



Draft Final Version

Appendix

Scottish Local Authorities Economic Development Group

Submission to the Review of Scotland's Enterprise and Skills Agencies

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Summary

This paper is based on a review of the range of submissions that have been made by SLAED strategic and thematic groups, individual local authorities and from feedback from workshops with SLAED and other local government partners, held in July and August.

The submission is structured around the three SLAED strategic priorities of “People”, “Place” and “Business”. However, the submissions contained a number of cross-cutting common themes, which have been included in this initial section of the paper. In addition, there are some examples of evidence / case studies submitted by local authorities as part of their responses to the call for evidence. The second section of this paper provides further evidence for the local economic context and key findings drawn from the most recent SLAED Indicators Framework 2014/15 and examples of evaluation evidence drawn from the “What Works Centre for Local Economic Growth”.

Common themes

1. Local Authorities have the leadership role for local economic development and this has come into sharper focus through the Inclusive Growth element of the national economic strategy.
2. There are significant disparities in the economic circumstances of different council areas across Scotland, which means a “one size fits all” national approach is unlikely to fully meet the needs of divergent local economies and the key challenges they face. The focus should be on delivering to the customer’s need not on key products/ processes.
3. The primary focus needs to be the customer, whether it is a business or an individual seeking support. It is vitally important to get the customer journey right, regardless of who is providing the service.
4. There is a strong view that, in terms of both business support and employability, there is a significant degree of duplication and overlap that needs to be addressed and that a “one size fits all” approach in terms of national products is often not ideal, without appropriate local discretion. The Review should provide an opportunity to declutter the landscape in terms of service/ product provision and responsibility between and across local authorities and the enterprise and skills agencies. This includes the need to join-up the business support offer with employability offer so there is coherent support across the supply and demand side.

5. Agencies are structured in different ways – often with geographical/ boundary mismatches in terms of “economic geographies”. There is a range of work being undertaken through City Region deals and the development of regional economic development approaches which has significantly changed the context of local/ regional/ national working.
6. Policy developments and investment of public money by Scottish Government and the agencies under review needs to be properly aligned with Scotland’s Economic Strategy, and its dual aims of tackling inequality and increasing competitiveness, and the 4 ‘i’s.
7. Local government should have a greater influence and input to the strategic documents of the Agencies under review, in order that these can truly meet the needs of local communities and promote inclusive growth.
8. Under the Community Empowerment Act, Councils have a duty to promote improved outcomes and tackle inequalities and these duties cover the enterprise and skills agencies and others, as well as local government.
9. There should be recognition of areas where local authorities have the lead role in national collaborations such as Business Gateway, the Supplier Development Programme and the development of the new national business loan fund.
10. There is potential to develop a more robust national performance framework that will be able to assess the contribution of all key partners and respective interventions.
11. Clarification is required on “Regional Approaches” such as Economic Partnerships – what are the intentions around regional boundaries where a number of Local Authorities are involved and how does this sit with CPPs, City Region Deals etc.?
12. Local authorities have limited direct engagement with the Scottish Funding Council, outwith some limited involvement in the agreement of the College Regional Outcome Agreements. There is a need for councils, colleges

Business

1. All agencies need to take a holistic approach to ensure that economic development, employability and business development are not seen as unconnected activities.

2. There is uncertainty among businesses as to which agency or public body should be their first point of contact and there are indications the preferred first contact should be at a local level.
3. There is a case to develop the local authority service as the point of entry to economic development services and also the channel to access a range of support whether the delivery vehicle is national or regional.
4. If Business Gateway is the first point of contact for business support, there needs to be information available on all of the other organisations involved and what their roles are.
5. The Scottish Enterprise approach to certain key sectors at a national level may be suitable for large scale businesses operating across an international base but there could be a more devolved approach to important sectors with growth prospects at a local and regional level.
6. There is a need to remove some of the ambiguity around what is available to support company growth in terms of finance, advice, skills, research and development, access to markets and a range of specialist expert help.
7. The current process for Scottish Enterprise account managed companies prevents local authorities from being able to fully support local businesses. There should be a single point of contact at the local level which pulls together the range of national and local products.
8. The protective nature of account managed companies by agencies has been a barrier. Account managed companies form an integral part of local economies and local government is well placed to develop a joined-up and meaningful relationship with them, particularly in terms of inclusive growth.
9. The criteria for Scottish Enterprise account managed companies should be reviewed to reduce potential duplication and fragmentation of support to businesses to make the process of account management more collaborative between local authorities and Scottish Enterprise.
10. More could be done by Scottish Enterprise and Highlands and Islands Enterprise to share business information at a local level.
11. Agencies don't always see the importance of supporting businesses in lower value added but nevertheless high employment sectors, such as Care.
12. A stronger mutual awareness of services to avoid duplication and to develop and enhance a more seamless approach for customers is required. There are

areas of substantial duplication across agencies and local authorities. For example in relation to engagement with companies there are too many organisations 'chasing the same ball'.

13. Given the state of uncertainty in the wider economy, particularly following "BREXIT" and the downturn in the oil and gas sector, there needs to be a focus on resilience as well as growth. Local authorities are best placed to lead on supporting resilience in their local economies.

People

1. The principles outlined in the current Local Government employability statement should be adopted, particularly the principle around "**local by default, national by agreement**". The national approach adopted by Skills Development Scotland (SDS) around national products is limited and constrained in responding to local labour market needs and circumstances. The national approach to products and services often lacks any flexibility to be responsive at local level. This often results in similar but more tailored products being devised and delivered locally, adding confusion for service users.
2. SDS is a complex organisation and it can be challenging to understand the roles and responsibilities of staff at a local and national level. There is particular confusion around SDS priorities and whether the organisation is an "all age" service or focused on young people.
3. The current principle of co-decision making between SDS and Local Government is welcome around the employability fund. This approach should be developed into full joint commissioning to improve the allocation and use of resources. At present, the approach is limited in design and controlled nationally, with very limited opportunity to target local issues. A full devolution of the Employability Fund to CPPs would reduce bureaucracy, improve accountability and deliver a more integrated value for money service. A move to a multi-year funding cycle and away from annual funding would help to support better local outcomes.
4. The relationship between local authorities and SDS is often focused on contract compliance, monitoring, systems and audit, with SDS deploying substantial resources to audit local government, which is already subject to stringent financial controls and audit. The approach to local government from a government agency could provide an opportunity for streamlining and savings from a more direct government-to-government relationship, which reduces bureaucracy.

5. There have been year-on-year reductions in funding from SDS to frontline activities particularly the Employability Fund and MA contributions. Employability within local government is discretionary and it is increasingly difficult for Local Government to fund the inclusion gap that is growing in-terms of those with lower skills and multiple barriers. Local Government is hopeful that a more integrated and holistic approach to devolved employability services will provide opportunities for a better customer journey and improved outcomes.
6. PACE has been cited as a previous best practice example of cross-organisation working, however, in recent years this approach has been slowly diluted with funding aligned to the Employability Fund model, which is limited in its scope and not appropriate in many cases.
7. It is recognised that SDS is well resourced, particularly with regards to marketing, communication and, research and information – all functions which have been diluted within Local Authorities in recent years due to budget pressures. Despite the restriction in local authority budgets, which will continue, Councils will still be major employers in the future and it is essential that there is timely and direct access to robust statistical and research information on which to plan future services.
8. Nationally directed functions within SDS often have little interaction with their own local staff or local authorities until campaigns and projects are unveiled publicly, sometimes with no cognisance given to existing local activity occurring elsewhere in the public, private or third sectors. This is a missed opportunity to provide added value and a better joined-up approach for service users. In more recent times, new products and teams have been ‘parachuted in’ with no consultation with relevant local contacts. There is little evidence of value-add in some of these ‘new’ products and often Local Authorities provide wrap-around support to ensure some of these initiatives deliver outcomes from national products that can be unsuitable at local level.
9. The national overview of skills gaps and intelligence is valued and there is an appetite to ensure this national view is retained by any new structure or approach. However, there appears to be considerable duplication of research and information resources between SDS, Scottish Government and some Local Authorities. It is not always clear on the value gained from continual significant investment in these areas or whether it is disseminated as well as it might be.
10. Whilst projects such as the Regional Skills Assessments are helpful, sufficient resources should be provided nationally to deliver this project, without the need to rely on partner contributions. This should be the responsibility of the National Skills Agency from existing resources to deliver for all stakeholders.

11. There is scope to rationalise and streamline the role, funding and contribution of colleges that are receiving Government Funds from a variety of sources. The current system makes it difficult to assess the value and long term contribution to the economy – and there may be scope for one national funding body.
12. The national framework for initiatives such as Opportunities for All, participation measures, use of data and the role of SDS within schools and local partnerships is often confusing, with a centralised national agenda driving the local approach. Flexibility and recognition of local needs is often secondary to national products and approaches.
13. Local Government will be responding to the Apprenticeship Levy consultation but would highlight that consideration needs to be given to the considerable reduction in the amount of money available in local authority budgets to contribute to the employment and skills development of young people. The Government's approach to the Apprenticeship Levy must take cognisance of the strategic role of local government in supporting and developing the skills pipeline, especially the contribution to inclusive growth.

Place

1. Local Authorities have continued to make substantial investments into their local infrastructure to support business growth and development. In particular, local authorities have shown an appetite for risk around new funding models to support this investment such as TIFs and City Region Deals.
2. Scottish Enterprise investment priorities are agreed at a national level without necessarily reflecting the physical regeneration work undertaken at a local or regional level, or indeed the local opportunities that can emerge.
3. Currently there is no reference in the review to the land and assets owned by the enterprise agencies and what their responsibility is to regenerate these.
4. There is a need to invest in the regeneration of existing Council/ agency assets to upgrade them and make them fit for purpose - there is a concern that a poor quality business property portfolio in some areas can be a "bottleneck" on growth.
5. If there is a drive to ensure Scotland's City Regions are positioned to compete effectively with the most successful European equivalents, due consideration ought to be given by partners as to whether there is a case for greater integration of services and resources, including financial resources at this level.

Evidence/ Case Studies provided by Local Authorities

- **South Lanarkshire Council** has, since 2014, hosted the Supplier Development Programme, (which now covers all 32 local authorities in Scotland). This includes a programme of training and education for SMEs, delivered at a local and regional level and digitally via webinars, to help them understand the complexities of tendering and to equip themselves to bid for contracts. Therefore, there is first-hand experience at a local level of how assisting SMEs, by applying a tailored approach to meet a specific challenge, delivers positive results. In this example, clear economic development benefits are derived through the approach which brings together procurement services, community benefits and the private sector to achieve economic gains sought in Scottish Government strategy in increasing competitiveness and access to markets, for both the public sector and, in particular, the SME business community. In addition, this is achieved in a cost effective way with all involved in this activity achieving value for money.
- Due to dispersed geography in **Argyll & Bute Council** a number of local employers struggle to access Modern Apprenticeships opportunities for their employees. A number of Modern Apprenticeship providers refuse to engage due to the costs they will incur when visiting the employers and their staff. Recently, a local distillery was refused support by GTG Training for warehouse/forklift training unless the company came up with a second employee to put through the Modern Apprenticeship scheme. Fortunately, this organisation was able to support a second employee but this would not be the case for the majority of very small employers across Argyll and Bute. Such local issues need to be recognised by SDS and a local response is required for local delivery.
- The nationally prescribed growth criteria required for acceptance into Growth Pipeline and Account Management by HIE/SE means that low volumes of client are referred and accepted. Greater flexibility to offer support to early stage growth clients is required and HIE, SE and Business Gateway have accessed ERDF Structural Programmes funding to address this gap in support. With the future of EU funding uncertain beyond 2018, consideration should be given to the resourcing and role of the enterprise agencies and local authorities in supporting growth clients outside of Account Management.
- **North Ayrshire Council** has led an approach to help develop support for business locally through a “Team North Ayrshire” Approach. This was a collaboration of public and private sector support providers and has looked to significantly alter the impact of support to business locally. This involved significant collaboration with SE and HIE as well as SDS. (NAC’s area means that both SE and HIE have responsibility for parts of North Ayrshire) NAC’s

experience is that there is a strong desire from SE, in particular, to help support initiatives and make it easier for business to access support. This can be evidenced as follows:-

- Innovation Pilot: a new way of working saw 80 referrals to SE for innovation products;
- International: Strong engagement saw input from SDI to NAC International Strategy and increased support for business;
- SE Account Management saw increase of 27% on account managed businesses in North Ayrshire;
- Development of a Leadership pilot is currently ongoing.
- However, whilst strategically there is shared ambitions, translating those into effective joined-up delivery locally can be more challenging on the ground. Evidence of this includes:
 - There are approximately 50 SE Account Managed Businesses in North Ayrshire which are account managed by at least 25 different Account Managers. This is a reflection of the sector versus locality approach and proves difficult for developing collaborative relations on the ground;
 - Potential duplication: SE Account Managers due to sector focus can't capture all local business support offers, causing confusion with business;
 - For business support on the islands, the Council works closely with HIE which has differing criteria and reporting than SE, which makes it more confusing and complex than it needs to be.

Economic Context & Key Findings from SLAED Indicators Report 2014-15

This section sets out some key contextual information for the local government response to the Scottish Government's review of the skills and enterprise agencies. Information provided in this paper has been taken from a number of sources, including the SLAED Indicators Report 2014-15 and analysis from publications by the What Works Centre for Local Economic Growth.

A number of key points for consideration within the local government response have been raised within this paper, including:

- Local government has a major role in Scotland's economic development landscape and the leadership role for local economic development. Councils spent approximately the same as Scottish Enterprise on economic development in 2014-15, employing slightly more people to deliver this;
- Despite significant resource pressures, local government has continued to prioritise economic development over the last 2-3 years as evidenced by maintained levels of expenditure despite increasingly constrained budgets (as shown in Figure 1 below);
- Local government collectively supported 18,506 businesses in 2014-15, and provided support to 62,319 people through local employability programmes;
- There are significant disparities in the economic circumstances of different council areas across Scotland, which means that a 'one size fits all' national approach is unlikely to fully meet the needs of divergent local economies and the key economic challenges they face.

Local Government Resourcing

Delivery of economic development activities is not limited to the activities provided by the Scottish Government and its' enterprise and skills agencies. In addition to these activities, local authorities provide economic development initiatives and programmes and spent an estimated £228m over 2014/2015, employing over 1,400 members of staff.

Figure 1 - Economic Development Agencies' Staff / Expenditure (2014/15)

| <u>Economic Development Agencies' Staff / Expenditure (2014/15)</u> | | |
|--|---------------------|--------------|
| <u>Organisation</u> | <u>No. of Staff</u> | <u>Spend</u> |
| Local Government Economic Development | 1,446 | £228m |
| Scottish Enterprise | 1,400 | £216m |
| Skills Development Scotland | 1,300 | £197m |
| Highlands & Islands Enterprise | 300 | £60m |
| VisitScotland | 700 | £52m |
| Scottish Funding Council | 115 | £1,661m |

Source: LFR Returns / SLAED Indicators Report 2014-15 / Audit Scotland, 2016

| <u>Economic Development Staff / Expenditure Local</u> | | |
|--|----------------|----------------|
| | <u>2013/14</u> | <u>2014/15</u> |
| Staff | 1,525 | 1,446 |
| Expenditure | £226m | £228m |

*(LFR Returns / SLAED Indicators Report)
(2015/16 returns due Oct '16)*

Therefore, given local authorities' contribution to economic development activities, a local authority perspective must be considered to fully evaluate the Scottish Government's enterprise and skills agencies' ability to deliver its economic strategy. Before evaluating the agencies, it is important to contextualise the recent economic performance of Scotland and its local authorities in relation to the four "I's" of the Scottish Government's economic strategy:

- **Investing** in our people and our infrastructure in a sustainable way;
- Fostering a culture of **innovation** and research and development;
- Promoting **inclusive growth** and creating opportunity through a fair and inclusive jobs market and regional cohesion; and,

- Promoting Scotland on the **international** stage to boost our trade and investment, influence and networks.

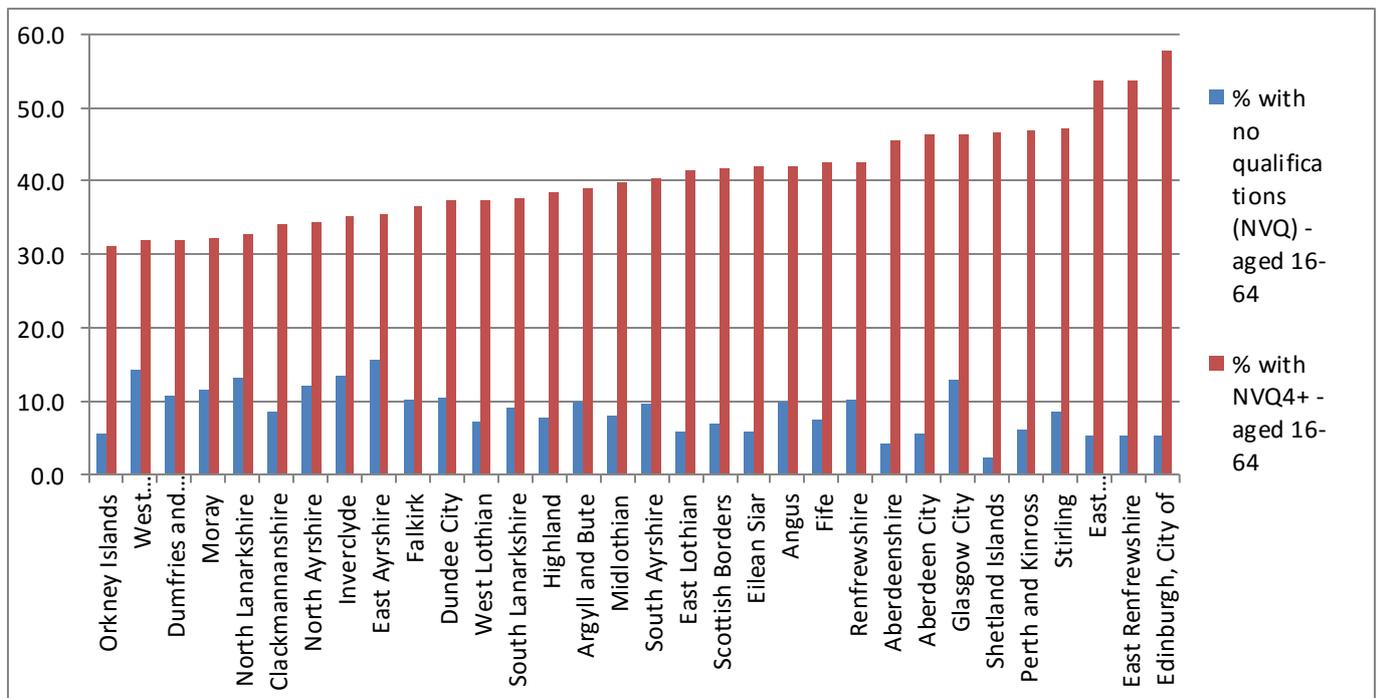
Investment

Investing in individuals and businesses within Scotland is necessary for the Scottish Government to achieve the aims set out in its economic strategy; namely having Scotland place within the top quartile of Organisation for Economic Co-operation and Development (OECD) countries in terms of wellbeing, productivity, sustainability, and inequality.

Investing in individuals in Scotland is crucial to achieving the necessary level of skills and educational attainment within the economy to compete with other OECD countries in terms of wellbeing, productivity, and inequality. Information published by the Scottish Government shows that Scotland is excelling in educational attainment, as Scotland has the highest population percentage with a tertiary level of educational attainment out of all European countries.

However, despite Scotland's strong national performance, the issue of imbalanced educational attainment is still prevalent within the individual local authorities in Scotland. As illustrated in Figure 2, a near 30% point difference can be seen between the local authority with the highest percentage of individuals with degree-level educational attainment and the local authority with the lowest. Similarly, there is an approximate 10% point gap between the highest and lowest local authorities when comparing the rates of individuals with no educational attainment.

Figure 2 – Working Age Qualification Rates (2015)



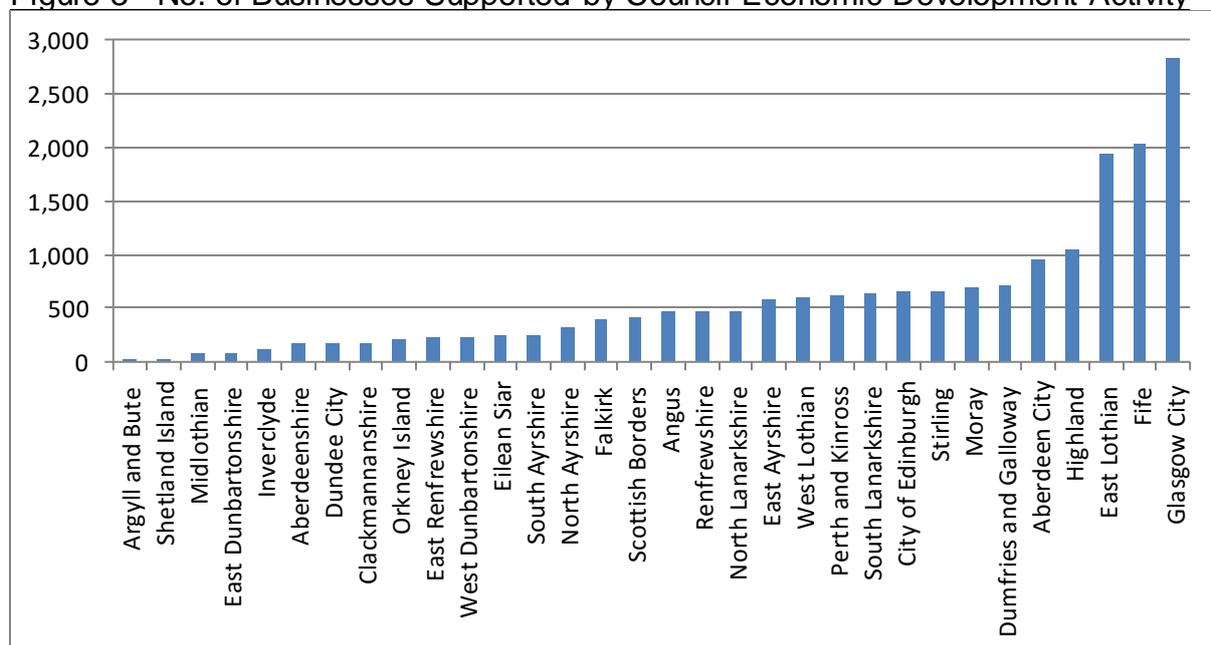
Source: ONS, Annual Population Survey

Investing in businesses also supports the aims of Scotland’s Economic Strategy. Continuing investment into businesses within Scotland through the implementation of business support initiatives can create multiplier effects, such as increases in job counts and productivity, which can ripple through local and national economies. The data from the 14/15 SLAED indicators report demonstrates that there is significant demand for business support within Scotland, as 18,506 businesses were assisted by local authority economic development activity and, in addition, 13,569 were assisted by Business Gateway in 14/15. Supporting these businesses within the Scottish economy resulted in Scotland having the 2nd highest 3-year business survival rate for new enterprises out of the UK regions with a rate of 62.8% - greater than the UK average rate of 60.5%.

Nevertheless, a challenge exists within the Scottish economy at a local authority level when it comes to supporting and investing in businesses. Different economic circumstances within local authorities result in higher demands for business support in some local authorities in comparison to others, which the 14/15 SLAED Indicators data demonstrates in Figure 3.

Given the different economic circumstances between local authorities in Scotland shown in the educational attainment levels seen in Figure 2, and the number of businesses supported in Figure 3, it is apparent that local authorities require bespoke initiatives and programmes relevant to their economic circumstances, rather than a uniformed approach to each local authority.

Figure 3 - No. of Businesses Supported by Council Economic Development Activity



Source: SLAED Indicators 14/15

As well as considering the local authority differences in terms of business and individual investment, it is also pertinent to highlight the local authority differences in infrastructure investment in Scotland. Taking into account that the Glasgow and Clyde Valley negotiated the first City Deal outside of England in 2014, the Aberdeen City Region and Inverness & Highland City Region City Deals being agreed in 2016, the Edinburgh City Region City Deal negotiations beginning in 2016 and the ongoing

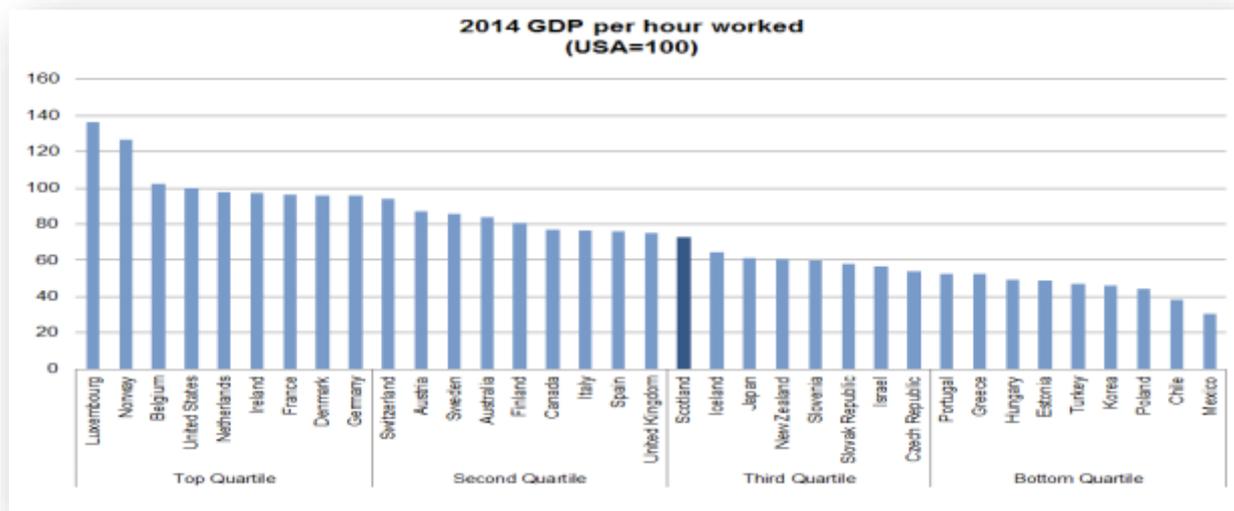
development of a Tayside City deal and an Ayrshire Regional Growth deal, the differences in the level of infrastructure investment required in Scotland’s local authorities has, arguably, never been as varied. With an unequal demand, and need, for infrastructure investment across Scotland’s local authorities, it is reasonable to conclude that infrastructure investment support should be delivered to specifically match the needs of the local/ regional economies.

Innovation

Scotland’s economic strategy aims to create a culture of research and development (R&D) in addition to innovation. Analysing statistics from the Business Expenditure on Research & Development (BERD) release from the Scottish Government, the business R&D spend per head in Scotland in 2014 was the 4th lowest among the UK regions at £169 spent per head. Scotland has historically had lower levels of total R&D spend than other regions of the UK, evidenced by Office for National Statistics (ONS) statistics started in 2011, and was recently overtaken by the West Midlands for total R&D spend in 2014.

Lower levels of R&D spend can create productivity challenges for Scottish businesses and the economic aims of the Scottish Government. Lower levels of spend on R&D may result in less effective methods of production being developed within Scottish industries, in comparison to those developed across the other regions of the UK and OECD countries, which will therefore impact upon Scottish Government’s aim of placing in the top quartile of OECD countries for productivity.

Figure 4 – GDP per hour worked (2014)

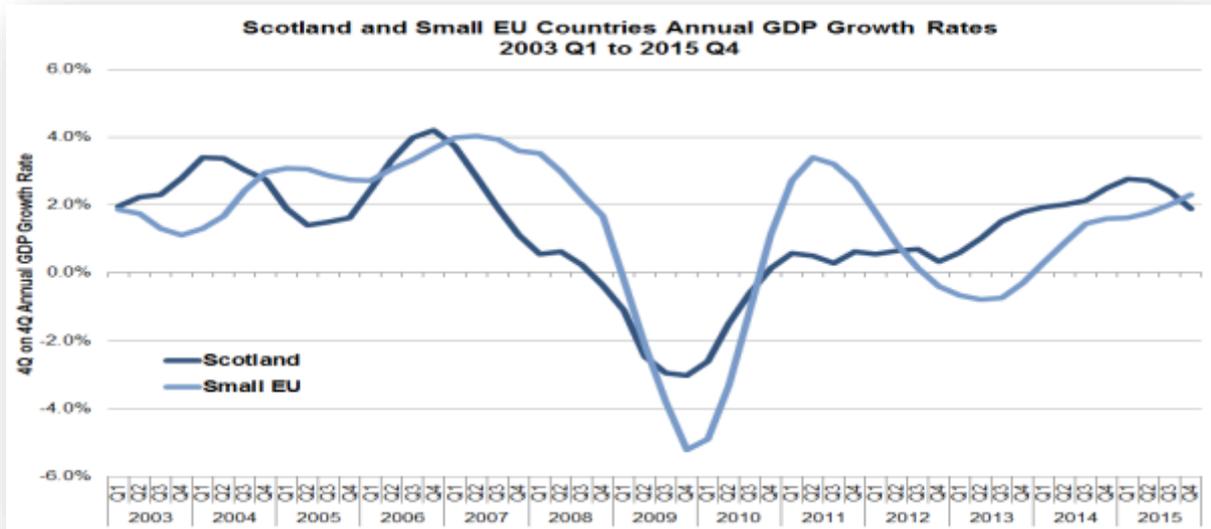


Source: Eurostat

Figure 4 shows that Scotland currently places in the 3rd quartile of OECD countries for GDP (Gross Domestic Product) generated per hour worked when based to the productivity of the USA. Recent statistics published by Eurostat indicate that the Scottish economy is actually slowing down after a strong performance post-

recession. Illustrated in Figure 5, Scotland's GDP has been declining in 2015 to such an extent that the GDP growth rate of smaller EU nations is now greater. Investment in R&D, increasing innovation, and increasing productivity within the Scottish economy is therefore vital to the Scottish Government's aims to be within the top quartile of OECD countries.

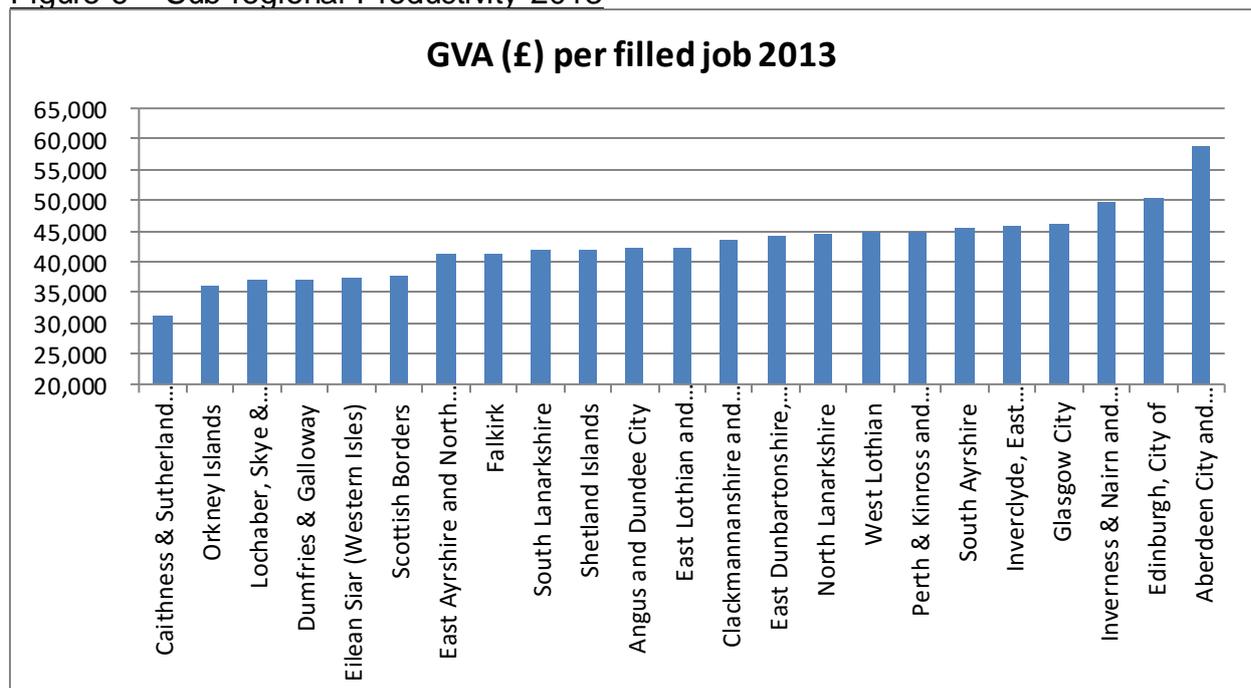
Figure 5 – Scotland and Small EU Countries GDP Growth Rates (2003-2015)



Source: Eurostat

Productivity of local authorities within Scotland can be measured using Gross Value Added (GVA) per filled job at a NUTS 3 geographic level. NUTS regions are geographical areas used throughout Europe for statistical purposes.

Figure 6 – Sub-regional Productivity 2013



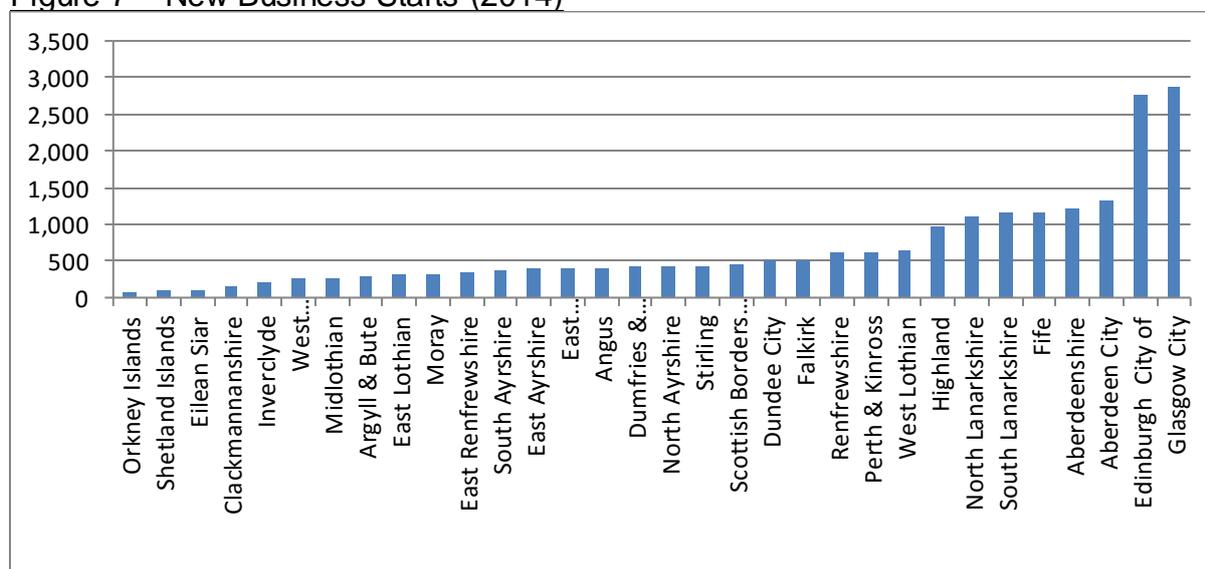
Source: ONS, Subregional Productivity

Geographical productivity differences between the NUTS 3 areas in Scotland are evident from the latest sub-regional productivity statistics released from the ONS; as the major cities of Scotland have historically had the highest levels of productivity, whereas the smaller NUTS 3 areas from the Highlands and Islands have the lowest. Edinburgh and Aberdeen’s NUTS 3 regions have produced the largest GVA per job filled out of all Scottish local authorities in each of the last 5 years, producing £50,385 and £58,690 respectively in 2013, whereas the NUTS 3 regions for Orkney and Caithness have produced the smallest GVA per filled job in each of the last 5 years, producing £36,051 and £31,199 respectively in 2013.

In addition to R&D spend; levels of entrepreneurship are also an indicator of how innovative the business base within an economy is. Using data from the SLAED Indicators 14/15, the number of new enterprises that started in 2014 for each local authority in Scotland is shown in Figure 7.

The disparate spread of start-ups in Scotland indicates that there are a greater number of entrepreneurs, and more conducive markets for entrepreneurship, in some local authorities in comparison to others. It is important that the level of entrepreneurship for each local authority is considered when agencies allocate their resources, as having the same availability of services for entrepreneurs in each local authority would exceed the demand for the services in some local authorities, and not meet the demand in others.

Figure 7 – New Business Starts (2014)



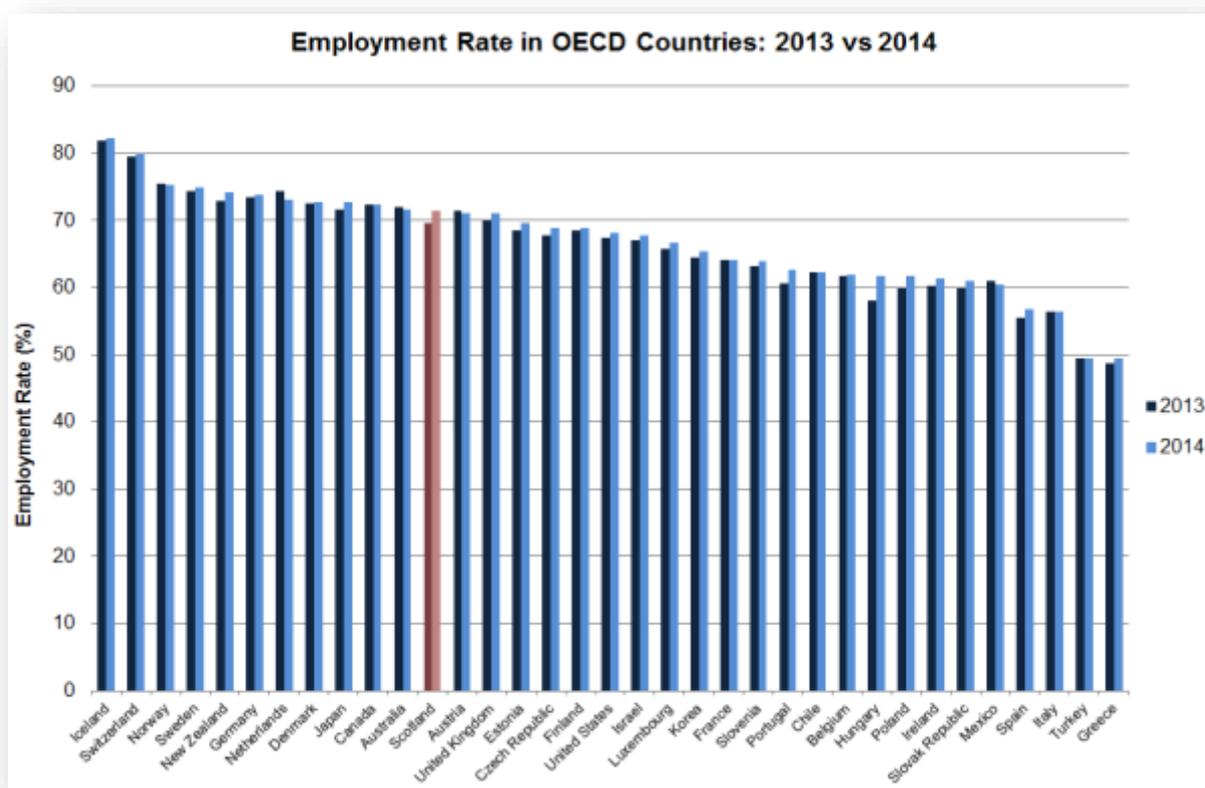
Source: SLAED Indicators 14/15

The survival rate of newly created enterprises should also be considered, as enterprises which start up in some local authorities have a higher rate of survival than those in other local authorities. Information from the ONS Business Demography release in 2015 confirms that some local authorities, such as Aberdeenshire (72.3%), have a higher percentage of newly formed enterprises that survive for 3 years in comparison to others, such as Clackmannanshire (55.6%).

Inclusive Growth

Ensuring that the Scottish economy has a fair and equal jobs market would help the Scottish Government achieve its aim of having Scotland in the top quartile for economic wellbeing and inequality among the OECD countries. One method for analysing economic wellbeing and inequality in Scotland would be to measure the employment rate. As shown in Figure 8, Scotland's placed within the 2nd quartile of OECD countries in terms of employment in 2014; a higher position than the United Kingdom but not within the top quartile.

Figure 8 – Employment Rates in OECD Countries 2013-2014



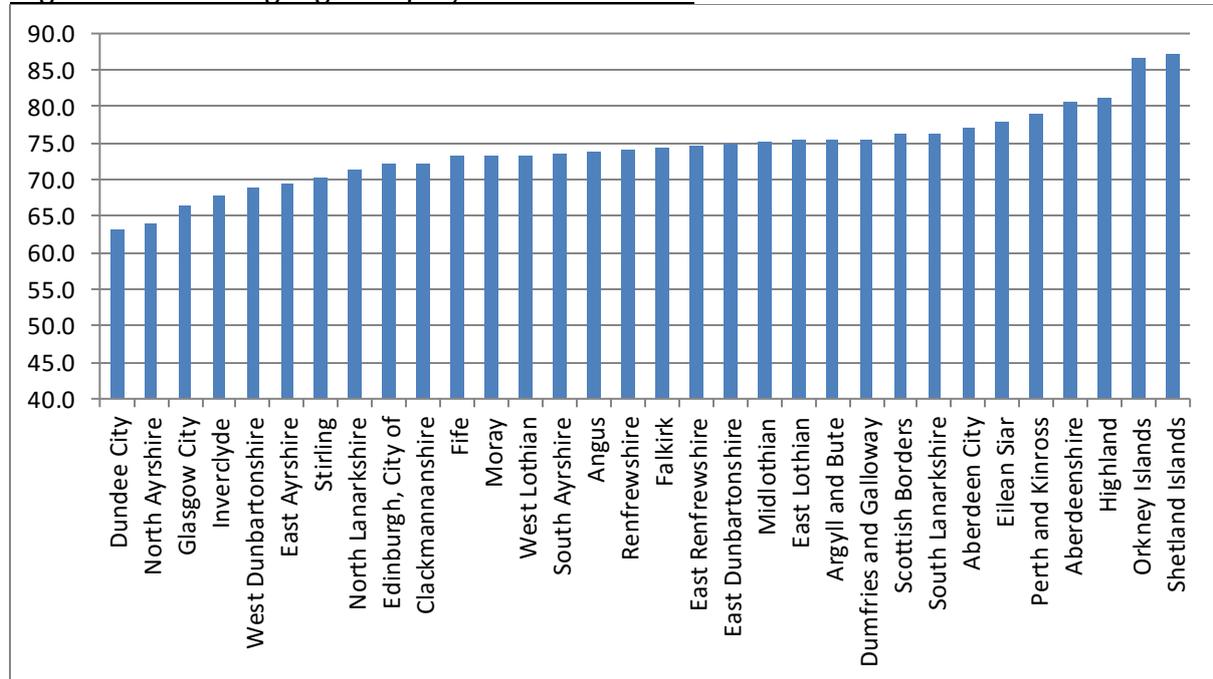
Source: Eurostat

Despite this relatively strong performance, a challenging development has emerged with recent labour market information published by the ONS; as Scotland's employment rate has not progressed to the same extent of the other regions of the UK. Scotland's employment rate decreased by 0.4% points in the period March to May 2016 in comparison to the equivalent period in 2015, making Scotland the only region within the UK to experience a percentage point decrease.

Differences in employment rates also exist within Scotland, as published in the ONS' Annual Population Survey, with an approximate 20% point difference between the

local authority with the lowest level of employment, Dundee (63.3%), and the local authority with the highest, Shetland Islands (87.3%), being recorded in 2015.

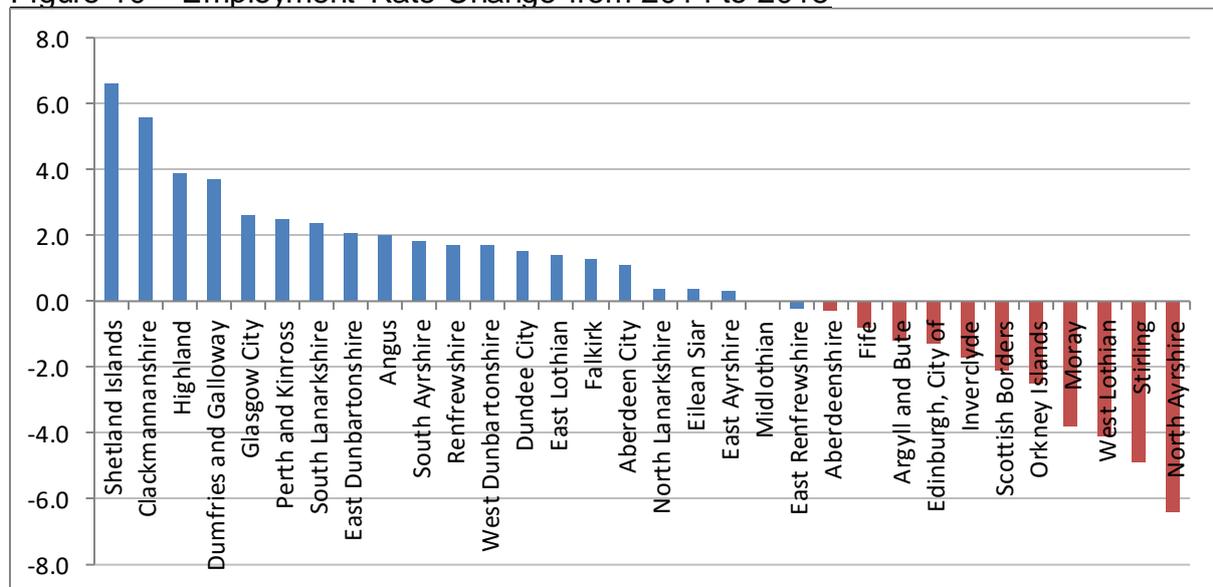
Figure 9 – Working Age Employment Rate 2015



Source: ONS, Annual Population Survey

Figure 10 illustrates that the differences in employment rates over the last measurable year continue to contrast among Scotland’s local authorities.

Figure 10 – Employment Rate Change from 2014 to 2015

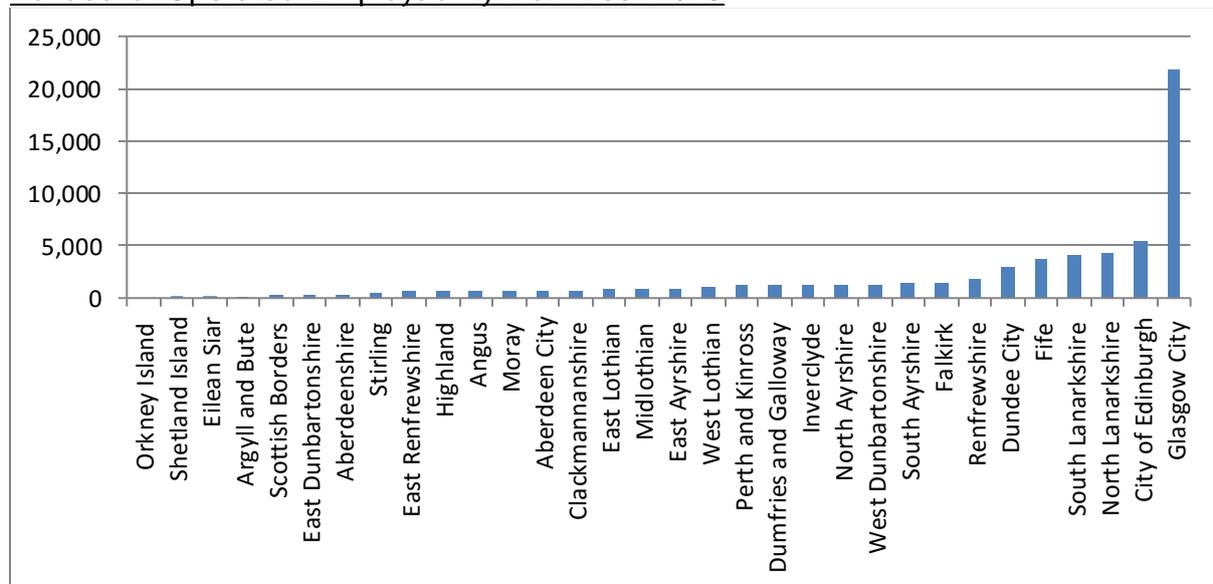


Source: ONS, Annual Population Survey

Continued investment in individuals in Scotland could alleviate Scotland’s declining total employment rate, as well as facilitate Scotland’s entry to the top quartile of OECD countries for employment and inequality. However, investing into Scotland’s

individuals uniformly across each local authority may be detrimental to the aims of Scotland’s Economic Strategy. As evidenced by the SLAED Indicators data from 14/15 in Figure 11, it is apparent that individual local authorities each have different challenges facing them – with some local authorities, such as Glasgow, having higher levels of demand for employability programmes, with more resources to meet the level of demand, than others.

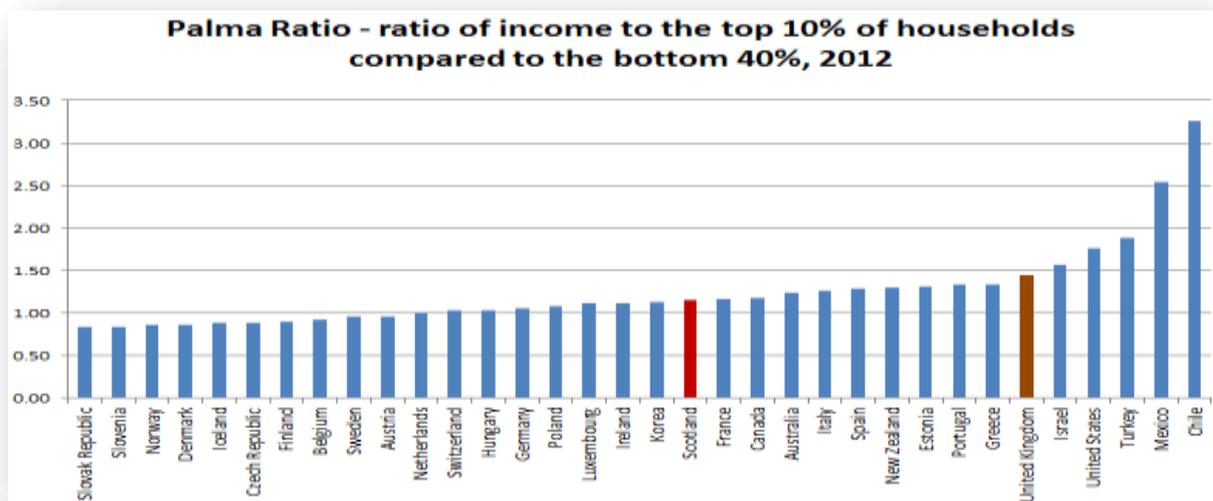
Figure 11 – OP4: No. of Unemployed People that have Participated in Council Funded or Operated Employability Activities 14/15



Source: SLAED Indicators 14/15

To demonstrate the levels of inequality in Scotland the Palma ratio can be used through comparing the earnings of the top 10% of households with the bottom 40% of households. The latest statistics from Eurostat show Scotland as placing 19th out of OECD countries in 2012, as shown in Figure 12, and while this is a greater level of equality than the UK, it would still fall into the 3rd quartile for inequality amongst OECD countries.

Figure 12 – Palma Ratio of OECD Countries (2012)



Source: Eurostat

Initiatives, such as the Scottish Living Wage, would help to balance the income dispersion across households and support efforts to move Scotland into the top quartile for inequality amongst the OECD countries. With an increased minimum wage, the earnings of households within the bottom 40% would increase and thus create an improved Palma ratio. Analysing the recent earnings data in Scotland from the Annual Survey of Hours and Earnings (ASHE), shows that Scotland's median gross weekly pay has increased by 7.9% over the last 5 years, 2.5 percentage points better than the UK's growth in the same time period.

Internationalisation

Improving internationalisation in Scotland would have tangible benefits throughout the Scottish economy for both individuals and businesses, and can be achieved through increased international investment and exporting.

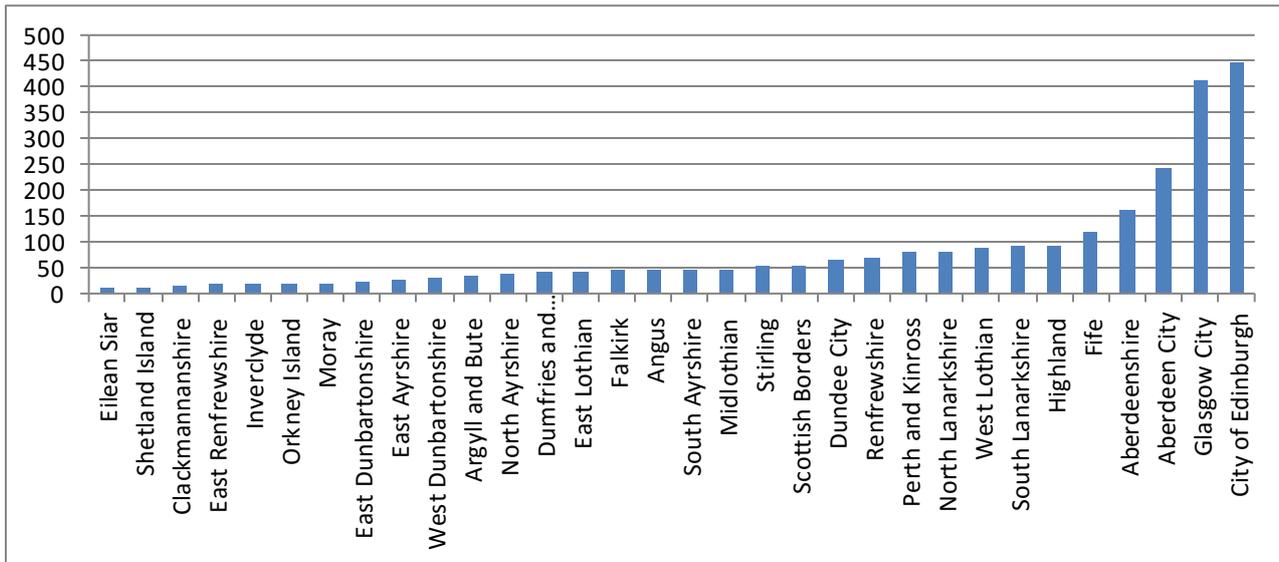
In 2014 Scotland's total international exports were valued at £27.5bn, 3.2% less than 2013. Services exported from Scotland in 2014 were estimated to be worth approximately £17bn, a 39% increase from the £12.1bn exported in 2011, and a 3.2% increase from the £16.4bn exported in 2013. The three major industrial sectors that Scotland's exports are sourced from are: Food and Drink (£4.8bn), Professional services (£2.3bn), and Petrochemicals (£2.1bn).

Scotland also attracts the highest level of international investment out of any region in the UK outside of London. Completed Inward Investment projects within local authorities in Scotland were responsible for safeguarding and creating over 7,000 combined jobs over the course of 2014/2015, as published in the SLAED Indicators report for 14/15.

Scotland Development International (SDI) data is available through the SLAED Indicators 14/15 to determine the local authority differences when it comes to

seeking support for exporting, and seeking international investment. Figure 13 illustrates that there are substantial differences between local authorities in the number of businesses seeking SDI's assistance. Given the diverse levels of demand for internationalisation between Scotland's local authorities, resources should be devoted to not only meet the demand for the businesses within larger local authorities, but to also encourage internationalisation for the businesses out with these larger authorities.

Figure 13 – Number of companies assisted by SDI (14/15)



Source: SLAED Indicators 14/15

Evaluation of Evidence

The What Works Centre for Local Economic Growth (WWG) has published a number of reviews of policy evaluations and evidence reviews on a number of economic development topics from the UK and other OECD countries. The reviews consider evidence in terms of impact evaluations and analyse which policies are most effective in supporting and increasing local economic growth. These seek to assist local decision makers in selecting the broad policy areas to allocate limited resources to. These reviews outline what tends to work in an individual policy area based on the best available impact evaluations and are designed to complement local, practical knowledge. As such, these do not take into account variances between different local areas and are not specific to the Scottish context.

The policy areas most relevant to the review of the enterprise agencies are innovation, employment training, business advice, and area based initiatives. A brief overview of the findings in each of these areas is set out below and these assist in identifying the areas in which economic development interventions should be focussed.

Innovation¹

- Research & Development (R&D) grants, loans and subsidies can raise innovative activity in recipients, although effects are not always positive. The effects differ across types of innovation, and are weaker for patents than for (self-reported) measures of process or product innovation;
- R&D grants, loans and subsidies can positively impact productivity, employment or firm performance (profit, sales or turnover). There is some evidence that support is more likely to increase employment than productivity;
- R&D grants, loans and subsidies are more likely to improve outcomes for small to medium-size companies than for larger ones;
- Programmes that emphasise collaboration perform better than those that just support private firms (as well as those where the programme focus is unclear). Encouraging collaboration might have an additional positive effect on the likelihood that an R&D support programme generates positive effects on outcomes of interest;
- Programmes that target particular production sectors appear to do slightly worse in terms of increasing R&D expenditure and innovation, compared to those that are 'sector neutral';
- Evidence on the extent to which public support crowds out private investment is mixed;

¹ http://www.whatworksgrowth.org/public/files/Policy_Reviews/15-10-20-Innovation-Summary.pdf

- Relatively few evaluations consider the timing of effects. In particular, there is a lack of studies considering long-term impacts of interventions (ten years plus). However, the small number of studies that are able to consider the time profile of effects, do not suggest that programme effects get stronger over time.

Employment Training²

- Training has a positive impact on participants' employment or earnings in around half of the evaluations reviewed;
- Shorter programmes (below six months, and probably below four months) are more effective for less formal training activity. Longer programmes generate employment gains when the content is skill-intensive;
- In-firm / on the job training programmes tend to outperform classroom-based training programmes. Employer co-design and activities that closely mirror actual jobs appear to be key design elements;
- The state of the economy is not a major factor in the performance of training programmes; programme design features appear to be more important than macroeconomic factors;
- Training programmes that respond to structural shocks in the local economy are usually highly tailored to a given local context. This means that pulling out generalisable findings on impact is difficult;
- It is hard to reach any strong conclusions on private-led versus public-led delivery on the basis of the (limited) available evidence;
- No evidence was found that would suggest one level of delivery – national or local – is more effective than another.

Business Advice³

- Business advice had a positive impact on at least one business outcome in 14 out of 23 evaluations;
- Business advice programmes show somewhat better results for sales than they do for employment and productivity, but results are generally mixed;
- In most cases, programmes had vague or multiple objectives, which makes measuring success difficult;

² http://www.whatworksgrowth.org/public/files/Policy_Reviews/16-06-15_Employment_Training_Summary_Updated.pdf

³ http://www.whatworksgrowth.org/public/files/Policy_Reviews/16-06-15_Business_Advice_Summary_Updated.pdf

- No strong differences were found in results between programmes with multiple objectives and programmes with more focused objectives;
- No evidence was found that would suggest one level of delivery – national or local – is more effective than another;
- It is difficult to reach any conclusions about the effectiveness of public-led vs. private-led delivery.

Area Based Initiatives⁴

- In the UK, the devolution of business rates offers an opportunity for local authorities to make their own decisions about using Enterprise Zone-type programmes to address local economic conditions. However, the relative power of this incentive (which represent a small proportion of business operating costs) should not be overestimated;
- Decision makers need to take concerns over displacement in Enterprise Zones seriously. If much of the growth within the zone comes at the expense of nearby local areas, then this will mean less (or even no) overall growth at the wider area level. However, even if displacement effects are strong, Enterprise Zones may play a role in helping concentrate local employment from a number of dispersed sites;
- There are implications for public service provision of more concentrated employment. For example, concentrating employment on a smaller number of sites may help reduce costs of infrastructure provision such as transport, broadband and other services to business;
- Objectives of any area based policy must be very clearly defined, and the more specifically they can be targeted in terms of outcomes the better. The likely impacts of incentives across the targeted area, on adjacent areas, and over time, must be considered in the light of local conditions and objectives.

⁴ <http://www.whatworksgrowth.org/policy-reviews/area-based-initiatives/>