Equality and Human Rights Commission to give Scotland a competitive advantage in attracting migrants: clear and direct variations in immigration rules, such as lowering the points threshold, scoring points differently in line with Scottish-policy objectives, or extending periods of leave available to those migrating to Scotland, in order to give Scotland a competitive advantage in attracting migrants.

An important consideration is how to attract younger migrants with high-level, mobile skills which are critical for industries of the 21\(^{st}\) century, such as energy and life sciences, and for entrepreneurship. Scotland needs to be able to offer an attractive quality of life. Continued investment is required in Scotland’s cultural and civic infrastructure, including transformational projects in Scotland’s cities.

The new UK Government and the Scottish Government should develop specific strategies, with incentives and support, to tackle shortages in key sectors and attract the most economically valuable types of skills. Stronger emphasis should be placed on recognition of the skills of migrant workers to ensure the most effective use of skills in the workplace.

---


3.2 RECOMMENDATIONS

- The transformational, demand-led skills development agenda will require better links and more influence for employers in education and training providers, and a simplified and streamlined funding and delivery system.

- Teaching should especially focus on solid numeracy, literacy and learning skills, with a greater emphasis on science and technology and entrepreneurship, and on soft skills such as communication and self management.

- Colleges need greater autonomy to explore new ways of raising funding for capital and infrastructure projects, including local partnerships with the private sector. Colleges should be able to operate outwith their geographical boundaries to potentially raise funds or transfer best practice across Scotland.

- Changes to the balance of investment in both institutional funding and learner support will be required to support an increase in flexible delivery.

- Reintroduction of a limit on the recruitment of students in STEM subjects may not meet the future demand. The Scottish Government and Scottish Funding Council should request industry input into future decisions about places.

- A wide-ranging debate on the future of funding in Scotland is now needed to ensure that the competitiveness of Scottish universities is maintained. This should include how to maximise their international reputation, profile and impact, and the contribution of HE and FE to the promotion of innovation.

- Maintain investment in R&D in the fiscal consolidation and ring-fence 0.5% of the £8bn public procurement budget in Scotland for innovation.

- Limits on the expansion of Knowledge Transfer Partnership funding should be addressed to encourage links between university and business research and raise levels of business birth rate and business R&D. Academics should be supported to participate directly in spin-offs.

- Proof of concept funding should be expanded to business innovation from sectors other than Universities, Research Institutes and the NHS.

- The SQA must work with employers to assist in the alignment of employer training with the Scottish Credit and Qualifications Framework.

- Greater emphasis should be placed by employers, government and education providers on the development of management and leadership skills.

- Funding arrangements for modern apprenticeships should be more flexible to accommodate the age scale above 19. Consideration should be given to offering support for student placements and internships and continuing professional and career development beyond the age of 25.

- A targeted financial support scheme for the skills development needs of SMEs should be explored, for instance a version of the ILA scheme.

- New incentives and a more localised approach should be introduced to support people claiming out-of-work benefits into work and employment.
- Introduce a specific, time-limited incentive for businesses which accelerate recruitment of school leavers and graduates this summer.

- Support unemployed young people by creating local area skills banks, developing a Step Forward Scotland programme and temporarily extending the ILA scheme.

- Provide short-term loans to businesses to cover the costs of taking on apprentices or trainees.

- UK immigration policy should help to meet the needs of Scotland’s economy and skills requirements. Devolution of powers to the Scottish Parliament should be considered.

- The UK Government and the Scottish Government should develop specific strategies, with incentives and support, to attract high-value skills.

- Invest in Scotland’s cultural and civic infrastructure to continue to enhance quality of life for all Scots and attract more people to work in Scotland.