

The Scottish Government's Response to the First Annual Report of the Council of Economic Advisers

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15 January 2009

The Scottish Government's Response to the First Annual Report of the Council of Economic Advisers

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FOREWORD



I am pleased to introduce the Scottish Government's response to the *First Annual Report of the Scottish Council of Economic Advisers*.

In normal economic conditions, the Report would be an important tool for the Scottish Government. In these challenging economic times, it is all the more valuable.

As Scotland's government our responsibility is to prioritise action that, in the short term, mitigates the impact of the downturn while shaping policy that, in the longer term, ensures Scotland not only recovers, but emerges stronger and in a more competitive position in the global marketplace. Our focus remains clear – protecting jobs and businesses today and ensuring greater prosperity for families and communities across Scotland in the future. The Council's analysis and advice is central to our delivery of this ambition.

Consequently, the Scottish Government has considered all recommendations and considerations set out in the Report covering:

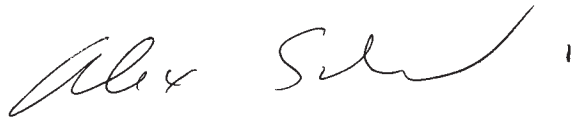
- Improving the Productivity of the Scottish Economy;
- Achieving Scotland's 2011 Growth Target;
- Achieving Scotland's 2011 Emissions Target;
- Addressing Economic Inactivity in Scotland;
- Planning;
- Education and Skills;
- Infrastructure; and
- Scottish Economic Statistics.

We agree with the Council's analysis of the current severe economic pressures and in response we have set out some of the measures we are taking as part of the Scottish Government's economic recovery programme.

We also respond to each of the specific recommendations and considerations made by the Council. In many cases action is already being taken and in others action plans are being drawn up. We are constantly striving to do more and explore new options and will continue to report on the progress that has been made in these areas at future Council meetings.

I would like to thank the Council for the tremendous amount of work it has undertaken over the last year. The commitment of individual members has helped raise the quality of debate, level of analysis and exchange of views on how best to achieve an increase in sustainable economic growth in Scotland.

It is clear from this response how seriously the Scottish Government has taken the recommendations and considerations presented in the Council's First Annual Report. I have no doubt that this and future Annual Reports from the Council will be instrumental in helping us deliver the targets as set out in the *Government Economic Strategy* and, ultimately, the Purpose of this Government – a more successful Scotland, with opportunities for all to flourish, through increasing sustainable economic growth.

A handwritten signature in black ink, appearing to read 'Alex Salmond', with a stylized flourish at the end.

The Rt Hon Alex Salmond MSP MP
The First Minister of Scotland

THE SCOTTISH ECONOMIC RECOVERY PROGRAMME

The Purpose of this Government has been clear from our first day in office: to focus the Government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth. The challenges we face now make that task more difficult and, accordingly, we must intensify our efforts to help every individual and business weather the global economic storm and continue on course to this essential, long-term goal.

Over the past 20 months, the Scottish Government has taken a number of actions that will benefit the Scottish economy in these difficult times. Through our Scottish Budget and our *Government Economic Strategy*,¹ we have set the correct direction for Scotland and focused the investment of over £30 billion of public funds each year to supporting increased sustainable economic growth. We have eased the pressure on tight household budgets through working with local government to freeze the council tax. We have slashed rates bills for thousands of small businesses, relieving them of a substantial tax burden. Moreover, through our unique partnership with local government, embodied in the historic Concordat we agreed in November 2007, local authorities now have greater flexibility to promote and sustain economic recovery at a local level.

We believe that governments must do everything within their power to lessen the impact on households and businesses and encourage the investment and development that will help drive an economic recovery. To that end, we introduced a six-point programme of economic recovery to boost Scotland's economy, designed to focus all our powers and resources on protecting households and businesses and ensuring Scotland is well placed to face the current economic difficulties. Examples of the actions we are taking under each of the six points of the programme are given below. We will continue to review and explore new actions we can take to support the Scottish economy.

Re-shaping our capital spending plans

- The Budget Bill for 2009-10 sets out our proposals to accelerate £227 million of capital spending into 2009-10, on top of £30 million in 2008-09. In total, this accelerated investment will support nearly 4,700 jobs in the Scottish economy over the next 15 months.
 - Local authorities are investing £90 million in 2009-10 which will accelerate a range of capital spending programmes spread across Scotland. COSLA will be providing details of the projects shortly.
 - Colleges and universities will benefit from £13 million of infrastructure improvements.
 - We are investing £29 million next year to deliver road improvements and enhanced park-and-ride facilities to cut congestion.
 - Scottish Enterprise will accelerate £30 million of investment in key projects that will deliver wider benefits to the economies of Glasgow, Edinburgh and other areas including investment in the Edinburgh Bio-Quarter, the SECC in Glasgow and Fife Energy Park.

¹ <http://www.scotland.gov.uk/Publications/2007/11/12115041/0>

- We are accelerating the supply of affordable housing by bringing forward £120 million of our planned spending from 2010-11 for the Affordable Housing Investment Programme, in conjunction with local government, to help support the house-building industry over the next two years.
- Through the Scottish Futures Trust, we are fast-tracking the Hub Initiative, which will deliver improved local community-based infrastructure in support of the delivery of local services across Scotland, and supporting local authorities' school investment programmes.
- We are providing over £30 million to the Home Owners Support Fund to build on the existing 'mortgage-to-rent' scheme and a further £25 million to local government to kick-start a new generation of council house-building.

Ensuring all government activity, including planning and regulation, supports economic development

- We are opening up opportunities for more small and medium-sized Scottish businesses to win government contracts through a new online contracts portal. Over 11,000 contract notices have already been published and over 16,000 suppliers have registered.
- We are intensifying our reforms to simplify the planning system. As part of this, we are putting in place a £10.5 million e-Planning initiative this spring to allow for faster, more effective online submission of planning proposals.
- We are committed to paying the Scottish Government's business suppliers within 10 days and are urging the rest of the public sector in Scotland to do likewise.
- We are making sure that agricultural support to crofters and farmers is paid as soon as permissible by law and we are influencing EU regulations to meet the needs of fishing and farming.
- Through the Public Services Reform Bill, we are identifying across the Scottish public sector the scope for removing regulatory burdens on business.
- We are ensuring key skills and learning bodies work together to focus their activities on creating the skills required for economic recovery.
- We are working with our public bodies – including the Scottish Funding Council and the Scottish Environment Protection Agency – to ensure their operations and funding approach supports economic recovery.

Intensifying our activity and support for Homecoming 2009, to boost tourism

- Over 300 events are taking place across Scotland this year from Burns Night to St Andrew's Day.
- We have a target of an eightfold return on investment generating an anticipated additional £40 million in tourism revenue. Our target of 100,000 additional visitors is already expected to be exceeded.
- VisitScotland is bringing forward £1.5 million within 2008-09 from its marketing budget to capitalise on Scotland's attractiveness as a holiday destination due to the weakness of pound sterling.
- Nearly 140,000 US households with Scots ancestry have received an invitation to come home in 2009, through VisitScotland's biggest ever mailshot campaign in the US.

- Our Caledonia TV advert featuring a range of famous Scots has already been seen by more than 60% of the Scottish adult population and will be shown in key markets internationally.
- Through our sponsorship deal with the Scottish Football Association, the Scottish Homecoming Cup is promoting Homecoming 2009 to a huge global audience (4 million people across 40 countries watched the Scottish Cup in 2007).
- The final stage of the World Rally Championship is coming to Scotland as part of the Homecoming programme, bringing an estimated 30,000 visitors.

Intensifying our work around fuel poverty and energy efficiency

- We have announced an Energy Assistance Package to support household energy efficiency, including increased spending on the Central Heating Programme of £10 million.
- We have invested £2 million in our small business loans scheme to help more small businesses with interest-free loans to cut fuel bills.
- In autumn 2008, we launched a new 'Save Money, Save the Planet' energy efficiency advertising campaign designed to save households £340 every year.
- We are taking forward a single national contract for the bulk purchasing of electricity across the public sector which is expected to result in annual savings of up to £5 million.
- We are setting out our strategy for increasing spend in Scotland on energy efficiency through the Carbon Emissions Reduction Target initiative.
- We are bringing together spending on fuel poverty and renewable generation to maximise the impact of government spending to deliver improved energy efficiency and sustainable, low cost energy for thousands of Scottish households.

Increasing advice and support to businesses and individuals

- To date, we have announced almost £200 million of support for 300 projects nationwide from our European Structural Funds programmes. This includes accelerated funding of £55 million for Community Planning Partnerships to support employability projects across Scotland. We are also pressing ahead with funding for key economic development projects in rural and coastal areas through the Scotland Rural Development Programme and the European Fisheries Fund.
- We are proposing to expand the Small Business Bonus Scheme by increasing the level of relief available by 25% from April 2009.
- We are strengthening our Partnership Action for Continuing Employment initiative to ensure the delivery of a high level of responsiveness to businesses and individuals facing redundancy. As part of this, Skills Development Scotland will work with Jobcentre Plus to create a seamless service between skills development and employability support to minimise the time people affected by redundancy are out of work.
- Scottish Enterprise is doubling the size of the Scottish Manufacturing Advisory Service.
- We are working with Scotland Food and Drink and other agencies to provide enhanced support to help businesses in the food and drink sector exploit export opportunities.
- We have extended the eligibility for small businesses to apply for Regional Selective Assistance grants across the whole of Scotland.

- We are taking forward 16+ Learning Choices in order to maintain young people in learning after the age of 16 and help secure their longer-term employability.
- Following the publication of *New Horizons*² we are working with the university sector to ensure that their activities support sustainable economic growth.
- Scottish Enterprise and Highlands and Islands Enterprise have undertaken comprehensive business reviews with more than 2,000 of Scotland's major employers and growth companies, resulting in individually tailored action plans.
- Scottish Development International is enabling companies to participate in the Scottish pavilions at major trade shows at minimal up-front cost, allowing more Scottish businesses to access new markets overseas.

Improving financial advice and support to individuals

- We have expanded the open market shared equity scheme for first-time buyers nationwide and increased spending to £60 million.
- We are making available a further £70 million to allow local authorities to freeze the council tax again in 2009-10. This will mean Scottish families sharing in a £420 million tax saving over three years.
- We are extending free school meals to include children from families entitled to working families tax credit from August 2009, benefiting around 44,000 pupils.
- We are providing an extra £3 million for legal advice and representation for people facing repossession and other debt problems, providing an additional £1 million to fund face-to-face guidance for individuals.
- We are investing £7.5 million over the next two years in a range of measures to support *Achieving Our Potential*,³ our anti-poverty framework, including help for individuals to maximise their income.
- We have launched a campaign to promote the National Debtline service to help individuals at risk of financial difficulties and debt problems and raise awareness of advice services and financial support.

This investment in the short-term resilience of the Scottish economy is matched by the actions the Scottish Government is taking to respond to the Council's specific advice on the long-term direction of travel for the Scottish economy and the more strategic interventions it sets out in its Report.

² <http://www.scotland.gov.uk/Resource/Doc/82254/0069168.pdf>

³ <http://www.scotland.gov.uk/Publications/2008/11/20103815/0>

THE SCOTTISH GOVERNMENT'S RESPONSE TO THE RECOMMENDATIONS AND CONSIDERATIONS

The Scottish Government has considered all recommendations and considerations presented in the *First Annual Report of the Scottish Council of Economic Advisers*.⁴ Our response to each recommendation and consideration is set out below.

Improving the Productivity of the Scottish Economy

Recommendation 1: The Council recommends that the Scottish Government increases the general level of productivity in the workforce, especially through skills and training, and the share of high productivity firms and industries in national output.

Scottish Government Response: Accept. The Scottish Government strongly supports this recommendation. The *Government Economic Strategy* recognises that increased productivity will be at the heart of increasing sustainable economic growth in Scotland which is why we have set a long-term target for Scotland to rank in the top quartile for productivity amongst our key trading partners in the OECD by 2017.

There has been substantial activity in this area. The Scottish Government published *Skills for Scotland*⁵ in the summer of 2007, setting out an approach to investing in skills that was widely welcomed by the business community and trade unions. Skills Development Scotland was established in 2008, bringing together public effort in this area and improving the focus of our investment.

To engage the wider business community and promote an increase in the general level of productivity in the workforce, we have recently established a Skills Utilisation Leadership Group. This is a key part of our social partnership approach to this issue, bringing together public bodies, trade unions and the business community to identify the right solutions for Scotland and ensure the lessons are shared throughout the economy.

We are aware that the Council is undertaking further analysis on productivity with a view to providing the Scottish Government with more specific recommendations on how to help achieve the 2017 Purpose target on productivity. We look forward to hearing the Council's views, particularly on how best to direct skills utilisation activity towards increasing the general level of productivity and increasing the share of high productivity firms and industries in national output.

Recommendation 2: The Council recommends that the Scottish Government further encourages the development of key industries and sectors, and facilitates the formation of clusters with external economies of scale, critical mass for skills and specialised industries.

⁴ <http://www.scotland.gov.uk/Publications/2008/12/04092147/0>

⁵ <http://www.scotland.gov.uk/Publications/2007/09/06091114/0>

Scottish Government Response: Accept. The Scottish Government welcomes the Council's endorsement of the approach taken in the *Government Economic Strategy* of giving particular attention to key sectors with high growth potential and the capacity to boost productivity.

Scottish Enterprise takes a lead role in promoting key sectors and works through a number of Industry Advisory Groups helping to channel the views of industry experts to the Scottish Government.

The Scottish Government welcomes the fact that the Council will be reviewing each of the key sectors at future Council meetings and looks forward to hearing the Council's views on how government policy can be developed further to enhance the growth of Scotland's key sectors (see recommendation 4 below).

Recommendation 3: The Council recommends that the Scottish Government improves capital and total factor productivity, alongside labour productivity.

Scottish Government Response: Accept. Although the Government's Purpose target for productivity relates to labour productivity, we recognise the importance of improving capital and total factor productivity as a means of helping to boost sustainable economic growth. The current emphasis on capital investment, innovation and Research and Development and the key government programmes of support in these areas, will contribute to improving capital and total factor productivity.

We look forward to hearing the Council's more specific recommendations on how the Scottish Government can further improve labour, capital and total factor productivity.

Consideration: *The Council asks the Scottish Government to consider increasing productivity growth through generalised measures, for example by encouraging small or non-traditional firms, and by providing incentives for firms to extend their share of external trade or to increase the participation of foreign investment.*

Scottish Government Response: Accept. *A number of measures are being introduced, for example, increasing the business rates relief for thousands of Scottish companies this year through the Small Business Bonus Scheme. We are also increasing the support available to facilitate the formation of Business Improvement Districts which can help to sustain and encourage strong and diverse businesses in local communities.*

We will ask Scottish Enterprise and Scottish Development International to take account of the Council's recommendations on measures to promote trade and foreign investment.

Consideration: *The Council asks the Scottish Government to consider improving capital productivity, including finding ways to reduce the branch office problem, and providing incentives for firms to reorganise their production methods, improve management techniques and skills utilisation, and to introduce technical and managerial innovations in their plants in Scotland – not just on average across the UK.*

Scottish Government Response: Accept. *The Scottish Government will make this a particular focus of the Skills Utilisation Leadership Group and further engage on these issues through the National Economic Forum.*

Consideration: *The Council asks the Scottish Government to consider using productivity as a means of lowering unit costs in production, and hence as a vehicle to induce firms to set up or extend their activities in Scotland. It should explore: lower business taxes and rates; improved planning procedures; better infrastructure and communications; specialised services; and ways of increasing flexibility in labour market practices, as the means to do this.*

Scottish Government Response: Accept. *We are already taking steps to reduce the tax burden and the burden of regulations for business, improve planning procedures (see recommendations 12, 13 and 14 below) and promote improved efficiency through interventions like the Scottish Manufacturing Advisory Service. We are currently using our competences over business tax to the full and believe that we could deliver even greater productivity gains with full fiscal autonomy, including the ability to lower corporation tax.*

Achieving Scotland's 2011 Growth Target

Recommendation 4: The Council recommends that the Scottish Government strengthens the competitive advantage of Scotland's businesses by clarifying the potential problems in each of the key sectors identified in the *Government Economic Strategy* and identifying how government policies can be more supportive.

Scottish Government Response: Accept. The Scottish Government welcomes the Council's endorsement of the Government's emphasis on the key sectors and the work the Council plans to undertake on the key sectors at future meetings.

We will prepare reports on each key sector setting out what this government is doing to help create the right environment for their competitiveness and growth. A report on one key sector will be considered by the Council at each of its future meetings. We look forward to hearing the Council's views on how government policy can be developed further to enhance growth of Scotland's key sectors.

Recommendation 5: The Council recommends that the Scottish Government develops a range of policies that provide for greater efficiency in the provision of government and infrastructure services and accelerates the move to measure public sector activity by output rather than input.

Scottish Government Response: Accept. The Scottish Government strongly agrees that efficiency in delivering services and providing infrastructure is important. This is reinforced by the tightening fiscal position and the proposed reduction of up to £500 million in Scottish budgets in 2010-11 as a result of decisions by the UK Government. We already have in place an efficiency programme for the Scottish public sector, which sets clear targets for individual bodies and concentrates on identifying cash-releasing efficiency savings for return to the front line to support public services. Substantial efforts have been made by local authorities and health bodies, as well as by the Scottish Government and its agencies to meet efficiency targets. These targets are expected to be exceeded in 2008-09 and further work is underway to ensure targets are met in future years.

The Government's public bodies simplification programme aims to reduce the number of public bodies in Scotland by 25% and reduce the burden of scrutiny processes.

In terms of increasing efficiency in infrastructure investment, we published in March 2008 a 10-year *Infrastructure Investment Plan* (IIP) aimed at securing improvements to Scotland's infrastructure in support of the Government's Purpose.⁶

Ministers have set the Scottish Futures Trust the target of increasing efficiency by between 3% and 5% across the Scottish Government's total capital investment programme of £3.5 billion per annum. The Scottish Futures Trust is already actively engaged in this work.

⁶ <http://www.scotland.gov.uk/Publications/2008/03/28122237/0>

Considerable progress has been made over the last two years in measuring public sector activity by output rather than input. Further work is underway.⁷

Consideration: *The Council believes that one of the most important contributions the Scottish Government can make to short-term economic performance is to promote a supportable narrative of economic success based on the strong fundamentals of the Scottish economy and the advances currently happening in key economic sectors. Such an account of achievement and potential is relevant to the promotion of investment in Scotland by private companies, the development of Scottish operations by UK businesses and the retention and attraction of able workers.*

Scottish Government Response: Accept. *A narrative of economic success is undoubtedly of importance in helping the Government and its agencies sell Scottish tourism and Scottish businesses abroad – as well as in promoting investment in Scotland and increased in-migration and retention that will help us meet our Purpose target for population growth.*

The Government takes this approach and will ensure particular efforts go into the development of key narratives around Homecoming 2009, Scotland's research and innovation excellence and our comparative advantages in areas ranging from renewable energy to quality of life. The Government and key agencies will ensure that these messages are effectively targeted at home and abroad.

Consideration: *Given that immigration is positive for the Scottish economy, policies need to be developed with a focused Diaspora strategy, and through a better understanding and use of migrants' skills. There may be scope for enhancing Scottish flexibilities within the UK Government's points-based system for managed migration.*

Scottish Government Response: Accept. *The Scottish Government agrees that this is a key consideration. Engagement with the Diaspora is currently being developed in relation to Homecoming 2009. We will continue to make the case for enhanced Scottish flexibilities in the management of migration to the UK Government.*

Consideration: *An effective means of increasing labour participation, demonstrated by the experiences of other European countries, is to provide high quality childcare. The Council therefore urges the Scottish Government to see this as a high priority.*

Scottish Government Response: Accept. *Devolution of the benefits system, including childcare support, would be the most effective way to increase the Scottish Government's ability to influence labour participation. This would form a logical extension of the Scottish Government's existing role in providing skills support to people seeking to up-skill and re-skill.*

This would complement our current education plans for a 50% increase in free nursery provision. In the meantime, we are working to promote the UK childcare vouchers scheme across Scotland with employers and employees. The aim is to increase uptake and thereby improve accessibility and affordability of childcare.

⁷ <http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/governmentactivity>

The availability of integrated pre-school and childcare services has been identified as one of the priorities in our Early Years Framework, as parents find part-time pre-school services difficult to match with employment patterns. We have a clear direction of travel and our objective is to see Scots with the same level of provision as families in neighbouring Scandinavian countries.

Consideration: *These policies need to be supported by measures which facilitate investment by taking forward the recommendations put forward by the Council on removing barriers created by the planning system and incentivising local economic development.*

Scottish Government Response: Accept. *Scottish Ministers are fully committed to modernising the planning system in Scotland and significant improvements are being made, including early actions as part of our economic recovery programme.*

We are actively exploring ways to incentivise local economic development and will keep Council members informed.

See also our responses to recommendations 12, 13 and 14.

Achieving Scotland's 2011 Emissions Target

Recommendation 6: The Council recommends that the Scottish Government commissions an independent assessment of the full economic costs and abatement potential of the various energy options open to Scotland.

Scottish Government Response: Accept. The Scottish Government is commissioning this study. We will also provide a paper setting out the Government's current energy policy for the Council to consider. The results of the study and the paper will be considered by the Council during 2009.

Recommendation 7: The Council recommends that the Scottish Government explains how it will ensure that environmental and economic goals are given due weight, and that environmental goals are considered in parallel with goals for economic growth.

Scottish Government Response: Accept. In the 2007 Spending Review, the Scottish Government made a commitment to introduce a new system of carbon accounting across the whole of Scottish Government spend. The Carbon Assessment process (including both the High Level Assessment of Scottish Government spending and the Individual Level Assessment looking at individual programmes or projects) will ensure that the impact on emissions from specific projects, or more generally, will be factored into the decision making process. The initial findings of both assessment types are to be reported in spring 2009. We have recently published some externally commissioned research which considers the possible economic impacts resulting from some greenhouse gas mitigation options.⁸

We are also currently looking to develop an integrated assessment framework that will routinely evaluate Government intervention for their economic, social and environmental impact. It will help provide a summary assessment of the overall contribution that the interventions will have on the Government's Purpose, targets and indicators.

Recommendation 8: The Council recommends that the Scottish Government identifies the most cost-effective options for reducing energy demand. This should include exploring ways of delivering transformational levels of home insulation.

Scottish Government Response: Accept. This is one of our priority policy areas. We are actively taking forward this recommendation with work underway to identify the most cost-effective ways of reducing emissions and energy demand.

This is a policy area where we expect to see year-on-year developments and improvements. For example, from this April, we are introducing a new Energy Assistance Package to provide a holistic approach to tackling fuel poverty and improve energy efficiency, building on the existing Energy Saving Scotland Advice Centre network and integrating assistance from the Scottish Government and the energy companies under the Carbon Emissions Reduction Target. Energy efficiency measures on offer will, for the first time, include renewable heating systems and insulation measures for hard-to-treat homes.

⁸ <http://www.scotland.gov.uk/Resource/Doc/244742/0068595.pdf>

Addressing Economic Inactivity in Scotland

Recommendation 9: The Council recommends that the Scottish Government explores options for resolving tensions between Scottish and UK policy responsibilities, including devolving Jobcentre Plus.

Scottish Government Response: Accept. The Scottish Government is working with the UK Government Department for Work and Pensions (DWP) to improve the integration of Jobcentre Plus services and those provided by Skills Development Scotland. This includes better alignment of careers advice and training provision that should lead to increased participation in the labour market.

This devolution of welfare benefits is one of the key topics being raised under the National Conversation.

Recommendation 10: The Council recommends that the Scottish Government further refines, strengthens and broadens the local and partnership-based approach to service delivery – including its funding basis.

Scottish Government Response: Accept. Work is currently underway to explore further improvements through our Workforce Plus initiative. Workforce Plus is working in 25 employability partnerships led by Community Planning Partnerships across Scotland, including the three City Strategy pilot areas. Officials are looking at the current structure of the Workforce Plus National Partnership Board and the improvement of local flexible delivery in the current economic situation. The aim has always been to offer Workforce Plus across Scotland and we will continue to offer support to the other areas that have not taken the offer of support.

Recommendation 11: The Council recommends that the Scottish Government significantly improves the data-sharing practices of public bodies tasked with delivering on employability issues.

Scottish Government Response: Accept. Improved intelligence on the abilities and skills of jobseekers is vital in developing the right services to meet and understand the needs of individuals looking for work. Jobcentre Plus has a major resource that cannot currently be accessed by other partners. The Scottish Government has highlighted this Council recommendation to DWP to ask how we can make the information it has available to employability organisations in Scotland.

We have recently launched a programme of work to improve the data-sharing practices of public bodies in delivering *More Choices, More Chances*. This work is delivering early results and will help provide a model to support the wider data-sharing agenda.

Consideration: *The Council believes that older workers can make a major contribution to the Scottish economy. While recognising labour market participation in this group is bound to increase – not least with the coming changes in the pension age – more could be done to support extended or renewed employment for older individuals. The Council asks the Scottish Government to consider the promotion of job flexibility by employers, refocusing benefits towards what older individuals can, rather than cannot, do in jobs and better support to older workers changing jobs.*

Scottish Government Response: Accept. Increased participation of older people in the labour market is crucial to Scotland's economic success, particularly in the light of the projected demographic trends. We will ask Skills Development Scotland to consider any gap in provision for older workers that is not provided by Jobcentre Plus and other agencies. The current economic downturn may change the urgency of action, and the Scottish Government will continue to review.

Consideration: Individual attitudes to employment are seen by the Council as key to increasing participation, so it is important that young people form positive views of working. Training and educational institutions must design programmes that explicitly lead to employment outcomes. To give these bodies the right incentives to do this, the Council suggests an outcome-based approach to part of their funding, potentially by linking funding to the number of participants who move on to sustainable employment or higher qualifications. The Council's recommendations relating to higher and further education in Chapter 7 are relevant here as well.

Scottish Government Response: Accept. The recently concluded policy review of the Get Ready for Work programme highlighted a need for a clearer focus on work based training for young people to maximise positive progression from the programme. We have tasked Skills Development Scotland with developing and delivering comprehensive work based learning intervention, that will ensure young people have the opportunity to develop the skills that will allow them to participate to the best of their abilities in the Scottish labour force.

In addition, the Scottish Government will set the direction on the Horizons Fund for Universities with delivery aligned to key Government strategies and priorities. These priorities include: to better develop entrepreneurial capacity and graduate employability; to work actively with employers to ensure the skills of graduates can be utilised to best effect in the workplace; to ensure degree provision is relevant, flexible and adaptable to the needs of future learners; and to respond to changing demographics enabling learners to return to education throughout their lives to up-skill, re-skill or develop new skills for life and work.

Consideration: A better understanding of the costs to individuals of moving from benefits to employment must be reflected in policy design. Recently, DWP published its Green Paper on reforming welfare across the UK. While it is difficult to assess these reforms in the absence of more detail on how they will work, the Council believes that they represent a useful step forward. However, these reforms should be developed through greater attention to the transition to work, for example, by continuing payment of benefits for a short period to ensure individuals entering employment do not suffer cash-flow difficulties.

Scottish Government Response: Accept. These are issues we wish we could address directly with the UK Government having competence in this area. In the meantime, we will continue to press the UK Government and its agencies regarding the uncertainty and cost to individuals of finding work and staying in work.

The DWP Minister for Employment and Welfare Reform has agreed with the Cabinet Secretary for Education and Lifelong Learning that Jobcentre Plus and Scottish

Government officials will work together to consider how better referral can be made to financial/debt advice when people who have been long-term unemployed move into work.

Consideration: *The Council believes more can be done to ensure that the demand side of the labour market can absorb any increases in the number of individuals coming off benefits or remaining in work to an older age. The Council recommends that the public sector engages more systematically with major employers and key sectors such as retail, hotels, tourism and food and drink to improve routes to sustainable employment for those harder-to-reach groups. It will also follow with interest current Scottish Government plans to pilot better skills utilisation among employers.*

Scottish Government Response: Accept. *The Scottish Government will continue to work with Sector Skills Councils to ensure that, where appropriate, the most effective links are in place with local partnerships and Jobcentre Plus to support more people into work.*

Scottish Government officials will also be working with COSLA and Jobcentre Plus in the coming months to ensure public sector employers maximise their contribution through expansion of public sector academy work already in place in the NHS and some local authorities.

Consideration: *The ability to address the skills needs of many groups currently outside of the labour market often depends on the third sector. Its capacity to carry out these services should be supported, though only to the extent of making them more competitive. The Council feels that funding arrangements with the third sector should be increasingly based on contracts for service provision rather than grants. The Scottish Government should also continue to support improvements in the business infrastructure and skills of social enterprises, encourage greater contact between the third and private sectors and provide incentives for partnership-based approaches to service delivery.*

Scottish Government Response: Accept. *The Scottish Government recognises that the third sector is an important partner, capable of connecting with individuals and communities with complex and multiple needs. We are working with the sector to deliver improvements in the areas set out by the Council that recognise the mosaic of capacities and needs.*

As a government we have increased support to the third sector including through the Scottish Investment Fund (£30 million), Enterprise Fund (£12 million) and Social Entrepreneurs Fund (£1 million). These provide a spectrum of investment funding for organisations right across the third sector and for those considering setting up a social enterprise.

The Scottish Government is also working closely with the third sector, COSLA and SOLACE to ensure that there are effective relationships between the third sector and national and local government across Scotland.

Consideration: *The link between cohesion and participation is close, particularly in the case of Glasgow, where a major increase in employment would support both sets of targets. The Council believes that further consideration is needed of whether there is an appropriate weighting of resources to, and within, Glasgow allocated to employment issues.*

Scottish Government Response: Accept. *The Scottish Government will explore options around this recommendation in partnership with local government.*

Planning

Recommendation 12: The Council recommends that the Scottish Government financially incentivises local authorities to promote and facilitate sustainable development projects.

Scottish Government Response: Accept. The Scottish Government has explored a number of ways to incentivise local authorities to promote economic development and is examining, with local government partners, options such as tax increment financing. An ongoing joint review with COSLA of the local government finance distribution methodology, which will also consider as part of its remit the possible incentivisation of business rate income, is due to be completed in the second half of this year. It will inform the local government settlement for 2011-12, following the next spending review.

Recommendation 13: The Council recommends that the Scottish Government changes the culture of planning and reforms the planning system so that planners see themselves as facilitators – enabling high quality developments in the right places and making a positive contribution to sustainable economic growth – rather than regulators.

Scottish Government Response: Accept. The Scottish Government is committed to the delivery of culture change as one part of the package to modernise the planning system. The statement of shared objectives and joint actions contained in *Delivering Planning Reform*⁹ sets out the programme of work that key stakeholders including the Scottish Government, planning authorities, the development sector and agencies will address to ensure that the system works more effectively to deliver the Scottish Government's aim of facilitating good quality development.

Ministers published *Delivering Planning Reform* at the planning summit in October 2008. This is a wide-ranging programme of action to support planning reform to which key stakeholders are committed. The actions in *Delivering Planning Reform* will be monitored by the Cabinet Secretary for Finance and Sustainable Growth and a follow-up summit will be held this spring to report on progress.

Recommendation 14: The Council recommends that the Scottish Government develops a clear understanding that a central purpose of the planning system is to facilitate good quality outcomes – well designed places and buildings that enhance their setting.

Scottish Government Response: Accept. The Scottish Government has published a *Scottish Planning Policy* (SPP) which sets out in clear terms their expectations for the planning system and its role in supporting sustainable economic growth. The SPP confirms that there should be a clear focus on the quality of outcomes, with due attention given to considerations of the sustainable use of land, good design and the protection and enhancement of the built and natural environment.

We have also launched the Scottish Sustainable Communities Initiative to raise the bar in terms of the quality of development and the creation of successful sustainable places.

⁹ <http://www.scotland.gov.uk/Publications/2008/11/05100742/0>

Education and Skills

Recommendation 15: The Council recommends that the Scottish Government reaches agreement with Universities Scotland on the future scale of the Scottish university system and the balance between various activities to ensure clarity in the strategic direction of universities as a system and the role of inter-institutional collaboration in that process.

Scottish Government Response: Accept. This dialogue has already started through the work of the Joint Future Thinking Taskforce on Universities on *New Horizons*. This will be taken further forward through the Tripartite Advisory Group (Scottish Government, Scottish Funding Council and Universities Scotland) (TAG), the FE HE Round Table, and the Scottish Funding Council as it develops its new corporate plan.

It should be noted that Ministers do not have any powers to influence directly the courses offered by universities. The Scottish Funding Council does, however, have a role to secure coherent provision by the fundable bodies and is reviewing the pattern of provision in the context of developing its new Corporate Plan.

Recommendation 16: The Council recommends that the Scottish Government considers three quite radical actions to develop the higher education system as a real competitive strength for Scotland:

- a two-tier approach to standard four-year honours courses, with the first two years resulting in a broad, stand-alone qualification and the second two an additional specialised qualification;
- developing local institutions so that they can build on existing diversity to promote locally-available courses and provide an entry route into higher education; and
- developing Scotland's secondary and tertiary education as part of the high-skilled services that Scotland already provides to the global economy.

Scottish Government Response: Accept in part. The suggested two-tier approach to honours courses would be a radical departure. The Scottish Government remains to be convinced regarding this part of the recommendation, but will listen with interest to the debate the recommendation has sparked. It should also be noted that, due to the autonomy of higher education institutions (HEIs), Ministers do not have any powers to prescribe the content or length of degrees bestowed by universities in Scotland. This is the province of the individual schools/departments of each autonomous institution and, ultimately, each academic senate of each HEI. In addition, there has to be demand from both students and employers for such qualifications before universities will consider their introduction and this has, so far, yet to materialise. It should also be noted that a qualification already exists for two years' successful study at university, namely the Diploma in Higher Education. Moreover, an increasing number of universities accept articulating HND students from college into the second or third years of the three-year Ordinary/four-year honours degree programme.

More broadly, *New Horizons* makes it clear that developing more flexible provision is part of the shared ambition for Scottish universities in the 21st century. It recognises

that, to be successful, degree provision will have to be relevant, flexible and adaptable to the needs of future learners and collaboration with schools and colleges to create articulation and entry/exit points into, and out of, degree programmes will have to be commonplace.

There is work already under way by HEIs to increase the flexibility of their offering to meet the needs of a more diverse student base. This includes moving to a more modular approach, enabling students to be allocated appropriate credits at whatever point they enter or exit higher education. The Scottish Funding Council is also sponsoring work to enhance articulation from Higher National qualifications to degrees.

Recommendation 17: The Council recommends that the Scottish Government examines how the significant additional costs might be funded through increased contributions from all stakeholders including government, business, students (foreign and local), industry, broad-based philanthropy (including alumni), patents and competitive research contracts.

Scottish Government Response: Accept in part. The Scottish Government believes that education should be based on ability to learn not ability to pay. *New Horizons* recognises the importance of HEIs continuing to generate a substantial amount of income over and above the resources they receive from the Scottish Government. The report also acknowledges that there is capacity to grow income from philanthropic giving and employers.

The new TAG will be advising the Scottish Government on the level of public investment required in learning and teaching, research and knowledge exchange activities to maintain broad overall comparability with the rest of the UK.

Consideration: *The Council asks the Scottish Government to ensure that the proposed government funding mechanisms for higher education generate appropriate incentives for all stakeholders and minimise risks of perverse incentives, especially those that undermine quality.*

Scottish Government Response: Accept. *One of the roles of the new TAG is to advise on how well the new funding arrangements should be and are operating. This will include the new Horizon Fund for Universities which is designed to incentivise and support universities to improve their delivery in target areas.*

We will consider whether the new funding arrangements are proving appropriate incentives, while minimising the risk of perverse incentives, as part of those discussions.

Consideration: *The Council asks the Scottish Government to ensure the presence of appropriately-chosen business representatives in the oversight of expenditure and policy on higher education, given its new role in the future development of Scotland and the scale of government commitment involved.*

Scottish Government Response: Accept. *We share the Council's view about the importance of engaging the business community in the oversight of expenditure and*

developing higher education. The appointment process for the Scottish Funding Council is designed to ensure an appropriate range of skills amongst Council members, including business experience.

One of the primary roles of the Scottish Funding Council is to hold colleges and universities accountable for delivering the quantity, quality and relevance of further and higher education and research sought by Scottish Ministers, for achieving best value from public funds, and for managing their financial and other resources in a sustainable way. We are also encouraging increased co-operation between the Funding Council, our Enterprise Agencies and Skills Development Scotland to ensure these bodies work together effectively to deliver on the Government's Purpose of increased sustainable economic growth.

Consideration: The Council asks the Scottish Government to explore how to encourage higher education students to develop positive attitudes towards investing in their own education, building on the principle that the greater the level of personal investment they make, the more focused and effective the educational outcomes will be.

Scottish Government Response: Accept in part. Students already invest a great deal – they give up their time and they forego higher earnings for the period of their course, compared with what they would have earned if they went straight into employment. They also subsidise their living costs through student loans – with the average degree student leaving with debt of around £10,000.

That is a significant personal investment and one that is likely to prevent some of our most able young people, from non-traditional backgrounds, from attending higher education. For this reason, we are currently consulting on proposals to move from student loans to grants.

Consideration: The Council asks the Scottish Government to examine mechanisms which would further promote the successful commercialisation of university research.

Scottish Government Response: Accept. Working with Scottish Enterprise, the Scottish Funding Council is considering proposals to develop a business engagement voucher scheme to stimulate work between Scotland's higher education institutions and SMEs.

Science for Scotland, the Scottish Government's new framework for science published on 27 November 2008, sets out how the Scottish Government will develop scientific research and economic and business demand including the commercialisation of university research.

In the context of Science for Scotland, we will be working with the Scottish Funding Council, Universities Scotland, Scottish Enterprise and Highlands and Islands Enterprise to foster and enhance university and business collaborations.

Para 29. The Council asks the Scottish Government to consider whether it would be appropriate for Scotland to focus on developing world class universities or world-class university departments and what would be the cost implications of pursuing either of these options. At future meetings the Council is willing to explore further the associated financial and system implications, should the Scottish Government find this helpful.

Scottish Government Response: Accept. *The Scottish Government recognises the importance of having world-class universities in Scotland and its ambitions set out in New Horizons include having: a university sector that is nationally and internationally competitive; a university sector which is regarded as 'world class'; and a number of universities ranked in the world's top performers. The results of the Research Assessment Exercise (RAE), published in December 2008, which assesses the quality of research in universities across the UK, shows that all Scottish universities are involved in 'world-leading' research. The independent assessment, conducted jointly by the Scottish Funding Council and university funding bodies for England, Wales and Northern Ireland, found that the proportion of Scottish research graded at the highest level has increased since the last RAE in 2001. Scotland currently has three universities in the top 100 of the latest Times Higher rankings for universities. The TAG will look at the costs of keeping Scottish universities competitive.*

Infrastructure

Recommendation 18: The Council recommends that the Scottish Government raises the overall level of infrastructure spending within Scotland and reviews the state of Scotland's infrastructure within a single comprehensive framework.

Scottish Government Response: Accept in part. In March 2008, the Scottish Government published the 10-year IIP aimed at securing improvements to Scotland's infrastructure in support of the Government's Purpose. The plan identifies £35 billion of investment as being required, and provides a broad basis for prioritising this investment. The £35 billion programme is equivalent to about 10 years of current capital spending by the Scottish Government.

If more resources could be secured, the IIP could be accelerated and in this regard we believe independence and full fiscal autonomy, including the ability to borrow in the same way as similar nations, would enable us to increase capital investment significantly. We share the Council's aspiration in this regard and believe infrastructure investment – whereby Scotland's capital allocation is determined on the basis of spending elsewhere in the UK – is a prime example of the limits of the current financial arrangements.

Recommendation 19: The Council recommends that the Scottish Government pursues, with the UK Government, revisions to the current fiscal arrangements which would enable it to plan efficiently the appropriate balance between current and capital expenditure, and to meet Scotland's overall infrastructure needs.

Scottish Government Response: Accept. The Scottish Government will continue to engage on this point with the UK Government and will ensure UK Ministers are aware of the Council's recommendation.

Recommendation 20: The Council recommends that the Scottish Government explores the possibility of new means of borrowing, outside the Private Finance Initiative, to help finance public sector infrastructure.

Scottish Government Response: Accept. A key consequence of achieving fiscal autonomy would be that the Scottish Government would have the freedom to borrow, if it chose to do so, to support Scottish programmes and services. Within the current financial arrangements, it is not possible for the Scottish Government to borrow, although as the Council points out, local authorities in Scotland can do so. In addition, we have set the Scottish Futures Trust the task of exploring innovative approaches to financing public infrastructure investment.

Separately from considerations of fiscal autonomy, we would be happy to explore with the Treasury the scope for changes to the current financial regime to enable new means of borrowing in Scotland to help finance public infrastructure.

Consideration: *The Council believes that government borrowing of a conventional kind is cheaper and more transparent than other methods of financing. The Scottish Government should, wherever possible, avoid off-balance sheet transactions and should make clear the implications of current decisions for future spending.*

Scottish Government Response: Accept. *We agree that conventional sovereign borrowing is the cheapest way to provide funding for infrastructure investment. Unfortunately, the amounts of UK Government capital available to Scotland each year are strictly limited by the UK Parliament and the Treasury, and there is practically no flexibility to increase budgets in response to increases in assessed demand.*

The Government fully agrees that the future costs of decisions about funding infrastructure projects should be made explicit. The future estimated costs of existing and planned NPD/PPP/PFI schemes in Scotland over the next 30 years was set out in full in the document setting out the business plan for the Scottish Futures Trust.¹⁰

Consideration: *The Scottish Government should secure independent monitoring of this reporting and of its overall fiscal stance.*

Scottish Government Response: Accept in part. *It appears that this consideration relates particularly to independent monitoring of future financial commitments flowing from off-balance sheet transactions. However, we also note that off-balance sheet transactions in support of public infrastructure investment are likely to be ended by the adoption of International Financial Reporting Standards. The most obvious independent monitor would be Audit Scotland and the Auditor General. However, the Scottish Government – rightly – does not set the priorities or terms of reference for the Auditor General or Audit Scotland. It may be appropriate to ask for the Auditor General’s comments on this issue.*

As for independent monitoring of its overall fiscal stance, we would welcome this. However, in current circumstances with no meaningful fiscal autonomy, we are unsure how much independent monitoring would be possible. There is already significant independent monitoring of the Scottish Government’s public spending proposals and of its actual spend through the Parliament and its Committees and through the work of Audit Scotland.

Consideration: *The Scottish Government should seek to develop its expertise in the management of infrastructure projects. The development of such expertise should be accompanied by better project assessment and value for money auditing.*

Scottish Government Response: Accept. *We fully agree that there is scope to improve performance across the public sector in planning and delivering capital projects. Indeed, creating this centre of excellence is a central purpose of the Scottish Futures Trust.*

¹⁰ <http://www.scotland.gov.uk/Publications/2008/05/19155435/0>

Scottish Economic Statistics

Recommendation 21: The Council recommends that the Scottish Government improves the quality of Scottish economic statistics in several specific areas so that they meet the needs of government.

Scottish Government Response: Accept in part. The Scottish Government produces a wide range of economic statistics (quarterly GDP estimates, input-output tables, export estimates and fiscal accounts), leading the way in comparison with the other devolved administrations and English regions. However, the overall scope of data provided for Scotland is not comparable with what is available at the UK level. This, in part, simply reflects the fact that the UK, rather than Scotland, is the key reporting unit for many national statistics. This means that Scottish data are produced after a significant lag as UK level work has to conclude before Scottish level work can begin.

However, ambitious development plans for Scottish economic statistics have been set out.¹¹ Moreover, a highly active group of external experts meet to discuss methodological developments and other initiatives.¹²

Ideally, any government needs a full set of national accounts to understand and describe their economic activities, and to support the formulation and monitoring of economic and social policies. These are generally compiled by National Statistical Institutions and are rarely available for the underlying countries or regions. We have recently launched the Scottish National Accounts Project (SNAP)¹³ which will attempt to produce a greater range of high level economic estimates for Scotland in line with national accounting principles. However, in order to fully develop National Accounts for Scotland we would require changes to the collection of data by the ONS throughout the UK in terms of geographic reporting.

In relation to the specific areas identified:

- We will continue to work with the finance sector to improve our estimates of the performance of this industry. This sector is notoriously difficult to measure, however, even at a national level. Scottish banks, for example, have great difficulty in identifying their activity purely in Scotland as their accounts relate to their total activity. Our estimates are sourced from the Committee of Scottish Clearing Bankers and so we are entirely dependent on them for data quality;
- Further analysis of the oil and gas sector is being undertaken in the SNAP programme;
- We are currently considering how the input-output analysis can be used to analyse environmental impact relating to policy change; and
- A review of deflators, more generally, will be carried out in the SNAP programme.

¹¹ <http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/ScotStat/SEFSP0809>

¹² <http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/ScotStat>

¹³ <http://www.scotland.gov.uk/SNAP>

Considerable progress has been made over the past two years in replacing input estimates with output estimates for public sector activity in the GDP system. Further work will be undertaken in due course to adjust output measures to account for quality change.

Recommendation 22: The Council recommends that the Scottish Government uses other measures of performance in addition to GDP to measure the performance of the Scottish economy.

Scottish Government Response: Accept. We recognise that it is important to monitor a range of indicators to evaluate the performance of the Scottish economy. As highlighted in the recently published assessment of the Scottish economy by Dr Andrew Goudie, the Chief Economic Adviser, we currently make full use of a range of indicators to monitor the performance of the Scottish economy (for example: manufacturing exports, labour market statistics, business formation/survival statistics and business surveys).

Consideration: *We believe that equal attention should be given to earnings and that an analysis of the differentials in earnings, both the overall distribution and regional and sectoral breakdowns, may provide 'hard' statistics which will be relevant to our analysis and evaluation of policy.*

Scottish Government Response: Accept. *We agree that earnings data can provide useful information on the performance of the Scottish economy. We currently have a number of different measures of earnings data which we use to examine developments in the labour market.*

Due to the limitations of the current data available (for example, difficulty in providing time-series information and breaking this down by sector and region), further investment would need to be undertaken to improve the reliability of Scottish earnings data. Even with such investment, we would need to interpret the earnings data alongside a range of other indicators on the performance of the economy (for example, a rise in earnings may simply reflect a shortage of labour rather than the strength of the economy).

As part of the SNAP programme, we will attempt to create a quarterly income-based estimate of GVA and GDP, the largest element of which relates to compensation of employees. This will analyse the number of employees and average earnings by industrial sector. In addition it will provide estimates of mixed income and taxes relating to earnings and wealth creation. In time, this will be balanced to other measures of GDP (production and expenditure based). As the above is based largely on sample information, this analysis will provide 'soft' statistics.

Consideration: *A focus on measuring GDP fails to recognise depreciation of all kinds. We consider that a framework for Scottish economic statistics should give greater emphasis to the measurement of capital assets, both material and environmental.*

Scottish Government Response: Accept. *To understand fully how depreciation impacts on economic growth in Scotland, we would need to produce reliable estimates of gross fixed capital formation, and set up a set of capital accounts and balance sheets. This would be difficult at present as institutions are only required to produce capital expenditure for their UK reporting unit. Some survey work and modelling would be required in Scotland to produce these statistics. This will be considered in due course as part of the SNAP initiative.*



**The Scottish
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