

POLICY BRIEFING

SCDI's Industrial Strategy Event

Deal Up! Making a Good Deal for Scotland From the UK Industrial Strategy

Friday 9 March 2018
9am – 3.45pm
Glasgow City Chambers

SCDI is an independent membership network representing over 700 members across the private, public and social sectors of Scotland. Our purpose is to influence the agenda for Scotland's long-term economic and social prosperity, engaging civic Scotland with our vision for inclusive and sustainable growth.

This briefing reviews the key messages and outputs of the discussions at SCDI's Industrial Strategy Event in March, which convened government, academic and business leaders at Glasgow City Chambers to explore how to ensure Scotland capitalises on the opportunities of the UK Government's Industrial Strategy.

For more information on this briefing, or on any aspect of SCDI's policy work, please contact:

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SESSION 1 – UK Industrial Strategy and Scotland Overview

- *Keith Brown MSP (Cabinet Secretary for the Economy, Jobs and Fair Work, Scottish Government)*
- *Lord Henley (Parliamentary Under Secretary of State for Business, Energy and Industrial Strategy, UK Government)*
- *Councillor Susan Aitken (Leader, Glasgow City Council)*

Each speaker highlighted the various economic strengths of Scotland, and of the host city of Glasgow, in the higher education, life sciences, energy, tourism and other sectors. Both governments gave a commitment to work in partnership to build on these strengths to deliver the best deal for Scotland from the UK Industrial Strategy. It was agreed that dialogue and close collaboration was critical to ensuring economic development and success. Cllr Aitken noted the Scottish Cities Alliance as an exemplar of essential collaboration between Scotland's seven city local authorities and the Scottish Government to collectively attract investment and improve productivity. Mr. Brown stressed his eagerness to join-up policies from the Scottish Government's Economic Strategy and the Programme for Government with the UK Government's Industrial Strategy.

The opportunities of the Industrial Strategy Challenge Fund (ISCF) were highlighted. £725m of funding is available in Wave 2 for investment in Research & Development to improve the UK's productivity performance. Academics and entrepreneurs were urged to collaborate to develop bids for part of this funding which would address the Grand Challenges set out in the White Paper. Bids should provide a strong foundation for negotiations with government by setting out a clear prospectus for what could be delivered, and how, by collaboration across the sector and with academia.

Sector Deals are a central policy feature of the Industrial Strategy, with agreements already reached in the life sciences, automotive, construction, creative and artificial intelligence sectors. Lord Henley noted that the Department for Business, Energy and Industrial Strategy was open to a second Sector Deal for the life sciences sector, because of its world-leading capabilities and importance to the UK and Scottish economies. Mr. Brown welcomed the Industrial Strategy's focus on regional growth and rebalancing the UK economy, but expressed regret that workplace engagement and democratisation was absent from the document given the significant labour market challenges of, for example, the gig economy and underemployment.

SESSION 2 – Scotland's Opportunities

- *David Cameron (Head of Scottish Policy, EDF Energy)*
- *David Reid (Vice President – Growth and Sales, Buildings and Infrastructure, Jacobs)*
- *Professor Richard Williams (Principal and Vice Chancellor, Heriot-Watt University)*

Prof. Williams noted that, despite evident support from both governments, its significant opportunities for Scotland and the awareness of academia, the Industrial Strategy did not appear to be well understood by the majority of Scotland's business community. Scotland failed to win its share of ISCF funding in Wave 1. Of the nearly £90m invested, just £3.1m (or 4%) was invested in Scotland, which is around 9% of the UK's total economy and population. Scotland needs to address its wider ISCF underperformance in Wave 2. However, as proof of what can be achieved through powerful multi-stranded collaboration between university and industry leaders, 22% of ISCF Wave 1 robotics funding was secured by Scotland.

Heriot-Watt University's Business and Principals' Leaders Forum is facilitating more of this kind of collaboration, while increasing awareness, as will the university's joint work with SCDI on identifying white space for the Scottish economy in relation to the Industrial Strategy. Prof. Williams suggested the Blue Economy and Data Analytics as sectors with a convening power for all of Scotland, building on our strengths and following a uniquely Scottish approach to the Industrial Strategy of collaboration, ambition, globalism, pro-activity and inclusivity.

The Industrial Strategy identifies five foundations of productivity – Ideas, People, Infrastructure, Place and Business Environment. Mr. Reid said that the three factors underpinning a healthy business environment, which would attract investment and stimulate innovative growth, were Scotland's national brand and reputation; the quality of our connectivity and infrastructure; and our ability to compete and lead globally.

Scotland's highly-skilled workforce has attracted many large employers and global businesses, but there was agreement that Scotland needs to be bolder and more ambitious to stimulate further foreign direct investment in a highly competitive global economy. It was agreed that diversity of thought and experimentation in action were required. Mr. Reid suggested conceiving of Scotland as a "living lab" where entrepreneurs and organisations at the vanguard of the Fourth Industrial Revolution could be invited to develop and experiment with new products and industries with future global demand in Scotland, such as, for example, Autonomous Vehicles. Numerous speakers and attendees expressed their interest in the conference's other discussions in how this idea might be developed further.

He also suggested that the Central Belt of Scotland was an urban conurbation with vast and under-exploited economic potential which, if economically integrated and considered holistically, could compete with large cities across the world. How this could be progressed – and how to do so without leaving other regions behind – was a recurring theme of discussion throughout the rest of the conference, particularly in Session 4 on regional growth. It was suggested by some contributors that national challenges and needs may not be fully addressed by differentiated City Region Deals which could lead to a lack of a joined-up approach. Others, however, highlighted the benefits of multi-agency and inter-governmental collaboration to deliver large-scale investment into Scotland's regions, using Place as an engine of growth. Mr. Reid also noted that large companies could improve productivity by better exploiting the expertise of smaller, innovative companies in their local economies, by asking them to solve problems in their operations or supply chain, as Jacobs has successfully done.

Mr. Cameron summarised lessons learned by EDF Energy from its close involvement in the Nuclear and Offshore Sector Deals, which had significant commonalities. Each bid was been tightly focused on the five foundations of productivity identified in the Industrial Strategy to present a relevant and compelling case to the UK Government. Industries must determine their collective potential and demonstrate their collective commitment. He suggested match funding as a useful way to indicate commitment to government. Successful bids will also be cognisant of what the Department for Business, Energy and Industrial Strategy can, and cannot, realistically do, with the onus on industry to drive action forward. It became clear during the conference that, with multiple sector deals already agreed and others progressing, some had achieved greater visibility than others. Opportunities for collaboration and coordination of related or even competing bids, and for lesson-sharing, may be being missed.

SESSION 3 – Grand Challenges and Sector Deals

- *Lucy Fraser (Head of Innovation, Albyn Housing Society and Co-Founder, FitHomes Model)*
- *Graeme Littlejohn (Deputy Director, Strategy & Communications, Scotch Whisky Association)*
- *Jude McCorry (Head of Business Development, The Data Lab)*
- *Graeme Scott (Principal – Intelligence and Deputy Regional Director, IBI Group and Chairman, Mobility as a Service Scotland)*

It was agreed by speakers and attendees that Scotland has opportunities across all of the Industrial Strategy's Grand Challenges – and that Scotland can lead on securing Sector Deals in industries where it is leading the UK and, in many instances, the world. Ms. McCorry illustrated Scotland's international strength in data science by noting that The Data Lab had been asked to open up in New York City. We already have a global reputation in this sector which the AI and Data Grand Challenge in the Industrial Strategy seeks to capitalise on and strengthen further. Compared to its competitors, Scotland is very strong in networking and facilitating broader, big-picture/national thinking. The Data Lab can assist small technology firms to locate the right experts and leaders in academia and big business to scale-up their business or to make foreign contacts to internationalise their operations. However, investing in data science can help all public and private sector organisations of every size.

Social businesses in the third sector, for example, have proven that they can be not only democratic organisations, but also high-tech innovators in the use of data. Ms. Fraser recounted the Albyn Housing Society's story of innovative collaboration with its tenants, local small- and medium-sized enterprises, large corporations and academics to deliver innovation responding to the Grand Challenge of an Ageing Society. Albyn's FitHomes model is enabling older people to continue to live in their own homes, and do so in greater safety and confidence, using data collected by household ambient sensors. Discussions are ongoing with the Scottish Government to extend the test bed across Scotland.

Mr. Littlejohn noted that SWA was in the process of seeking to agree a Spirits Sector Deal with the UK Government. The industry scope of the deal had been widened significantly after government feedback that a putative Whisky Sector Deal would be considered too narrow. A Spirits Sector Deal would demonstrate a greater degree of collaboration and provide greater scope to increase penetration of growing export markets.

Mr. Scott returned to the earlier concept of Scotland as a living lab and said the adoption of such an idea would be transformative for the mobility and related industries. Mobility as a Service (MaaS) Scotland is a fast-growing and internationally-recognised network of companies and organisations offering products and services along the MaaS value chain, facilitating collaboration to develop an integrated and simple transport system. Seamless, efficient and personalised mobility is critical to delivering improved productivity. He added that the Scottish Government has an excellent record on de-carbonisation and electric vehicles, but more can be done and the Future of Mobility Grand Challenge provides such an opportunity.

SESSION 4 – Regional Growth

- *Stewart Carruth (Chief Executive, Stirling Council)*
- *Johnny Mone (Head of Enterprise and Employer Engagement, University of the West of Scotland)*
- *Patrick Wiggins (Director, Ayrshire Growth Deal)*

A central aim of the Industrial Strategy is to rebalance the UK economy from its current over-concentration in London and the South-East of England and to stimulate regional growth. The UK Government, along with the Scottish Government, is investing in Place through City Region Deals negotiated with local authorities and other partners. Mr. Carruth highlighted the opportunity for, and the importance of, delivering inclusive growth – defined as growth which “combines increased prosperity with greater equity that creates opportunities for all and distributes the dividends of increased prosperity fairly” (Scottish Government’s Economic Strategy, 2015) – through City Region Deals. He described the old model of growth which was built on the assumption of grow now, redistribute later – and compared it to the new model which recognises investment in physical and social infrastructure as an integral driver of inclusive growth to which everyone can contribute and from which everyone can benefit.

The Stirling and Clackmannanshire City Region Deal is designed according to this new model and seeks to reduce inequalities by leveraging public sector investment to stimulate growth and attract inward investment. Stirling is the second most unequal local authority area in the UK and risked economic decline without concerted action. The City Deal’s projects seek to regenerate deprived neighbourhoods and create a new culture/leisure offer to act as a magnet for new people and businesses. For example, in partnership with Codebase, Stirling has established a tech incubator for start-ups. From Stirling’s experience, the City Deal has proven to be a more political than business deal, requiring strong political will and negotiation. He did caution, however, that City Region Deals would not resolve every challenge. He suggested that – echoing earlier comments about the Central Belt as a growth engine for Scotland – to compete internationally so-called Region-to-Region deals were required to align and much more closely coordinate the investments and policies of Edinburgh, Glasgow, Stirling and others.

Mr. Wiggins outlined the case for an Ayrshire Growth Deal, which was at a very much earlier stage in the process than Stirling’s. The region has significant problems of deprivation and low connectivity. Ayrshire’s GVA, R&D spend and business start-ups per head are considerably lower than the Scottish and UK averages. However, Ayrshire also has significant assets, including a strong manufacturing base and employment in key sectors of national importance, such as aerospace and life sciences. The proposed Growth Deal seeks to build on these strengths and aligns with the Scottish Government’s Economic Strategy to deliver inclusive growth, innovation and improved productivity through public and private sector collaboration. Its headline projects include a Spaceport; an Aerospace and Space Innovation Centre; and a Medicines Manufacturing Innovation Centre. It was subsequently announced by the Prime Minister, in the weeks proceeding this conference, that formal negotiations had begun on an Ayrshire Growth Deal.

The University of the West of Scotland is a key supporter of the Ayrshire Growth Deal and will be a key partner in its design and delivery. The institution has a strong presence in the region in addition to its campus footprint in Dumfries & Galloway, Lanarkshire and Renfrewshire. In each community, UWS is a significant employer and investor, and a contributor to various local economic initiatives. Mr. Mone also observed that nearly 1 in 3 of its students were from deprived backgrounds. Graduates in these areas create significant economic value, but Scotland struggles to retain them in these places. Many, if not most,

feel compelled to leave to find economic opportunity. He said that Scotland must, therefore, be careful not to only invest in success". Inclusive regional growth would not mean leaving behind areas beyond the larger urban centres, repeating the wider inequalities in the UK economy. The cohesion of Scotland as a relatively small country creates very significant opportunities for developing a collective agenda and set of shared ideas to deliver regional growth.

SESSION 5 – Gearing Up Businesses for the Productivity Challenge

- *Maggie Morrison (Vice President, Public Sector Scotland, CGI)*
- *Martin Sherry (Founder and CEO, Lumera Health)*
- *Dr Gill Stewart (Director of Qualification Development, Scottish Qualifications Authority)*

Dr. Stewart developed the previous comments by Mr. Mone, reflecting that the size of Scotland gives us a competitive advantage by allowing us to do things and bring people together in ways, and at a speed, which much larger countries cannot achieve. She discussed how the SQA supports the People foundation of productivity highlighted in the Industrial Strategy by working with partners to develop qualifications which meet the needs of business and employers.

Scotland's workforce is already highly skilled, attracting companies and investment from across the world, but a stronger "growth mindset", and a stronger push for internationalisation, is required. Both employers and employees will have to be more flexible and comfortable with change as the Fourth Industrial Revolution accelerates, requiring workers to re-skill and up-skill. Ms. Morrison agreed that the pace and inevitability of technological change will lead to large changes in the labour market and could mean a "hollowing out of the workforce" as artificial intelligence, robotics and automation progress.

The SQA is therefore focussed on developing 21st century skills, particularly in IT. Alongside Skills Development Scotland and Codeclan, the SQA has developed an intensive 16-week digital, coding and data science course which is producing highly rated graduates much sought after by industry. Mr. Sherry confirmed that his business, like others in the digital and technology sectors, was highly impressed with the quality of Codeclan graduates. Through CivTech – the Scottish Government's challenge-based procurement initiative using small innovators and new technologies to drive innovation in the public sector – these graduates were helping Lumera Health to work with the NHS in Scotland to develop a digital platform for outpatient appointments. This will deliver improved productivity for the NHS and better health outcomes for patients. Attendees noted that there would be many opportunities for greatly increasing productivity across the public and private sectors through the CivTech model.

It was agreed that, as Ms. Morrison put it, that "digital skills are life skills" and "every industry is a digital industry" in the new economy. New jobs will be created by Fourth Industrial Revolution technologies, but they may not be for the same workers who could be displaced by these changes. People will need support to transition to prevent them from being left behind in the new digital economy, as set out in SCDI's *Automatic... for the People?* report published in February 2018. CGI believe that parity of esteem for work-based learning and a digital step change in the way we educate our children was essential, building their digital and data skills from the earliest opportunity. Dr. Stewart noted that Curriculum for Excellence was an effort to achieve this through inter-disciplinary learning.

Ms. Morrison noted that the recurring call for collaboration throughout the conference was positive, but issued a challenge that this needed to be translated into concrete next steps. She suggested that there was too much fragmentation in Scotland's public and private sectors for a small country of five million people and that this was to the detriment of productivity.

ACTIONS AND OUTPUTS

Responding to the key themes and issues of consensus emerging out of the event, SCDI has progressed the following areas of related work:

- **Collaboration with Heriot-Watt University** on future joint work on the UK Industrial Strategy, identifying white space for the Scottish economy, providing an evidence base and economic analysis for future bids and
- Launch of the SCDI **UK Industrial Strategy Commission**, to meet quarterly to take forward the conference's key outputs and to shape the closely-linked wider skills and investment agenda. The Group will be chaired by David Reid (Vice President – Growth and Sales, Buildings and Infrastructure, Jacobs) support current opportunities for Scotland, identify future opportunities and support the development of potential future Sector Deals
- SCDI's **Rural Commission** was launched in April 2018 to convene public, private and third sector leaders to make recommendations to government on how to drive regional inclusive growth
- Work in **support of the South of Scotland Interim Economic Partnership**
- SCDI and partners published ***Automatic... for the People?*** in February 2018, a report into how Scotland can harness the technologies of the Fourth Industrial Revolution to increase economic and social prosperity.
- The Industrial Strategy, the Fourth Industrial Revolution, productivity and inclusive growth were key topics of discussion at the **47th annual SCDI Forum**, on 3 and 4 May 2018