FINANCE COMMITTEE

AGENDA

23rd Meeting, 2004 (Session 2)

Tuesday 21 September 2004

The Committee will meet at 10.00 am in Committee Room 4 to consider the following agenda items:

1. Cross Cutting Expenditure Review on Economic Development: The Committee will review the written evidence received as part of its review and will consider the options for taking oral evidence.

2. Items in private: The Committee will decide whether to consider its draft reports on the Financial Memoranda of the Fire (Scotland) Bill and Water Services (Scotland) Bill and an approach paper on a future budget seminar in private at its next meeting.

Susan Duffy
Clerk to the Committee
The papers for this meeting are:

**Agenda Item 1**

Briefing paper by Peter Wood  
Written submissions

PRIVATE PAPER
Introduction
The Finance Committee has agreed to conduct a cross-cutting expenditure review on economic development. Cross-cutting expenditure reviews seek to scrutinise expenditure in relation to policies which cut across Scottish Executive departments.

The remit of the Inquiry is:

“To consider whether the level and structure of government spending on economic development in Scotland and its share of overall government spending in the period of devolved government has been appropriate in the light of:

• the identification of economic development as the priority of the Scottish Executive
• the challenges and opportunities facing the Scottish Economy
• the state of knowledge of factors influencing economic development and of the theory of economic development
• evidence on the effectiveness of expenditure on economic development and on activities supportive of economic development.”

The Committee invited written evidence on these matters from a wide range of interested bodies across Scotland and issued a general call for evidence. Persons and bodies wishing to give evidence were referred to the paper on Public Expenditure on Economic Development in Scotland prepared by Peter Wood. The call for evidence was issued in June 2004. Respondents were asked to consider five specific questions drawn up in the light of the above paper. These questions were:

• Do you think the overall level and growth of what the research terms “primary spending” on economic development has been appropriate?

• To what degree do you think economic development considerations and priorities are reflected in decisions concerning the level and nature of “support spending” (e.g., expenditure on transport and higher and further education)?

• Do you believe that the economic development impact of spending on items such as higher education and public transport has been adequately assessed – for example in the appraisal of such projects?

• What is your opinion of the available evidence on the output and impact of the budgets of Scottish Enterprise and Highlands and Islands Enterprise and of the scale of those outputs and impacts?
Do you think the balance of expenditure between primary and support spending has matched economic development needs and priorities?

In total, 15 publicly available submissions have been made. One (private) organisation has made a submission on the basis that the organisation’s identify is not publicly disclosed.

The organisations from which submissions were received were as follows:

- Association of Scottish Colleges (ASC)
- Association of University Teachers Scotland (AUTS)
- CBI Scotland
- Economic Development Association (Scotland)
- Federation of Small Businesses (FSB)
- Fife Council
- Highlands & Islands Enterprise (HIE)
- North Lanarkshire Council
- Scottish Chambers of Commerce
- Scottish Council for Development and Industry (SCDI)
- Scottish Enterprise (SE)
- Scottish Local Authorities Economic Development (SLAED) Group
- STUC
- Universities Scotland
- University of Edinburgh

This paper sets out the key points made in the responses. Table 1, at the end of the document, provides a brief summary of the response of each organisation to the five questions.

**General**

A number of comments were made on the general methodology and definitions used in the paper. There was a divergence of views on the issue of the definition of primary and secondary spending and of economic development spending in general.

Submissions from the university sector argued that academic research spending financed by the research councils should be included with primary spending on economic development. Local authority responses argued that expenditure on social inclusion – and possibly on health – contributed to economic development. It was also argued by the local authority that the cost of a range of services provided by local government in relation to planning and regulation should be included on the grounds that these activities provide the vital framework for economic development.

Several respondents argued that expenditure on water services was a key element in economic development spending.

In contrast, the Scottish Council Development and Industry argued that the work inquiry should focus on primary economic development spending where the aim of spending is clearly to increase economic activity/income.
There was no consensus view on this issue of definition – it is clear only that different bodies will express different views on the scope of spending which should be accounted for in the inquiry. The most definitely expressed views were that social inclusion spending and academic research funding by research councils should be included.

Several respondents considered that spending on agricultural support should have been excluded.

The Federation of Small Business made a number of specific methodological points and argues in particular for the analysis to include more comparisons with spending in the English regions and Wales.

Several respondents – notably HIE, SE and the academic organisations devoted part of their submissions to their analysis of the key issues facing Scotland.

The Specific Questions
Responses on the specific questions were as follows.

Question 1 - Do you think the overall level and growth of what the research terms “primary spending” on economic development has been appropriate?

The balance of responses was to the view that spending had not grown sufficiently – particularly given the priority to be afforded to economic development and the growth of other spending. This view was qualified by several respondents on the grounds that not enough was known about the effects of spending.

Some respondents took the view that while more support was needed for economic development that this should come in areas identified as “secondary” – i.e. infrastructure.

Areas identified for increased spending tended to be closely aligned to the activities of the respondents – education sector respondents argued for more spending on skills and research, local authorities for more spending through local partnerships.

The most distinctive view on spending levels was provided by the Scottish Chambers of Commerce – this body argued for cutting back direct spending on economic development projects with funds diverted to spending on transport, on reducing regulatory burdens and on reducing business rates.

The two main bodies concerned with economic development took slightly divergent views. Scottish Enterprise argued for substantially higher spending to meet the challenges facing Scotland. Their submission noted that had spend kept pace with the overall budget then the direct spend on economic development would be 90% higher than at present. HIE’s response was that resources were broadly adequate bit that flexibility of spend – e.g. the capacity to expand spending at short notice, would have been of great value. It was also noted that rural areas could only absorb a limited number of major projects at any time.
Several respondents suggested that the question was difficult to answer without a clear perception of what spending was needed – it was suggested that there should be more focus on a limited set of well defined objectives and priority projects.

**Question 2 - Do you believe that the economic development impact of spending on items such as higher education and public transport has been adequately assessed – for example in the appraisal of such projects?**

Some respondents focussed their answers on arguments that the economic development benefits of particular areas of spending were not adequately recognised (including by the research report) – this was true of the responses from academics and local authorities.

Others argued that the economic development priorities were not expressed clearly enough so that assessment was difficult. Several respondents referred to the document Framework for Economic Development in Scotland (FEDS) as a place where priorities should be more clearly articulated.

Water supply was identified as an area of investment in which economic development issues were not weighing heavily enough.

The Scottish Chambers of Commerce argued for heavier spending on transport and education on economic development grounds.

**Question 3 - Do you believe that the economic development impact of spending on items such as higher education and public transport has been adequately assessed – for example in the appraisal of such projects?**

Views on this issue were not strongly expressed – partly because few respondents had detailed knowledge of the procedures, but the balance of views was that more attention should be paid to economic development considerations in project evaluation.

**Question 4 - What is your opinion of the available evidence on the output and impact of the budgets of Scottish Enterprise and Highlands and Islands Enterprise and of the scale of those outputs and impacts?**

Most respondents were aware of the Audit Scotland report on Scottish Enterprise and on the performance information contained in the annual reports of the two bodies.

The majority view was that the bodies were largely meeting the targets set for them. SE and HIE both set out robust defences of their performance assessment.

**Question 4 - Do you think the balance of expenditure between primary and support spending has matched economic development needs and priorities?**

Respondents had relatively little to say on this balance issue. The Scottish Chambers of Commerce argued for a shift to infrastructure spending. Other comments related to the problems involved in defining these types of spending.
<table>
<thead>
<tr>
<th>Organisation</th>
<th>Q.1 Has spending growth been appropriate?</th>
<th>Q.2 Are economic development priories reflected in decisions on support spending?</th>
<th>Q.3 Is economic development impact adequately assessed?</th>
<th>Q. 4 Opinion on output and impact of SE/HIE and scale of budgets</th>
<th>Q. 5 Is balance of primary and support spend in line with needs and priorities?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assoc of Scottish Colleges</td>
<td>Not clear</td>
<td>More priority should be given to education on economic grounds</td>
<td>Benefits of skills development not fully recognised</td>
<td>Not clear</td>
<td>More should be spent on infrastructure and public services</td>
</tr>
<tr>
<td>AUT</td>
<td>Hard to assess</td>
<td>Benefits of Higher Education not recognised</td>
<td>Not in area of higher education</td>
<td>More should be spent on scientific research</td>
<td>More should be spent on R&amp;D</td>
</tr>
<tr>
<td>CBI</td>
<td>No comment</td>
<td>Probably not</td>
<td>Probably not</td>
<td>None</td>
<td>No comment</td>
</tr>
<tr>
<td>Econ. Dev. Assoc.</td>
<td>No comment</td>
<td>No comment</td>
<td>No comment</td>
<td>No comment</td>
<td>No comment</td>
</tr>
<tr>
<td>FSB</td>
<td>Not clear - more should be spent on infrastructure</td>
<td>No</td>
<td>No</td>
<td>Not enough information to judge</td>
<td>Unclear</td>
</tr>
<tr>
<td>Fife Council</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>More scrutiny needed</td>
<td>Not a clear cut boundary. Wide range of spending is relevant</td>
</tr>
<tr>
<td>HIE</td>
<td>Yes - broadly</td>
<td>Yes</td>
<td>Could be improved</td>
<td>Defended</td>
<td>Slight shift to primary spend appropriate</td>
</tr>
<tr>
<td>N. Lanarkshire</td>
<td>No – but challenges definition</td>
<td>No</td>
<td>No</td>
<td>Clearer targets needed</td>
<td>Co-ordination needs to be improved</td>
</tr>
<tr>
<td>Scottish Chambers</td>
<td>Yes – more spending on support needed</td>
<td>No</td>
<td>No</td>
<td>Budgets could be reduced</td>
<td>More spending on infrastructure needed</td>
</tr>
<tr>
<td>SCDI</td>
<td>No</td>
<td>Not clear</td>
<td>No</td>
<td>Better targets needed</td>
<td>Yes</td>
</tr>
<tr>
<td>SE</td>
<td>No</td>
<td>Yes</td>
<td>Yes- to a degree</td>
<td>Strongly defended</td>
<td>Yes – but co-ordination needed</td>
</tr>
<tr>
<td>SLAED</td>
<td>No</td>
<td>NO – in relation to water</td>
<td>NO – in relation to water</td>
<td>Close scrutiny needed</td>
<td>Not clear</td>
</tr>
<tr>
<td>STUC</td>
<td>Probably not</td>
<td>No</td>
<td>Not clear</td>
<td>Evidence unclear</td>
<td>Unclear</td>
</tr>
<tr>
<td>-------------------------------</td>
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<td>--------</td>
</tr>
<tr>
<td>University of Edinburgh</td>
<td>No comment</td>
<td>Research benefits not recognised</td>
<td>Evidence of benefits of academic research exists - not clear if used</td>
<td>Adequate</td>
<td>Spending in education should rise</td>
</tr>
<tr>
<td>Universities Scotland</td>
<td>No comment</td>
<td>No comment</td>
<td>No comment</td>
<td>No comment</td>
<td>No comment</td>
</tr>
<tr>
<td>Private</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Evidence limited</td>
<td>More should be spent on economic development</td>
</tr>
</tbody>
</table>
1. In order to assist the Committee in its consideration of the Cross-Cutting Expenditure Review on Economic Development, written submissions have been received from the following organisations:

    Association of Scottish Colleges (ASC)
    Association of University Teachers Scotland (AUTS)
    CBI Scotland
    Economic Development Association (Scotland)
    Federation of Small Businesses (FSB) Scotland
    Fife Council
    Highlands & Islands Enterprise (HIE)
    North Lanarkshire Council
    Scottish Chambers of Commerce
    Scottish Council for Development and Industry (SCDI)
    Scottish Enterprise (SE)
    Scottish Local Authorities Economic Development (SLAED) Group
    Scottish Trade Union Congress (STUC)
    Universities Scotland
    University of Edinburgh

2. **The Committee is invited to consider these submissions.**

Emma Berry
September 2004
SUBMISSION FROM THE ASSOCIATION OF SCOTTISH COLLEGES

Introduction

1. ASC welcomes the opportunity to contribute to the Committee's Inquiry. Given the Scottish Executive’s publicly stated focus on growing the economy we believe that it is timely and highly relevant given the forthcoming spending review announcement, expected by the Finance Minister in September 2004.

Principles of Economic Development

2. ASC urges the Finance Committee to consider public spending on economic development in terms of the following priorities:

   • Improving the productivity of indigenous businesses and public services as the key to economic growth.
   • Recognising that the productivity gap to be addressed is greatest amongst the low paid and low qualified.
   • Achieving a better match between employer requirement and society’s needs in investment in lifelong learning

3. With an ageing and declining workforce, Scotland can continue to achieve economic growth only by improving productivity. Comparison with Germany suggests that Scotland is not deficient in output – or pay – for those with the highest (graduate) or middle-range qualifications. Scotland’s productivity gap is mainly accounted for by low value of output – and low pay – for those with the lowest or no qualifications.

4. Spending on economic development has tended to concentrate on private inward investment and the growth of high technology businesses. Scotland needs successful businesses of this kind to compete well in the global market but it has to be recognised that “global” businesses are highly mobile in plant and office investment and personnel. These businesses are difficult to acquire but easy to lose.

5. Sustained economic growth in Scotland must focus on indigenous businesses committed to stay and to grow in Scotland. FE colleges make a particularly important contribution in this respect because of their focus on serving local economic needs. Nearly all college students currently live and intend to work in Scotland after completion of their course.

6. Promoting economic development is a local as well as a national priority. FE colleges are major contributors to the Local Economic Forums established to review and better co-ordinate business support services and to advice locally on
economic development needs. This activity needs to be better recognised in spending plans not just for the enterprise networks and local enterprise companies, but for local authorities and FE colleges.

7. Scotland is not yet as smart or successful as it should be in developing its human capital. Employers find it difficult to keep up with the many different initiatives on skills training and business support. Public spending in support of business growth needs to be better focussed and sustained, with less fragmentation than has been the case in the past.

**Spending on Further Education in Scotland**

8. ASC believes that FE colleges are already major contributors, and could be larger contributors, to economic development. The provision of courses by FE colleges is overwhelmingly vocational enabling students to be ready to meet the demands of today and tomorrow’s labour market. This is vital if the Scottish economy is to remain flexible and highly skilled in the future.

9. Lifelong learning serves many purposes – including personal development and satisfaction of individuals and society’s need for more outward-looking and self-developing communities. But the largest benefit of well-directed lifelong learning is lifetime employability. For this to be a reality, spending on acquisition and development of skills needs to address:

- Technical skills – in particular occupational requirements for particular jobs (the essential “know-how” of jobs) but also user skills for new technology and more demanding legal requirements.
- Appreciation skills which are more generic but the most highly valued by employers – such as customer awareness, organising and planning work, and problem-solving.
- Enterprise skills – the aptitudes and knowledge to establish and build micro-businesses into SMEs, SMEs into larger businesses, and larger businesses into global ones.

10. The grant funding to colleges through the Scottish Further Education Funding Council (SFEFC) is a major component of indirect or support spending for economic development. The amount of grant available to colleges for 2004-05 contributes about £408m for the tuition and training of Scots of working age. This is vital for the development of individuals, business and communities at local, regional and national level.

11. Further information on the further education budget in Scotland can be found in Annex B.
Question 1

*Do you think the overall level and growth of what the research terms “primary spending” on economic development has been appropriate?*

- Appraisal of spending plans on economic development should include the extent to which the businesses to be developed are indigenous and committed to further development in Scotland.
- Employers have been consistent in their messages about the requirements for a wider range of skills and ability to generate increased value. This means more must be invested in those who are currently low paid and low in productivity. Better skills are the key to increased productivity, and, in turn to increased growth of the Scottish economy.
- The Committee might want to examine the extent to which programmes of “business support” involve very high percentage overheads and deadweight costs. One important test for programmes of spending on the economy is how far they contribute directly to increased assets or productivity but have low or no overheads.

Question 2

*To what degree do you think economic development considerations and priorities are reflected in decisions concerning the level and nature of “support spending” (e.g., expenditure on transport and higher and further education)?*

- ASC view is that spending on areas such as further education and skills training are a vital component of any holistic strategy to grow the economy.
- In the past, and certainly in the context of the Smart, Successful Scotland strategy education expenditure and skills development has been given too low a priority vis a vis business development.
- It is not sufficient to invest only in tuition or training. For those individuals at the margins of the labour market for whom returning to learning may have marginal or even negative economic benefits. There needs to be student support too.
- Raising productivity and employability of the low qualified is expensive yet fundamental if we are to address our poor economic performance.
- In many towns of Scotland, the college campus is a major employer and vital part of local infrastructure. Colleges play a major part in “knowledge transfer” of current technology and best practice learned by individual employees or future recruits to businesses and public services.
- More public services – such as care and health – should share training and lifelong learning with private providers, through the colleges, to stimulate better standards and development of local businesses.
Question 3

*Do you believe that the economic development impact of spending on items such as higher education and public transport has been adequately assessed – for example in the appraisal of such projects?*

- Investment in economic development needs to be assessed in terms of returns to the individual, to businesses, and to the economy as a whole. None of these is easy to measure. It is easier, therefore, to focus on aggregate measures of growth and productivity.
- For individuals, the target should be lifetime employability and productivity. More longitudinal studies are needed to show how, and in what ways, education and training in life enhances employability and earnings. For businesses, more comparative studies are needed to show the different impact and value added by different forms of direct and support funding. Gains in human capital are difficult to measure but fundamental to business success.
- For the economy as a whole, much more attention needs to be given to the nature and extent of low productivity in low qualified occupations. More studies are also needed on the combined effect of various education and training programmes including New Deal and Government-funded volume training.

Question 4

*What is your opinion of the available evidence on the output and impact of the budgets of Scottish Enterprise and Highlands and Islands Enterprise and of the scale of those outputs and impacts?*

- Data is not easily obtained on the level of spending, cost per place, and outcomes of the volume training programmes managed by the Enterprise Networks. There are some headline figures for certain elements – such as numbers of places provided and planned in Modern Apprenticeships.
- There is increasing concern that the efforts of the Enterprise Networks to reduce funding per place will reduce quality of provision and discourage recruitment of “hard to train” individuals. More recognition is needed for the difference between funding of individuals on track to be successful and support for individuals who are furthest from success in employment.

Question 5

*Do you think the balance of expenditure between primary and support spending has matched economic development needs and priorities?*

- ASC is firmly of the view that the focus of expenditure should be on providing major infrastructure development and high quality public services that support individuals, businesses, and communities.
- Public funding should be directed in areas of market failure or inadequate support for individuals.
• All public recurrent spending has some multiplier benefits for the economy. More data and analysis is needed to distinguish between spending whose benefits are short-term and spending whose benefits are lasting.
• A wide range of spending is needed to stimulate and support economic development. It should not be concentrated only on high technology or “global” businesses which are footloose and may very quickly leave Scotland. There needs to be a stronger focus on support services and smaller companies which will remain in Scotland and whose growth needs support

Summary

ASC is encouraged by the commitment of the Scottish Parliament’s Finance Committee to examine public expenditure on economic development. We hope that our evidence is useful and will help the committee to get a broader feel for the range of public funding sources that are vital to driving economic development in Scotland.

Annex A

About the Association of Scottish Colleges (ASC)

1. ASC is the policy and representative body for 45 of Scotland’s 46 colleges of further and higher education. We work with colleagues in the Scottish, UK and European Parliaments, Scottish Executive, Scottish Funding Councils for Further and Higher Education, Scottish Enterprise and all other relevant public and private organisations, such as Universities Scotland, NUS Scotland, COSLA, CBI, FSB Scotland and the Scottish Chambers of Commerce

2. ASC policy is approved by the Board of Director’s after consultation with our member colleges. ASC Policy is developed by the ExecutiveTeam in dialogue with our Principal’s Forum (who represent college Principals) and Chair’s Forum (who represent the Chair’s of college Boards of Management).

About Scotland's Colleges

3. Scotland’s colleges are the lynchpin of lifelong learning. Colleges deliver both further and higher education, vocational training and skills locally to enable individuals, communities and businesses to maximise their potential, development and growth.

4. Colleges are the largest providers of post-compulsory education and training in Scotland, with almost 500,000 student enrolments each year. Scotland’s colleges employ over 22,000 staff and in 2002-03 had a sectoral turnover of over £516 million per annum.

5. Scotland’s system of further and higher education is a major and justly prized asset. Colleges make a much-valued and ever increasing contribution to providing sustainable and flexible learning opportunities for students. Colleges deliver a vast range of high quality teaching ranging from access, vocational
and specialist academic courses through to Higher National (HNC/HND) and degree courses. These qualifications are at the heart of developing an effective and highly skilled workforce and driving entrepreneurial activity in Scotland.

6. Further information on the work of Scotland’s colleges can be found in Annex C (Key Facts 2004).

7. You may also wish to refer to the following websites that will provide information on the work of ASC, the Scottish Further Education Unit (SFEU) and links to each of the 46 colleges in Scotland.

www.ascol.org.uk

www.sfeu.ac.uk

Annex B

SFEFC Budget allocations to colleges 2003-04 and 2004-05

<table>
<thead>
<tr>
<th>Programme</th>
<th>2003-04</th>
<th>2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main recurrent grant</td>
<td>327.0</td>
<td>345.4</td>
</tr>
<tr>
<td>Previously separate formulaic funding for quality improvement¹</td>
<td>2.8</td>
<td>0.0</td>
</tr>
<tr>
<td>Main recurrent grant sub-total</td>
<td>329.8</td>
<td>345.4</td>
</tr>
<tr>
<td>Estates infrastructure</td>
<td>20.9</td>
<td>37.9</td>
</tr>
<tr>
<td>ICT specific programmes</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Strategic development and support²</td>
<td>5.9</td>
<td>5.2</td>
</tr>
<tr>
<td>Quality Improvement</td>
<td>1.9</td>
<td>2.6</td>
</tr>
<tr>
<td>Widening access and inclusiveness initiatives</td>
<td>2.7</td>
<td>3.0</td>
</tr>
<tr>
<td>Employer pension costs</td>
<td>7.3</td>
<td>9.0</td>
</tr>
<tr>
<td>Other</td>
<td>1.1</td>
<td>0.7</td>
</tr>
<tr>
<td><strong>Total funding for colleges’ operating, investment and development needs</strong></td>
<td>374.6</td>
<td>408.8</td>
</tr>
<tr>
<td>Ring-fenced student support funding</td>
<td>61.2</td>
<td>64.8</td>
</tr>
<tr>
<td><strong>SFEFC’s total programme fund budget</strong></td>
<td>435.8</td>
<td>473.6</td>
</tr>
<tr>
<td>Projected total of education maintenance allowance payments³</td>
<td>N/A</td>
<td>8.9</td>
</tr>
</tbody>
</table>

¹ The £2.75 million 2003-04 Quality Improvement Grant has now been embedded in the Main Recurrent Grant
² In 2003-04 this line included support for one-off development projects, hence the lower budget in 2004-05
³ Unlike SFEFC’s other programme funds, the Scottish Executive’s resources for education maintenance allowances are demand-led. The amount shown for education maintenance allowances is therefore a projection, and not a fixed cash sum.
Scottish further education colleges 2004-05 recurrent grant\(^4\) and fee waiver grant\(^5\) allocations as per the Council's main grant letter (circular letter FE/16/04)

<table>
<thead>
<tr>
<th>College</th>
<th>Recurrent allocations</th>
<th>Initial fee waiver grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberdeen College</td>
<td>18,780,583</td>
<td>2,749,221</td>
</tr>
<tr>
<td>Angus College</td>
<td>5,433,693</td>
<td>709,801</td>
</tr>
<tr>
<td>Anniesland College</td>
<td>6,387,599</td>
<td>907,730</td>
</tr>
<tr>
<td>Ayr College</td>
<td>7,029,316</td>
<td>1,038,262</td>
</tr>
<tr>
<td>Banff &amp; Buchan College of Further Education</td>
<td>5,325,688</td>
<td>780,470</td>
</tr>
<tr>
<td>Barony College</td>
<td>1,606,681</td>
<td>155,557</td>
</tr>
<tr>
<td>Borders College</td>
<td>4,854,500</td>
<td>635,090</td>
</tr>
<tr>
<td>Cardonald College</td>
<td>9,718,315</td>
<td>1,474,381</td>
</tr>
<tr>
<td>Central College of Commerce</td>
<td>5,439,763</td>
<td>672,450</td>
</tr>
<tr>
<td>Clackmannan College of Further Education</td>
<td>3,153,404</td>
<td>279,291</td>
</tr>
<tr>
<td>Clydebank College</td>
<td>7,306,849</td>
<td>1,113,249</td>
</tr>
<tr>
<td>Coatbridge College</td>
<td>4,760,929</td>
<td>682,846</td>
</tr>
<tr>
<td>Cumbernauld College</td>
<td>3,874,962</td>
<td>530,391</td>
</tr>
<tr>
<td>Dumfries and Galloway College</td>
<td>5,362,317</td>
<td>720,546</td>
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<tr>
<td>Dundee College</td>
<td>13,660,068</td>
<td>1,869,192</td>
</tr>
<tr>
<td>Edinburgh’s Telford College</td>
<td>15,453,193</td>
<td>1,929,682</td>
</tr>
<tr>
<td>Elmwood College</td>
<td>4,216,455</td>
<td>397,213</td>
</tr>
<tr>
<td>Falkirk College of Further &amp; Higher Education</td>
<td>11,332,451</td>
<td>1,241,353</td>
</tr>
<tr>
<td>Fife College of Further &amp; Higher Education</td>
<td>9,183,645</td>
<td>991,029</td>
</tr>
<tr>
<td>Glasgow College of Building and Printing</td>
<td>8,024,497</td>
<td>895,729</td>
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<tr>
<td>Glasgow College of Food Technology</td>
<td>3,878,365</td>
<td>625,320</td>
</tr>
<tr>
<td>Glasgow College of Nautical Studies</td>
<td>4,840,932</td>
<td>575,061</td>
</tr>
<tr>
<td>Glenrothes College</td>
<td>6,201,310</td>
<td>922,869</td>
</tr>
<tr>
<td>Inverness College</td>
<td>5,735,040</td>
<td>1,030,056</td>
</tr>
<tr>
<td>James Watt College of Further &amp; Higher Education</td>
<td>19,721,515</td>
<td>2,979,594</td>
</tr>
<tr>
<td>Jewel and Esk Valley College</td>
<td>8,525,216</td>
<td>1,009,479</td>
</tr>
<tr>
<td>John Wheatley College</td>
<td>5,004,411</td>
<td>933,995</td>
</tr>
<tr>
<td>Kilmarnock College</td>
<td>6,893,431</td>
<td>1,179,010</td>
</tr>
<tr>
<td>Langside College</td>
<td>6,665,973</td>
<td>1,471,536</td>
</tr>
<tr>
<td>Lauder College</td>
<td>6,977,733</td>
<td>1,014,858</td>
</tr>
</tbody>
</table>

\(^4\) Recurrent grant allocations are the Council's initial offers of grant-in-aid to colleges for academic year 2004-05. This excludes the initial fee waiver grant, which is separately stated.

\(^5\) Fee waiver grant allocations are the Council's offers of initial fee waiver grant for academic year 2004-05. This grant is provided on a claims basis and the amount allocated represents 90% of what the Council has estimated that colleges will claim for fee waivers during 2004-05. Colleges will provide actual claims for fee waivers at later dates so that we can consolidate these claims against the grant provided using the 10% held back.
<table>
<thead>
<tr>
<th>College Name</th>
<th>2003-04 £'000s</th>
<th>2004-05 £'000s</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberdeen College</td>
<td>25,281</td>
<td>26,071</td>
<td>3.1</td>
</tr>
<tr>
<td>Angus College</td>
<td>6,918</td>
<td>7,158</td>
<td>3.5</td>
</tr>
<tr>
<td>Anniesland College</td>
<td>8,605</td>
<td>8,845</td>
<td>2.8</td>
</tr>
<tr>
<td>Ayr College</td>
<td>9,365</td>
<td>9,644</td>
<td>3.0</td>
</tr>
<tr>
<td>Banff &amp; Buchan College of Further Education</td>
<td>6,689</td>
<td>6,887</td>
<td>3.0</td>
</tr>
<tr>
<td>Barony College</td>
<td>1,839</td>
<td>1,929</td>
<td>4.9</td>
</tr>
<tr>
<td>Borders College</td>
<td>6,028</td>
<td>6,259</td>
<td>3.8</td>
</tr>
<tr>
<td>Cardonald College</td>
<td>12,700</td>
<td>13,161</td>
<td>3.6</td>
</tr>
<tr>
<td>Central College of Commerce</td>
<td>8,332</td>
<td>8,576</td>
<td>2.9</td>
</tr>
<tr>
<td>Clackmannan College of Further Education</td>
<td>4,085</td>
<td>4,198</td>
<td>2.8</td>
</tr>
<tr>
<td>Clydebank College</td>
<td>9,496</td>
<td>9,879</td>
<td>4.0</td>
</tr>
<tr>
<td>Coatbridge College</td>
<td>6,401</td>
<td>6,542</td>
<td>2.2</td>
</tr>
<tr>
<td>Cumbernauld College</td>
<td>5,185</td>
<td>5,321</td>
<td>2.6</td>
</tr>
<tr>
<td>Dumfries and Galloway College</td>
<td>6,937</td>
<td>7,071</td>
<td>1.9</td>
</tr>
</tbody>
</table>

Scottish further education colleges - comparison of 2004-05 gross resources\(^7\) with 2003-04

\(^{6}\) The total of the allocations in the above table is £340.8M. This excludes the 10% (£4.8M) of fee waiver grant that will be distributed to colleges in line with actual claims. Adding this amount to £340.8M gives £345.4M, as shown in the summary table in paragraph 41 of the main grant letter.

\(^{7}\) 'Gross resources' is the total amount which is available to colleges for the activity which Council grant is being paid, assuming that they earn the related fee income assumed by the Council in its grant calculations.

\(^{8}\) The 2003-04 figures have been re-stated in order to be comparable with 2004-05. They reflect the final amounts of recurrent grant that were announced in circular letter FE/22/03 on 9 July 2003 (after colleges had responded to the Council’s initial offer). They also include the resources totalling £2.75 million previously allocated separately under the ‘quality improvement formula funding’ grant line (see paragraph 20 of the main grant letter).
<table>
<thead>
<tr>
<th>College Name</th>
<th>2018 Fee Income</th>
<th>2019 Fee Income</th>
<th>Fee Income Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dundee College</td>
<td>18,229</td>
<td>18,742</td>
<td>2.8</td>
</tr>
<tr>
<td>Edinburgh’s Telford College</td>
<td>20,048</td>
<td>20,594</td>
<td>2.7</td>
</tr>
<tr>
<td>Elmwood College</td>
<td>5,156</td>
<td>5,278</td>
<td>2.4</td>
</tr>
<tr>
<td>Falkirk College of Further &amp; Higher Education</td>
<td>15,175</td>
<td>15,663</td>
<td>3.2</td>
</tr>
<tr>
<td>Fife College of Further &amp; Higher Education</td>
<td>12,590</td>
<td>13,011</td>
<td>3.3</td>
</tr>
<tr>
<td>Glasgow College of Building and Printing</td>
<td>10,523</td>
<td>10,883</td>
<td>3.4</td>
</tr>
<tr>
<td>Glasgow College of Food Technology</td>
<td>8,347</td>
<td>5,474</td>
<td>2.4</td>
</tr>
<tr>
<td>Glasgow College of Nautical Studies</td>
<td>6,909</td>
<td>7,070</td>
<td>2.3</td>
</tr>
<tr>
<td>Glenrothes College</td>
<td>8,172</td>
<td>8,418</td>
<td>3.0</td>
</tr>
<tr>
<td>Inverness College</td>
<td>7,083</td>
<td>7,304</td>
<td>3.1</td>
</tr>
<tr>
<td>James Watt College of Further &amp; Higher Education</td>
<td>26,829</td>
<td>27,725</td>
<td>3.3</td>
</tr>
<tr>
<td>Jewel and Esk Valley College</td>
<td>11,195</td>
<td>11,438</td>
<td>2.2</td>
</tr>
<tr>
<td>John Wheatley College</td>
<td>6,179</td>
<td>6,329</td>
<td>2.4</td>
</tr>
<tr>
<td>Kilmarnock College</td>
<td>9,094</td>
<td>9,347</td>
<td>2.8</td>
</tr>
<tr>
<td>Langside College</td>
<td>9,109</td>
<td>9,498</td>
<td>4.3</td>
</tr>
<tr>
<td>Lauder College</td>
<td>9,289</td>
<td>9,553</td>
<td>2.8</td>
</tr>
<tr>
<td>Lews Castle College</td>
<td>1,848</td>
<td>1,923</td>
<td>4.1</td>
</tr>
<tr>
<td>Moray College</td>
<td>4,633</td>
<td>4,771</td>
<td>3.0</td>
</tr>
<tr>
<td>Motherwell College</td>
<td>13,942</td>
<td>14,395</td>
<td>3.3</td>
</tr>
<tr>
<td>North Glasgow College</td>
<td>8,396</td>
<td>8,679</td>
<td>3.4</td>
</tr>
<tr>
<td>Oatridge Agricultural College</td>
<td>2,486</td>
<td>2,567</td>
<td>3.3</td>
</tr>
<tr>
<td>Perth College</td>
<td>5,901</td>
<td>6,062</td>
<td>2.7</td>
</tr>
<tr>
<td>Reid Kerr College</td>
<td>13,971</td>
<td>14,485</td>
<td>3.7</td>
</tr>
<tr>
<td>South Lanarkshire College</td>
<td>6,166</td>
<td>6,371</td>
<td>3.3</td>
</tr>
<tr>
<td>Stevenson College</td>
<td>15,208</td>
<td>15,585</td>
<td>2.5</td>
</tr>
<tr>
<td>Stow College</td>
<td>9,259</td>
<td>9,455</td>
<td>3.1</td>
</tr>
<tr>
<td>North Highland College</td>
<td>4,401</td>
<td>4,484</td>
<td>1.9</td>
</tr>
<tr>
<td>West Lothian College</td>
<td>7,531</td>
<td>7,693</td>
<td>2.1</td>
</tr>
<tr>
<td>Orkney College</td>
<td>1,124</td>
<td>1,150</td>
<td>2.3</td>
</tr>
<tr>
<td>Shetland College of Further Education</td>
<td>1,093</td>
<td>1,149</td>
<td>5.1</td>
</tr>
<tr>
<td>Newbattle Abbey College</td>
<td>322</td>
<td>328</td>
<td>1.8</td>
</tr>
<tr>
<td>Sabhal Mor Ostaig</td>
<td>533</td>
<td>547</td>
<td>2.7</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>395,599</strong></td>
<td><strong>407,598</strong></td>
<td><strong>3.0</strong></td>
</tr>
</tbody>
</table>

These figures are provided for comparison only and reflect the fee income that colleges will generate in addition to Council grant.

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*Total main recurrent grant is budgeted to increase by 4.7% from £329.8M to $345.4M (see summary table in the press release and in paragraph 41 of the main grant letter). This is higher than 3% to reflect changes in colleges’ anticipated fee income.*
Annex C

Key facts 2004

Scotland’s 46 colleges of further and higher education provide access to learning throughout life, accessible to those in work, and those out of work.

Colleges deliver education, training and skills to enable individuals, communities and business to maximise their potential, development and growth.

The value of colleges is to:

- Provide an opportunity of learning for all – including those wishing to update their skills.
- Meet employers’ requirements for skills and enterprise.
- Enable individuals to develop their potential within their communities.
- Train for today’s jobs and to enhance individuals’ employability.

Colleges accomplish this by:

- Vocational and occupational learning supported by employers
- Personal development and fulfilment through voluntary learning
- Helping students from disadvantaged areas and backgrounds
- Entry at any level
- Opportunity to progress over a lifetime of learning

Facts about Scotland’s Colleges

- 46 colleges
- **489,895** student enrolments in 2002/03
- Enrolments have increased by **19%** since 1997/98
- **22,000** staff
  - £409 million grant support for 2003/04
  - College productivity up by 33% since 1995/96
- Broadband connections of between 34 and 100 mbps to the Janet network
- 96% of HMIE subject reviews gave a good or very good grade for the learning or teaching process

**About Students**

![Age of College Students](image)

- Part-time study accounts for 85% of enrolments and 37% of student hours
- Full-time study accounts for 15% of enrolments and 63% of student hours
- Over half (53%) of students are women
- Over 60% of students are aged 25 or over
- 11% of students receive additional learning support
- 28% of students come from areas of high deprivation (Scotland’s 20% most deprived areas)
- 60% of Scots entering HE for the first time do so in a college

**About courses**

- Colleges offer a wide range of further and higher education qualifications
- 26% of college activity is at the higher education level, 74% at further education level

- More 1.4 million entries for SQA qualifications in 2002 and 2003

- More than 375,000 Higher National Units awarded in 2002 and 2003

- Colleges provide courses in a wide range of subjects including: Computing/IT (21% of enrolments), Health (12%), Social Studies (12%), Business and management (6%).

**Colleges are the main suppliers of:**

- Lifelong learning – at all levels and for whatever stage in life

- Easy local access to learning – in communities, the workplace and home

- ‘Work ready’ skills – literacy, numeracy, communications and IT

- Basic, intermediate and advanced levels of courses and qualifications

- Articulation routes into higher qualifications such as degrees

**Colleges also:**

- Promote social inclusion and community development

- Offer a supportive and quality learning experience

- Partner other key sectors and agencies including schools, universities and the enterprise network

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**SUBMISSION FROM THE ASSOCIATION OF UNIVERSITY TEACHERS IN SCOTLAND (AUTS)**

**Preamble**

The Association of University Teachers Scotland, AUTS, has about 6,500 academic and academic-related members in Scottish higher education institutions (HEIs). We solely represent members in higher education institutions. This puts us in a unique position to comment on higher education issues in Scotland from the practitioner viewpoint. We welcome the opportunity to respond to the Finance Committee’s Call for Evidence on Economic Development in Scotland.
Specific questions

_Do you think the overall level and growth of what the research terms “primary spending” on economic development has been appropriate?_

The research seems to have taken a very basic view of primary spending for economic development that fails to show the reality for such spending in Scotland. Many of the budget headings lumped under the primary heading include spending that is secondary spending and particularly in the research budgets is principally spending on the important but secondary issue of basic research. Further there is no attempt to include funding in the higher education sector for knowledge transfer even though these figures are readily available and if research is classed as primary spending such spending in higher education should be included at the primary level. Spending on research is required to develop a knowledge economy and we welcome the increase in this spending and the funding to develop this research. However, the lack of breakdown in these budget headings into core economic development funding makes it difficult to gauge the true spending in this area.

_To what degree do you think economic development considerations and priorities are reflected in decisions concerning the level and nature of “support spending” (e.g., expenditure on transport and higher and further education)?_

In many of our submissions we have highlighted the role of higher education in developing a smart successful Scotland and we believe it has a crucial role to play in economic development. Higher education does much more than provide the vital workforce skills that a knowledge-based economy requires. It also provides the entrepreneurs and innovation that build the enterprise culture. It plays its part in promoting lifelong learning not only through increasing adult participation in education but also by preparing the new generation of Scots to be adaptable in the face of change. Higher education provides the workforce with skills and knowledge and equips students with the core skills required to gain new knowledge and move with the rapidly changing work environment.

Universities provide the research base that produces the innovation that both established and new businesses require in all areas of commercial activity. More importantly the Executive can drive the commercialisation of this research by encouraging joint activity of both Scottish Enterprise and the Scottish Higher Education Funding Council (SHEFC).

SHEFC has introduced a knowledge transfer and commercialisation funding stream. This is a welcome extension of research funding which will help universities meet the economic, social, cultural and public policy development needs of Scotland. The development of Scotland as a nation which is prosperous cultured and enjoys a good quality of life can only occur if research and collaborations that are relevant to this nation are promoted in our universities.

Additionally the funding for Intermediary Technology Institutes (ITIs) will contribute to knowledge transfer between universities and industry. However, the funding from ITIs is not exclusively for universities, as the funding must be won in a bidding
process. Hence this funding is transient and may not contribute to the overall funds of institutions, as it will be used to purchase research, probably using contract researchers, and may not build long-term ‘science base’ capacity in universities. This could lead to an increase in the number of fixed-term staff rather than embedding knowledge transfer into the activities of institutions.

The creative industries are just as important in developing Scotland and its economy as the technical areas. They are the basis for our tourist industry, help create a balanced environment, produce companies in their own right and creative ideas are used in product development in many other industries. It is therefore important that knowledge transfer activity funding is not limited, as Scotland without the creative industries would be both culturally and economically deprived.

It is also now widely recognised that HEIs attract incomers to Scotland (at both undergraduate and postgraduate level) from other parts of the UK, the EU and the wider world. As Scotland faces a demographic decline, with consequent damping effects on economic growth potential, the challenge of persuading the ‘fresh talent’ already recruited by our universities to stay and work in Scotland, is central to Scotland’s economic prospects.

It tends to be these economic concerns that influence the spending priorities for the Scottish budget and we hope the importance of higher education is reflected in the next spending review announcement.

Do you believe that the economic development impact of spending on items such as higher education and public transport has been adequately assessed – for example in the appraisal of such projects?

In higher education there is significant assessment of all the actives in universities and we believe that the bureaucratic burden of all this assessment can detract from the main roles of teaching, research and knowledge transfer.

However, the Scottish universities achieved an outstanding result in the 2001 Research Assessment Exercise (RAE) with 85% of Scottish research activity now of national or international quality, compared to 57% at the time of the last RAE in 1996. University researchers in Scotland outperformed the rest of the UK. In the last spending review we calculated that to fund the increase in research quality would cost an additional £38 million per annum. The formula based research grants have been increased by £23 million per annum and this helped to meet the needs of the best research departments in Scotland. Despite this extra funding SHEFC has ceased to fund 3b rated departments and is only funding those 3a departments that have risen in quality. The introduction of a small seed-corn fund has offset the concentration of research funding but only for those institutions who do not have a significant portfolio of research funding. This has left research departments with a national reputation without core funding and undermines the research base of Scottish universities.

We believe higher education plays a crucial role in the future economic development of Scotland and although this has been recognised, a comprehensive assessment of its contribution to the economy has not been carried out.
What is your opinion of the available evidence on the output and impact of the budgets of Scottish Enterprise and Highlands and Islands Enterprise and of the scale of those outputs and impacts?

We believe that spending on research and knowledge transfer is the best way to build up the Scottish economy and therefore welcome the increased spending in this area. In particular the spending on ITIs should be used to develop and retain the best researchers in Scotland as well as promote knowledge transfer. It should be an explicit aim of ITI spending to develop and retain the science base in our universities.

Do you think the balance of expenditure between primary and support spending has matched economic development needs and priorities?

The Scottish Executive\(^\text{10}\) has encouraged firms to take up tax credits for research and development (R&D) but as Table 1 shows Scottish spending by industry on R&D lags behind most of our competitors.

Table 1: International Comparisons 1997 to 2001: BERD spend as a percentage of GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>1997(%)</th>
<th>1999(%)</th>
<th>2001(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>0.5</td>
<td>0.5</td>
<td>0.6</td>
</tr>
<tr>
<td>UK</td>
<td>1.18</td>
<td>1.25</td>
<td>1.28</td>
</tr>
<tr>
<td>Germany</td>
<td>1.54</td>
<td>1.70</td>
<td>1.76</td>
</tr>
<tr>
<td>France</td>
<td>1.39</td>
<td>1.38</td>
<td>1.37</td>
</tr>
<tr>
<td>Italy</td>
<td>0.52</td>
<td>0.51</td>
<td>0.56</td>
</tr>
<tr>
<td>Japan</td>
<td>2.04</td>
<td>2.08</td>
<td>2.28</td>
</tr>
<tr>
<td>Canada</td>
<td>1.01</td>
<td>1.06</td>
<td>1.11</td>
</tr>
<tr>
<td>USA</td>
<td>1.91</td>
<td>1.98</td>
<td>2.10</td>
</tr>
<tr>
<td>Ireland</td>
<td>0.91</td>
<td>0.87</td>
<td>0.80</td>
</tr>
<tr>
<td>Finland</td>
<td>1.79</td>
<td>2.20</td>
<td>2.42</td>
</tr>
<tr>
<td>Sweden</td>
<td>2.65</td>
<td>2.74</td>
<td>3.31</td>
</tr>
<tr>
<td>EU</td>
<td>1.13</td>
<td>1.19</td>
<td>1.24</td>
</tr>
<tr>
<td>OECD</td>
<td>1.48</td>
<td>1.53</td>
<td>1.62</td>
</tr>
</tbody>
</table>

Source: Business Enterprise Research and Development in Scotland 2000

In the partnership agreement the executive stated:

“We will work with businesses to increase their investment in research and development to match more closely our competitors in the OECD.”

Although there is a slight increase in spending on research by industry more has to be done to develop this spending or the Scottish economy will stagnate.

If we are to build a knowledge economy universities must work together to develop research ideas. As Table 2 shows the total spend on R&D in Scotland is less than the equivalent share for the UK despite the relatively large share of public R&D spend in Scotland.

\(^{10}\) Scotland’s Economic Future Scottish Executive 2002
Table 2 Value of Total R&D Undertaken in Scotland and the UK 2001

<table>
<thead>
<tr>
<th></th>
<th>Businesses</th>
<th>Government</th>
<th>Higher</th>
<th>Educ</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
<td>512</td>
<td>226</td>
<td>510</td>
<td></td>
<td>1,248</td>
</tr>
<tr>
<td>UK</td>
<td>12,682</td>
<td>1,829</td>
<td>4,035</td>
<td></td>
<td>18,546</td>
</tr>
<tr>
<td>% of UK</td>
<td>4.0%</td>
<td>12.4%</td>
<td>12.6%</td>
<td></td>
<td>6.7%</td>
</tr>
</tbody>
</table>

Source: ONS Economic Trends

HEIs produce the research ideas that are developed into commercial products and result in the formation of spin-off companies, but increased links between academics and industry are required to allow the growth of the knowledge based economy. Scottish Enterprise - with its links to the higher education sector and knowledge of both investment opportunities and those companies with an ability to further develop research - is in the ideal position to help build these links.

The new emphasis of the Scottish Enterprise Network is now encouraging the development of new Scottish business and the Executive is committed to turning Invented in Scotland into Made in Scotland. However, this will not occur unless university research is developed in Scotland.

The spending on secondary issues is crucial and without it the spend on primary economic development functions will be wasted. However, the spending should be directed towards building research capacity and developing the patents and research ideas created by our world class universities. The Scottish Executive should encourage industry to increase spending on R&D and to take up the available tax incentives.

SUBMISSION FROM CBI SCOTLAND

I refer to the Convenor’s letter of 28th June 2004 regarding the Committee’s review on economic development. At CBI Scotland, we welcome this review because information normally published by the Scottish Executive does not reveal the amount of expenditure on economic development that cuts across departments. The research by Peter Wood of Tribal HCH is useful and to his usual very high standard.

The Scottish Executive’s top priority, as set out in the Partnership Agreement, is to raise Scotland’s long-term economic growth rate. It does appear odd, therefore, that Primary economic development spend has fallen from 5% to 4% of the Scottish budget over the period 1999-2004 and that Support spend has fallen from 16.4% to 12.2%. This compares with growth in overall expenditure of 41% over the period 1999-2005. Included, of course, in the Executive’s increasing revenue stream is some £140m pa accounted for by the Executive’s policy of levying a higher non-domestic rate poundage in Scotland than the UK Government levies in England. Such a policy is not helpful to Scotland’s UK and international competitiveness.

The challenge for CBI Scotland is that, without having access to detailed audits of the value obtained from the expenditure and the outputs achieved, it is very difficult to
form a reliable view as to whether an appropriate proportion of the Executive’s budget is being spent over time on Primary and Support spending or not.

There are a number of examples available to illustrate this point:-

- The Scottish Executive is currently reviewing the Smart Successful Scotland strategy and the new Chair and Chief Executive of Scottish Enterprise are reviewing the role and activities of Scottish Enterprise. We are supportive of these reviews because our members, while broadly supportive of the Smart Successful Scotland blueprint and the Scottish Enterprise agenda, believe there is scope for improvement and that revision is timely. However, we don’t know what the outcome of these reviews will be in terms of cost/benefits or realignment of Scottish Executive budgets.

- CBI Scotland was very concerned about the level of the Scottish Executive’s commitment to transport investment between 1997 and 2002. However, the significant new transport investment commitments arising from Spending Review 2002 represented a change in the Scottish Executive’s spending priorities, which we welcomed. We are very satisfied with the projects that have been announced and, taking realistic account of the statutory and other pre-project work involved, are content with the time scales for delivery. However, we cannot quantify this in terms of money spent because we do not have the information available to do so.

- The Scottish Executive has recently produced a National Planning Framework and is currently consulting on measures to improve Scotland’s existing planning regime. CBI Scotland lobbied very hard for improvements in this regard because a successful result will improve Scotland’s economic environment. However, provided a third party right of appeal is not introduced, the costs of improving the planning regime could be comparatively little compared with other heavy investments.

- CBI Scotland is broadly supportive of the Executive’s policies in respect of education and lifelong learning. Clearly there is a considerable increase in expenditure on education, e.g. implementing the McCrone agreement. If McCrone delivers what was intended, i.e. a more professional and flexible teaching environment, then the money spent could impact favourably on the Scottish economy. However, other key initiatives such as the review of the 5 to 18 curriculum might cost comparatively little but have a significantly favourable impact.

As stated above, the Scottish Executive’s top priority is to raise Scotland’s long-term economic growth rate. We support this commitment and have called for every policy of the Executive to be tested against this key objective prior to adoption. However, this is not yet happening. So, it is entirely possible for the Executive to produce and implement a policy, on e.g. social or justice grounds, which results in an adverse impact on the economy. A relevant and full appraisal would allow for a better-informed policy choice and debate and help avoid the law of unintended consequences impacting adversely on the economy at a later stage.
To answer fully the five questions in the Convenor’s letter, the Committee will need to undertake a very full and detailed investigation, including some original research and survey work. The Committee will need to explore in detail the investments needed in direct economic development activity and other supply side areas of the economy to achieve the Executive’s goals in terms of activity and volume. Some international comparisons could help here. The results will then need to be translated into costs and benchmarked against the actual amounts spent. We would certainly encourage the Committee to take this very useful work forward.

SUBMISSION FROM ECONOMIC DEVELOPMENT ASSOCIATION (SCOTLAND)

Economic Development Association (Scotland) is the leading professional association for practitioners in economic development in Scotland, with over 3,000 members.

This inquiry is welcomed as a useful exercise to classify, monitor and report on the primary and supporting expenditure on economic development. It is unfortunate however that the inquiry does not allow any judgement on the effectiveness of this spend and whether it has had its intended effects. Working with Audit Scotland and others to undertake a next stage inquiry to measure effectiveness and value for money is a logical and highly valuable next step to this inquiry.

Primary Supports

- Commercialisation Supports. There are a number of whitehall/Scottish Executive funded commercialisation supports such as SMART, SPUR, TCP, KT. It is not clear if these are included within the categorisation.

The classification of secondary spend on ED is useful, however there would appear to be some major exclusions:

- Research spending in universities, research institutes and Further Education colleges. As with FE/HE education, although the primary objective is not the development of the economy, there is a substantial indirect effect (or could be). As well as funding via Scottish Funding Council this will also comprise substantial funding from whitehall departments.

- Social and community economic development (including Communities Scotland). There appears to be inconsistencies in the categorisation of this spend and it is recommended that this is treated consistently and included as secondary spend. While it is acknowledged that this is not primarily about economic growth, this is often delivered in conjunction with economic growth activities, and there are some major initiatives such as SkillSeekers, Modern Apprenticeships, literacy and numeracy initiatives in the workforce, adult guidance and measures to tackle skill shortages which seek to address both economic growth and redistribution objectives. This
categorisation is further endorsed if New Deal is included in the definition for Whitehall spend in Scotland as this is primarily addressing redistribution rather than growth objectives. If this is not included, then an element of SE and HIE spend which is focused on inclusion (particularly Training for Work) should be excluded for consistency.

The categorisation of spend by Local Authorities under estimates the level of spend and contribution that they make to economic development. As well as spend in "regeneration and social exclusion", there is other spend related to support to Tourist Board, Business gateways which does not appear to be included. In addition secondary spend should be broadened to include utilities infrastructure, quality of the built environment handled through planning, housing and other routes.

The finding of a reduction in real spend in economic development over time is hard to comment on, without information on its effectiveness and the level of need/opportunity in the economy as a whole for economic development spend. It would be valuable to have further information in these aspects to allow such a judgement to be made on the appropriateness of this level of spend.

Responding to the specific question raised in the inquiry:

Do you think the overall level and growth of what the research terms “primary spending” on economic development has been appropriate?
Unfortunately, without any information on the effectiveness of the primary spend on economic development, it is not possible to make a judgement on this.

To what degree do you think economic development considerations and priorities are reflected in decisions concerning the level and nature of “support spending” (e.g., expenditure on transport and higher and further education)?

Unfortunately, this was not the subject of this inquiry.

Do you believe that the economic development impact of spending on items such as higher education and public transport has been adequately assessed – for example in the appraisal of such projects?

Unfortunately, without any information on the effectiveness of the existing spend or an analysis of how this spending is currently being assessed/appraised, it is not possible to make a judgement on this.

What is your opinion of the available evidence on the output and impact of the budgets of Scottish Enterprise and Highlands and Islands Enterprise and of the scale of those outputs and impacts?

Unfortunately no evidence was presented on this as part of this inquiry, however there is only limited information available on this, and as highlighted above an investigation into the effectiveness and Value for Money of this spend would be a valuable subject for a future inquiry.
Do you think the balance of expenditure between primary and support spending has matched economic development needs and priorities?

Unfortunately, without information on the effectiveness of spend, it is not possible to make a judgement on this.

EDAS welcome the opportunity to make this contribution and would be happy to contribute further to this inquiry and subsequent ones.

**SUBMISSION FROM THE FEDERATION OF SMALL BUSINESSES IN SCOTLAND (FSB)**

The Federation of Small Businesses is Scotland’s largest direct-member business organisation, representing 18,000 members. The FSB campaigns for an economic and social environment which allows small businesses to prosper. We therefore take a strong interest in all government investment decisions relevant to meeting the needs of business and welcome this opportunity to contribute to the Finance Committee’s review.

In our evidence we make some general points on the report before considering some more specific points and the questions posed by the Committee in relation to the report from Tribal HCH.

**Introduction**

This research is an interesting first stage in trying to come to a better understanding of what level of economic support may be appropriate in Scotland and of which types of support are most effective and efficient. The FSB has been continually calling for the Executive to improve its analysis of spending, outputs and outcomes, and the report is a welcome step to providing more focus on this issue. However, on its own, the report tells us little and further work is needed to look at different areas of expenditure (e.g. Business Gateway) and whether these are delivering their intended outcomes (e.g. increased business starts).

If this is the first phase of analysis, it would be useful to know what the Committee intends to consider in later stages. We would agree with the research (para 2.7) that gathering “evidence on the outputs and impacts of these elements of spending” would be a “logical further step”, although the difficulty of achieving it should not be under-estimated, especially in relation to secondary or support spend.

Indeed, given the methodological difficulties and the importance to business of investment in areas like education and transport, it is questionable whether looking at direct business support spending in isolation of indirect spending really furthers our understanding of the spending priorities for boosting enterprise.

It must also be remembered that direct and indirect expenditure on economic development is only part of a comprehensive strategy to promote enterprise. Political will to reform the regulatory framework within which Scottish businesses operate is also required, with reform of the planning system being an obvious first step.
Similarly, cutting business overheads, for example by extending the small business rates relief or cutting water charges, would give an undoubted boost to the SME sector.

Committee questions

1. **Do you think the overall level and growth of what the research terms ‘primary spending’ on economic development has been appropriate?**

   It is difficult to answer this first question unless we define what is meant by appropriate. However, some observations do seem reasonable given the data, but first we should be clear that the following refers to industry assistance only and not to agricultural assistance which generally has non-economic aims and is outwith the control of the Scottish Executive and UK government. In addition, we look only at the Executive spend as the other spending has no trend data or comparators available (see comments below on this).

   - From table 3 of Appendix 2 it can be calculated that non-agriculture, forestry and fishing (AFF) primary spend has fallen over the period 1999-00 to 2004-05, at a time when the Executive budget has risen overall.
   
   - If demand driven grants are also excluded from the analysis there has been a six per cent increase in direct economic development spending, well below the overall increase in the Executive budget over this period. This indicates a declining share of the Budget.

At present all that can really be implied is that the fall in direct economic support spending as a percentage of the overall Budget, at a time when we are emerging from a period of difficult trading conditions and with Scottish growth continuing to trail that of the UK as a whole, this could be seen to be inconsistent with the Executive’s claim to have the economy as its top priority. However, the FSB would not necessarily argue for greater funds for the enterprise networks or VisitScotland, as we believe there are other areas which would be classified as ‘secondary’ economic spending in the present report where investment would have a greater economic impact (see below).

2. **To what degree do you think economic development considerations and priorities are reflected in decisions concerning the level and nature of “support spending” (e.g. expenditure on transport and higher and further education)?**

   Unfortunately, it is not clear to us what the Executive’s overall “economic development considerations and priorities” are, so it is difficult to answer this question. The Executive’s “primary spend” priorities are largely set out in ‘Smart Successful Scotland’, and their wider economic strategy is set out in Framework for Economic Development Scotland (FEDS) but the latter document does not give priorities for wider spending. It is unclear how FEDS is used, however in terms of informing spending priorities across the Executive budget. This implies that “economic development considerations and priorities” have little impact on spending
but are used as a further justification for it once allocations have been made. Hopefully, this will be addressed in the updated FEDS which is expected to be published in September.

Given the importance of the education system and our national infrastructure, the FSB is concerned to see that the share of the Scottish Budget accounted for by activities supportive of economic development has fallen from 16.4% in 1999 to 12.2% this year. This is hardly indicative of the economy being the Executive’s top priority. Further, it should be borne in mind that investment in areas supportive of economic development lead to a return to the public purse in the form of higher tax takes and lower benefit spend due to higher levels of economic activity and productivity.

There are a number of areas where the FSB feels that indirect expenditure could be increased to benefit enterprise and the economy, and some specific examples are outlined below:

- **Water and Waste Water Infrastructure** – The Committee members are well aware that one of the biggest barriers to economic development in Scotland today is the capacity of our existing water and waste water infrastructure. The current Scottish Executive consultation ‘Investing in Water Services 2006-2014’ estimates the cost of ending these development constraints to be in the region of £1billion. Scottish Water is currently required to recover the costs of infrastructure investment through customer charges but this has rendered development in many parts of Scotland economically unviable. If promoting enterprise is the Executive’s number one priority then surely there is a case for direct public investment to unlock this barrier to growth.

- **Small Business Rates Relief Scheme** – Research has been published illustrating the disproportionate burden that the rates system places on smaller businesses and the Scottish Executive has introduced a small business rates relief scheme to reduce the rates burden on businesses with a rateable value of less than £10,000. However, not all businesses claim the relief they are entitled to and the current scheme is based upon the aggregate rateable value of a business’s property. Making the relief automatic and basing it upon the value of individual properties would extend take-up of the scheme, delivering greater benefits Scottish businesses.

- **Waste Management Infrastructure** – SEPA estimates that the cost of landfill will rise by four to eight times in the coming years as landfill space becomes scarcer. Significant investment is necessary to ensure that alternative waste management options (e.g. recycling, CHP, composting) are put in place if increased landfill charges are not to harm business competitiveness.

- **Pre-school Education** – The education system is obviously crucial to economic development. Research shows that the first seven or eight years of life are the most important in establishing patterns of learning, IQ
and social skills, so government should target the majority of its resources at this stage of the life cycle. Investment at this early stage has the greatest impact, and pays dividends throughout life, providing the best return on government's limited resources, and removing the need for remedial aid later on. By getting the schooling and living environment right, we will equip our children with the basic skills - such as literacy, numeracy and problem-solving - that they need to take advantage of the opportunities to learn and work later in life, and to contribute to a vibrant national economy.

3. **Do you believe that the economic development impact of spending on items such as higher education and public transport has been adequately assessed – for example in the appraisal of such projects?**

We are not aware of any such assessments or evaluations having been made. We note that such assessments are notoriously difficult to make but that does not mean that they should not be attempted.

In addition, we would also observe that insufficient assessments or evaluations have been made of projects and initiatives covered by ‘primary spending’.

A further suggestion for future work in this area would be to make greater use of comparative data, both within the UK and from other countries. As the report suggests, it is very difficult to prove which spend is the most effective or which even works at all. However, some indication of success might be garnered from looking at funding patterns elsewhere and how they match up with economic performance.

4. **“What is your opinion of the available evidence on the output and impact of the budgets of Scottish Enterprise and Highlands and Islands Enterprise and of the scale of those outputs and impacts?”**

The FSB has been supportive of the ‘Smart Successful Scotland’ strategy for the enterprise networks and of the enterprise agencies’ role in skills development, delivery of the Business Gateway and the development of the Intermediate Technology Institutes, for example.

However, there is currently little detailed research available on the output and impact of the budgets of Scottish Enterprise and Highlands and Islands Enterprise and this is an obvious topic for further investigation by the Committee.

We would stress here the importance of sticking with policies over time, (a) so that they are given time to work, and (b) so that they can be properly evaluated. Emphasis should also be put on evaluating the impact of specific projects rather than the ability of Scottish Enterprise as a whole to increase the relative level of GDP per capita and the like.
Do you think the balance of expenditure between primary and support spending has matched economic needs and priorities?

Given the difficulties measuring financial inputs and relating these to outputs and outcomes, it is almost impossible to answer this question. It is only in times of serious disequilibrium that it is obvious where under-investment is occurring. For example, in Ireland in the 1950s and 1960s there was significant under-investment in education. There are a number of areas where greater investment is now needed to address past under-investment, most notably water infrastructure but also transport and communications infrastructure and housing.

Wider Observations

The FSB has consistently argued that the best way to promote economic development is to develop FEDS in such a way akin to the successful Irish National Development Plans (see Annex 1). In other words a coherent, co-ordinated, attempt at prioritising spending across services with the goal of stronger economic development. (Note - this should not be mis-characterised as a return to some sort of central planning with greater public sector involvement, but rather seen as a way of improving strategic planning and offering greater vision and leadership in those areas that the public sector is inevitably involved in.) In order to achieve this it seems essential that the Finance Department is given greater powers of central control and co-ordination of budget funds and the budget process. An enhanced ability to evaluate, to carry out cost-benefit analysis and to allocate according to agreed priorities should lead to a more efficient and effective government, especially in cross-cutting areas like economic development which currently tend to lose out to Departmental silos like health and education.

Technical Comment on Tribal HCH Report

In general we find the document a little ill-focused. It seems obvious that AFF spending is an interesting, but largely separate, issue and should have been considered in a separate section. Its inclusion in most tables and charts makes it more difficult to interpret the underlying trends.

- Given that local authority spending on education and transport dwarfs central spending, this should have been included in the analysis reported in section 3 of the report
- The inclusion of UK government data is half hearted at best, yet this information is readily available from GERS
- No attempt is made to look at the data over time
- The PESA 2003 data referred to is available on a consistent basis from 1997-98 to 2001-02
- There is no support spending included under the UK government and yet PESA 2003, table 8.7, shows figures for ‘roads and transport’ and for ‘culture media and sport’
- In para 2.18 it states that PESA 2003 figures “do not indicate how the total spending is divided between Executive spending and Whitehall spending”. This is untrue; the figures are given in table 8.7 (this table is actually cited as the source in GERS).
• PESA 2003 figures include similar ‘primary’ and ‘support’ data for England, Wales and Northern Ireland. Some comparison of shifts in such spending over time would be interesting. In addition, PESA also includes a breakdown by English regions, which again might show some interesting comparisons. All this data is also given in per capita terms.

• PESA 2004 data was published on 19 April 2004 and the research should be revised in light of this. There have been considerable improvements in regional data (Chapter 8), in line with the recommendations of the McLean Report. In particular, for 2003-04 data is split between: Scottish Executive; Scotland Office; Local Authorities; and UK government Departments, for a wider selection of spending functions, including ‘enterprise and economic development’, science and technology etc (see table 8.14). Also tables 8.9 (a) and (b) split spending by function between current and capital spending.

• In general, it might have been more useful to start from the PESA data, which should be consistent, and break this down to its elements (the data must be built up in this way and the Executive/HMT/ONS between them must have this data available).

Specific Points

Proceeding through the document in order:

• Para 2.10 and table 2.2, does education spend include preschool spend (nurseries, childcare etc)? It is also unclear why culture heritage and sport is included here (as opposed to some elements of health or environment or social inclusion, for example).

• Para 3.1, it would have been interesting to start prior to 1999-2000, if the data were readily available, to observe the transitional impact of devolution.

• Para 3.18, again this ‘analysis’ is pretty half hearted. Either it is of relevance and should be considered properly or it should be omitted.

• Para 5.1, as stated above PESA has total spend data from 1997-98 to 2001-02, so that more than 1 year could be presented, and for support as well as primary spend (which is also omitted from section 4).

ANNEX 1

FSB Proposal for National Development Plan to improve Scotland's economic performance

The most powerful agent for change is a nationally shared vision of where we are now, where we want to be in the future, and how we intend to get there.

The 'Framework for Economic Development in Scotland' and 'A Smart, Successful Scotland' set out elements of such a vision, but were far from a complete solution. However, both served to demonstrate the benefits of a well-researched and focused long-term strategy.

The improvements to economic growth would be maximised by the development of an over-arching plan for economic development, based on robust academic research
and analysis, drawn up with all key stakeholders, and setting out the benefits that greater economic growth would bring in terms of jobs, raised living standards and falling unemployment.

A successful model would bring greater focus and understanding to economic development policies, and would act as a route map for Scotland's economy. Around the world, from London to Ireland to Silicon Valley, there are examples of such plans acting as an aid to turning 'change' into 'wealth'.

- A plan would have the aims of:
  - Identifying the positive changes needed to improve growth
  - Stopping the negative changes that restrict business growth
  - Setting out government's vision, objectives and priorities for the Scottish economy
  - Assessing the potential outcome of policy options and clarifying their implications for growth
  - Identifying future threats and opportunities
  - Prioritising limited funds for public infrastructure investments

- Plan would set out an ambitious target for national growth, and every government department, and agency's role in contributing to this
- Plan would be drawn up by the new Office for Business and Work (see Government section) in partnership with all key stakeholders, drawing on the expertise of the widest possible selection of the business community, academia and wider civic Scotland
- Plan would be informed by four-yearly Holyrood small business summit, hosted jointly by the Parliament and Executive

OUTCOMES:

- National consensus on the challenges to increased economic growth, and how we can overcome these
- Focus on, and understanding of, economic development policies, leading to better and more sustainable businesses
- Wider understanding of the benefits of economic growth - more jobs, higher wages, increased standards of living

SUBMISSION FROM FIFE COUNCIL

The following is the submission by Fife Council to the Scottish Parliament Finance Committee Inquiry. Endorsement of the view contained in this submission will be sought from the Council's Environment and Development Committee at its meeting on the 6th September 2004.

1. Fife Council welcomes the Inquiry as providing an opportunity to make comment on the scale and management of the economic development effort in Scotland.
2. Whilst it is acknowledged that the primary focus of the Tribal HCH study is on expenditure from the “Scottish budget” (Scottish Executive) Fife Council is of the view that the inquiry should reinforce the recognition given to the significant level of expenditure by local authorities on economic development.

3. Specifically, local authorities are key co-funders of “primary” economic development spend by the Scottish Executive / enterprise networks, on for example Business Gateways and local area tourist boards. This is fully additional spend and if not provided by local authorities the resource would either have to be found from elsewhere or service levels would have to be reduced. There is little detailed breakdown of how the Inquiry’s research into economic development expenditure has been calculated but arguably it appears that the £139m attributed to direct local authority economic development spend may be an underestimate. For example, the gross budget of Development Services, Fife Council alone is £20m revenue and £1.5m capital. The report’s recognition that “support” spend by local authorities is on a par with Scottish Executive support spend is to be welcomed.

4. There is concern that the Inquiry’s research classifies the entire Scottish Enterprise budget as economic development expenditure, when as much as 40% of its budget is dedicated to the delivery of national training programmes, which could more accurately be classed as support expenditure.

5. The Call for Evidence by the Inquiry invited comment on the following specific questions:

   **Question 1: Do you think the overall level and growth of what the research terms “primary spending” on economic development has been appropriate?**

6. A qualified yes. Whilst the overall level of growth has been below that of total public expenditure it is accepted that there are reasons why this is legitimately the case, including reduced demand for Regional Selective Assistance (following on from lower levels of foreign direct investment) and reductions in agricultural support payments. However, generalisations about the overall level of primary spend are not particularly useful. The targeting and efficacy of spend is a far more significant consideration and especially the need to focus on outcomes achieved by the spend.

7. The Inquiry’s research has confirmed that there is a very significant level of total expenditure on economic development. This audit gives the opportunity to consider whether there might be opportunity to improve on the overall management of public sector funding of economic development to give greater synergy between national and local priorities. Whilst there are many highly successful examples of effective local partnership arrangements, not least in Fife, it is arguable that the management of the current multi-track national arrangements for economic development funding through the enterprise network, other agencies and local government could be further improved upon.
Whilst existing local partnership arrangements can, and do, work extremely effectively, inevitably this is not universal and indeed the process of making local partnerships work well is itself resource significant. There is considered to be some merit in the “single pot” funding of business development, regeneration, skills and employment, infrastructure and image as co-ordinated by the Regional Development Agencies in England, administered through local partnerships between the RDA and the local authority. This is seen as potentially conferring particular advantages of linking national expertise with the resources and knowledge of local authorities.

Question 2: To what degree do you think economic development considerations and priorities are reflected in decisions concerning the level and nature of “support spending” (e.g., expenditure on transport and higher and further education)?

8. Economic development is in general viewed as being adequately reflected in considerations concerning the level of support spend. However, there should not be complacency about this. The scale of issue facing the Scottish economy in terms of economic under-performance and the demographic challenge mean that it is absolutely critical that Scotland has a modern, efficient transport infrastructure and achieves excellence in the fields of higher and further education. It is not only in these areas that economic development should be high on the agenda. There are other equally significant areas of support spend concerning utilities infrastructure, the prosperity of town centres and the quality of the built environment for example. The report does not give full recognition of the current role and further potential of the development planning system in shaping and encouraging economic development. Nor does the report acknowledge the relevance of the various business regulatory functions of local authorities, which ensure an equal and level playing field for businesses.

9. It is considered of some concern that the Scottish Enterprise Network’s resource is somewhat focussed on an increasingly narrow range of national priorities around key clusters, to the detriment of other investment in mainstream economic development. Whilst these key clusters are quite legitimate and appropriate it is important, for example, that there are sufficient resources to support the strengthening and development of the wider manufacturing base.

Question 3: Do you believe that the economic development impact of spending on items such as higher education and public transport has been adequately assessed – for example in the appraisal of such projects?

10. Refer to response as above. In addition, it is recognised that increased priority and resource is coming through central government and the enterprise networks in terms of raising entrepreneurial awareness in young people through the education curriculum.
Question 4: What is your opinion of the available evidence on the output and impact of the budgets of Scottish Enterprise and Highlands and Islands Enterprise and of the scale of those outputs and impacts?

11. There is, and should always be, the most rigorous scrutiny of effectiveness of enterprise network spending and substantial progress has been made in terms of focus on performance targets.

12. Particularly encouraging progress, at least in a Fife context, has been made through the Business Gateway model in terms of streamlining and improving the effectiveness of support services to businesses. It may be considered desirable that the Scottish Enterprise should take the business Gateway experiment to its final conclusion by transferring all residual company support from the local enterprise companies to the Gateways to ensure a genuine one-stop shop for company development support.

13. There may also be grounds for consideration to be given to some greater formalisation of partnership arrangements in relation to other economic development service areas such as vocational training and lifelong learning. The success of the Business Gateway model (in the Fife experience) highlights the effectiveness of single shop front co-location, shared management and shared budgets delivering a better quality of customer service, which might be possible across the wider spectrum of economic development activity. The Local Economic Forums currently have a highly significant role in this context.

14. There is nonetheless room for improvement in terms of measurement of the results achieved through enterprise network spending. Specifically, there needs to be adequate focus on “outcomes” achieved for the local economy or the individual.

Question 5: Do you think the balance of expenditure between primary and support spending has matched economic development needs and priorities?

15. The definitional boundary between “primary” and “support” is not clear-cut. The more important issue is to promote a holistic approach to how economic performance; community sustainability and quality of the environment are all inextricably linked. The prime focus should be on looking with creativity and innovation at all the ways that economic prosperity and sustainability can be achieved through intervention and encouragement by the public sector. Whilst the Inquiry is most helpful in assessing the scale of economic development spend, a focus on relative weightings of spend under various definitional categories risks a straight-jacketed view of economic development.

16. The Council has concerns that the definition of economic development used in the review is rather narrow in that it sets to one side the expenditure on regeneration and social exclusion. This is a particularly important issue to be
addressed by economic development intervention as, crucially, it relates back to tackling the “geographic market failure” cited earlier in the report as being core to the economic development role. The exclusion of regeneration spend would go some way towards explaining the apparent favouring of rural areas in the overall pattern of expenditure.

Conclusion

17. The Council welcomes the Inquiry and the confirmation of the very substantial levels of public sector spend on economic development in Scotland. This submission to the Inquiry provides the opportunity to:

(1) raise the profile of local government spend on economic development

(2) emphasise the merits of a more holistic view of economic development, using existing powers and responsibilities to take all opportunities to improve the prosperity and sustainability of the economy and local communities. Such an approach is seen as sitting well with the concept of Best Value

(3) emphasise the importance of the focus on outcomes achieved by economic development spend, as a means of improving the efficacy of spend

(4) encourage debate on the merits of “single pot” funding of economic, social and physical regeneration in partnership with local government

SUBMISSION FROM HIGHLANDS AND ISLANDS ENTERPRISE (HIE)

Introduction

The Highlands & Islands Enterprise (HIE) Network, comprising the core based in Inverness and Linicleat, ten Local Enterprise Companies (LECs) and the Careers Scotland locality offices, is the Scottish Executive’s economic and social development agency for the north-west of Scotland. The HIE area covers just over half of the landmass of Scotland, yet includes only 9% of the national population.

HIE welcomes the opportunity to submit evidence to the Finance Committee’s expenditure review, precisely because the cross-cutting nature of economic development itself means that an evaluation of the effectiveness of public spending needs to take account of both direct and indirect interventions. With the Partnership Agreement having identified economic development as of the highest priority, the review is timely and should lead to a greater understanding of the importance of economic development assistance measures to raising prosperity levels across Scotland.
The Strategic Context

Following the national launch of A Smart, Successful Scotland in early 2001, we produced “A Smart, Successful Scotland – the Highlands & Islands Dimension” to develop in more detail how the priorities would be delivered in the HIE area with its distinctive challenges. That document, which the First Minister launched in Benbecula in April 2002, has been widely circulated throughout the Highlands & Islands and has ensured that the key messages of A Smart, Successful Scotland and their implications for the activities of the HIE Network have been disseminated to our key stakeholders. The priorities have been instrumental, for example, in helping to shape a number of significant projects seeking funding under the EU Highlands & Islands Special Transitional Programme.

A Smart, Successful Scotland has been widely recognised, both in Scotland and further afield, as a comprehensive, yet succinct, expression of what is required to achieve sustained economic progress in an internationally-small country dependent on its trade connections. The combination of a series of focussed priorities under three strategic – but crucially inter-related – objectives reflects the very broad, but closely-integrated, approach to economic and community development which the HIE Network has always espoused. In terms of the Scottish Executive’s current exercise to refresh A Smart, Successful Scotland, we therefore support the need to retain the overall thrust, refreshing those areas where circumstances have evolved or where greater focus is now necessary.

The Highlands & Islands – A Generation of Progress

Since the mid-1960s the economic fortunes of the Highlands & Islands have turned round remarkably, following a century or more of decline. Many factors contributed to the recovery process, including the establishment of the Highlands & Islands Development Board, government support for rural areas generally, the boost provided by the exploitation of North Sea Oil and, not least, a change in the way in which people viewed the attractiveness of the area as one in which to live and work. The clearest picture of how dramatic the change has been comes from the growth of population and jobs in the last 30 years: the population of the Highlands & Islands has grown by around 20%, while the number at work has gone up by nearly 50%.

The underlying story behind those statistics is a heartening one for remote, rural areas everywhere. Progress has been achieved across all parts of the Highlands & Islands during this period and in many areas has been sustained throughout. Orkney and Shetland have benefited continuously from the impact of oil-related activities, including the terminals at Sullom Voe and Flotta. The Moray Firth area has enjoyed similar progress, originally generated by oil, and driven by economic diversification, the growth of the city of Inverness and major infrastructure improvements such as the A9. Oil-related employment has also helped the economies of the Western Isles, West Ross & Skye and Dunoon & Bute, albeit on a more short-lived basis.

Steady expansion in locally-based activities such as salmon farming, tourism, food processing, small-scale manufacturing and services have contributed to economic growth in many rural and island areas. These include Skye, Mull, Arran, West Ross and Mid-Argyll. At the same time, the towns of the Highlands & Islands have all
grown in population as housing and services development have led to consolidation – typified by Lerwick, Kirkwall, Stornoway, Fort William and Oban. Progress has not, however, been achieved universally, with some remote areas continuing to exhibit the symptoms of decline which once characterised large parts of the Highlands & Islands. Special efforts to turn round the fortunes of such areas continue.

Perhaps the most striking feature of the period is the range of new business activities which have sprung up in an area whose economic base was so narrow just 30 years ago. Freezer manufacture, microchip production, jewellery, healthcare products, high-quality food, teleservice businesses and, most recently, assembly of renewable energy devices testify to the attractiveness of the Highlands & Islands, notwithstanding the external perception of remoteness and high transport costs. The reality is that concerted effort has steadily overcome the traditional obstacles to economic progress facing a sparsely-populated remote area.

Over that same period, we have benefited enormously from the modernisation of infrastructure. The region’s major roads have been improved, most notably the complete reconstruction of the A9. Modern car ferries have replaced lift-on, lift-off vessels and air services have benefited from new aircraft and airport upgrading. Cultural renaissance has also taken place, including measures to stimulate the Gaelic language (eg Gaelic-medium education). Equally, the arts have flourished, both in terms of the provision of infrastructure and also in the stimulation given to artists. The Scottish Year of Highland Culture 2007 now offers a huge opportunity to present the range of this progress to a national and international audience.

Lessons Learned

There are a number of very important lessons to be learned from the progress achieved. These are vital if we are to maintain the momentum of that success and to focus economic development efforts on those parts of the Highlands & Islands which have so far not benefited fully from the overall trends.

The importance of a strategic approach to development is very clear. A number of key regional imperatives have been tackled over the last three decades, notably in the improvement of all forms of infrastructure. Geographical targeting of effort has also been important, with the HIE Network and the local authorities giving particular attention to the needs of the most remote and fragile communities. Local Enterprise Companies have allowed prioritisation and delivery at the local level to ensure that the differences between parts of the area are fully recognised and reflected in the development effort. Community involvement in the process has been integral to success, since confidence at the local level in the sustainability of economic improvement can be both cause and effect of development.

Key to that approach, in turn, has been the integration of effort across economic, skills, community and environmental activities, enabling the needs of localities to be looked at in the round and addressed appropriately. Partnership working has been essential to ensure that that integration of effort has taken place and has helped to achieve very good value for money from the investment of both public and private sector resources. Perhaps the most significant lesson to be learned, however, lies in the importance of applying development measures consistently over a long period of time. It is to the credit of the many bodies and individuals who have been involved in
what has happened in the Highlands & Islands in the last 30 years or so that a generally shared vision of how to turn round the area’s fortunes has pervaded their efforts.

Challenges Facing the Highlands & Islands

There clearly remain several key economic development challenges facing the Highlands & Islands. First, and most obviously, we have to hold on to the gains we have made. This means working very closely with our business community to ensure the long-term survival and prosperity of the many businesses which make up the cornerstones of our economy. As forces of international competition impact more and more on even the most local trading, we need to ensure that these businesses respond to the challenge and work towards enhancing their competitiveness.

Those wider forces include the inevitable pressures of consolidation. So many operations, whether they are multinational companies, family-owned enterprises, health trusts, local authorities or enterprise bodies, can apparently undertake their activities more profitably by achieving economies of scale and consolidating physical effort on the ground. That consolidation does not, however, imply centralisation and we have, perhaps for the first time ever in the Highlands & Islands, the technological ability to foster widely-dispersed activity throughout the area. The examples of it which we already have show that we actually possess a number of natural advantages over more urban areas in delivering high-quality services.

Reflecting on the continuing difficulties facing our fragile areas, there is no doubt that our most significant challenge in terms of individual communities is to reverse the decline in these areas, as we have managed to achieve in places like Skye in the last generation. It must be underlined that in an area comprising more than half of Scotland we do have to attempt to achieve better use of the land resource for local people. That is why land reform legislation and the movement towards community ownership are so important.

The largest single project on which we are currently embarked is of course the UHI Millennium Institute. For many of our predecessors the notion of a university in the Highlands & Islands was seen as an ambitious pipe dream. We stand on the threshold of making that university a reality, but it needs to be a very special institution, unique in its dispersed collegiate architecture, but no less committed than any other university to the pursuit of excellence in its academic standards. No single project can make a bigger long-term difference to the future of the area and we must spare no effort to ensure that its full potential is realised in both teaching and research.

A Smart, Successful Scotland correctly raised the profile of global connections, and arguably the overall challenge facing us in this region (as in many other rural areas) is to adapt to rapid change, to be ever more outward looking in our approach and to build the role of the Highlands & Islands in a modern Scotland. It is against this background, therefore, that our response to the Committee’s current review is set.
The Tribal HCH Research

We have reviewed the work undertaken by Peter Wood of Tribal HCH and believe it is an important contribution to understanding both the scale and distribution of public spending in Scotland aimed at stimulating economic development. The research correctly focuses on establishing a baseline and setting out the definitions and assumptions involved in compiling it, stopping short of relating the findings to wider issues of rationale and effectiveness. These latter issues are clearly of fundamental significance and are thus picked up in the five areas of interest identified by the Committee’s invitation to submit evidence.

Five Key Questions – the HIE Network’s Views

*Do you think the overall level and growth of what the research terms “primary spending” on economic development has been appropriate?*

In terms of the Highlands & Islands, the answer is a qualified ‘yes’. Looking at the levels of primary spending over the period considered by the research, it would be fair to conclude that few, if any, valuable economic development opportunities have been lost to the area. On the other hand, the economic development process is always a combination of responding to business proposals and spending proactively (and sometimes opportunistically) to create conditions/infrastructure for growth. The latter is at most times capable of being accelerated and to that extent increased resources – perhaps in the range up to 25% above actual spending – could have been deployed to bring forward or enhance projects and initiatives. However, there is the real consideration of absorbency, since a rural region like the Highlands & Islands can plan, fund and execute a finite number of these during a given time period.

The progress of the EU-funded Highlands & Islands Special Transitional Programme since 2000 illustrates the point. While the commitment and drawdown of funds are likely to ensure full Programme expenditure by its completion, the Programme Monitoring Committee has continually reviewed a pattern of applications which reflects project planning and match funding difficulties for public sector partners, especially in certain Measures within the Programme. Transport infrastructure is a good example, with spending currently behind profile, despite an identified list of key strategic projects and, beyond that, a much wider set of transport needs across the area which would take many years to address.

*To what degree do you think economic development considerations and priorities are reflected in decisions concerning the level and nature of “support spending” (eg expenditure on transport and higher and further education)?*

In our view, there is a long-standing implicit understanding in Scotland (and certainly in the Highlands & Islands) of the importance of a wide range of support spending to the economic development process. Discussions on the area’s transport requirements, for example, have been a regular feature at the Convention of the Highlands & Islands since its inception, with housing and water supply/sewerage issues also featuring increasingly. The case for the University of the Highlands &
Islands itself has always been advanced on economic development grounds as much as on higher education ones.

Peter Wood’s research does clearly identify the considerable importance of the impact of support spending on economic development in Scotland and, in our view, there is a need for economic development considerations to feature more explicitly in major investment decisions. At the basic level, this should consist of simple economic impact assessment looking at multiplier effects, etc. Beyond that, there is also a case for considering respective impacts at regional and national levels – the former is of especial interest to the HIE Network, where long-term infrastructural deficiencies remain to be addressed and per capita costs of investment are inevitably high. Indeed, one of the strategic issues which needs to be built into such assessment is the extent to which nationally-set standards and practices ought to be viewed more flexibly in remoter, rural areas.

Do you believe that the economic development impact of spending on items such as higher education and public transport has been adequately assessed – for example in the appraisal of such projects?

In some instances, it has, but as our above response states, there is a need to ensure that economic development impact assessment becomes a normal and explicit part of the investment appraisal process, at least for major projects and initiatives in the support spending areas. Part of such assessment should focus on geographical impact, particularly in areas like the Highlands & Islands, where an integrated approach to infrastructure investment is vital. Public-sector capital expenditure (including EU Structural Funds) in the Western Isles over the last ten years, for example, illustrates how synergy between projects can be obtained and long-term generative effects achieved for the local economy.

What is your opinion of the available evidence on the output and impact of the budgets of Scottish Enterprise and Highlands & Islands Enterprise and of the scale of those outputs and impacts?

In responding as objectively as possible to this question, we would wish to make a number of key points only at this stage, although we would be happy subsequently to respond to any matters of detail which the Committee might wish to raise.

First, as summarised earlier, economic development efforts in the Highlands & Islands have been proceeding in a concerted way since the establishment of the HIDB in 1965 (although previous interventions stretch back into the late-19th century). As a result, there is very good evidence available on the economic development experience of the area over a long period. That evidence illustrates a fundamental turnaround in the economic and social fortunes of the Highlands & Islands. There are many independent commentaries on how that turnaround has been achieved, but the major explanatory factors are covered in the section on A Generation of Progress earlier in this submission. We believe it is a widely-held view that the HIDB/HIE economic development agency model has worked very effectively, while recognising that other factors moved favourably over the same period.
Secondly, the activities undertaken by the HIE Network have evolved steadily over time and there is a large body of measurement information available on the performance of both current and past programmes and initiatives. Internally, the Network has a schedule of evaluations which allows conclusions to be drawn on the cost-effectiveness of its interventions, allowing new or re-focussed activity to be guided by the lessons of previous work.

Thirdly, the HIE Network is guided in its efforts by a long-standing approach (outlined in A Smart, Successful Scotland – the Highlands & Islands Dimension) to tackling differences in prosperity within the area. Thus, allocation of Network resources is targeted towards those parts where the traditional symptoms of economic decline persist. In the last year or so, for example, the Western Isles have attracted over 20% of the Network’s budget despite accounting for only around 8% of the Highlands & Islands population. This reflects both the importance we attach to tackling the economic challenges facing the islands, but also a belief in the ability of long-term, focussed investment to stem population loss and raise income levels.

Finally, in supporting the refreshment of A Smart, Successful Scotland, we clearly wish to endorse its central principle that building sustainable economic progress at the national and regional levels requires a combination of sustained actions across several broad fronts. The Joint Performance Team’s work over the last three years to produce an annual measurement report, charting progress against the priorities of A Smart, Successful, has illustrated that measurement of economic development necessarily involves a large number of individual indicators – some of which reflect short-term progress (eg digital connectivity) and others much longer-term effort (eg greater entrepreneurial dynamism). We believe that the available evidence on the outputs and impacts of the Enterprise Networks is comprehensive and detailed. Our plea to the Committee is that the Review should recognise that achieving A Smart, Successful Scotland will require strategic continuity and sustained commitment of effort if long-term improvement in the performance of the economy is to be achieved.

_Do you think the balance of expenditure between primary and support spending has matched economic development needs and priorities?_

This is a difficult question to answer within a Highlands & Islands context, since it is difficult to envisage how a change in the balance of primary and support spending might have been deployed. Our view is that any small increase in primary spending at the expense of support spending would have been more helpful than the other way round, but the issue of absorbency which we touched on previously would also have been an important factor. However, had the resources available for primary spending been significantly higher, then a step-change in the way in which the HIE Network implemented A Smart, Successful Scotland would have had to be considered. This would have raised the possibility of forms of intervention not currently used, notably those involving major capital investment in new settlements, new business infrastructure, new technologies, etc.

Within the existing level of resources, the HIE Network is currently re-balancing its effort more towards major projects which will make a long-term impact on the success of the area. The current range of opportunities is unprecedented and we
believe that there are currently a number of initiatives and projects in the Highlands & Islands which are significant at a Scottish level. These include the development of the renewable energy sector; the decommissioning of Dounreay; the innovative roll-out of broadband capacity (and its application) in remote areas; the establishment of a University of the Highlands & Islands; the marine science centre of excellence at Dunstaffnage; the prospective creation of a Gaelic digital television channel; and the expansion of the social economy and community ownership models. In our view, these represent opportunities for Scotland as a whole and not just for their respective host communities.

Concluding Thoughts

We recognise that the research undertaken by Tribal HCH raises a range of issues around the way in which public-sector spending in Scotland seeks to stimulate economic development. The Highlands & Islands Enterprise Network is a niche player in terms of the level of our expenditure, but we believe that there are important lessons to be learned from the economic performance of our area over recent decades. Two important ones are worth underling by way of conclusion. First, a growing economy is better able to generate the human and tax base to allow for the enhanced provision of wider public services such as education and healthcare. Secondly, population growth and economic growth are inextricably linked and the continuation of progress in the Highlands & Islands in the coming years will depend on our ability to create the conditions for population growth in all parts of the area.

We would be pleased to expand on any of the points made in our written evidence should the Committee wish us to do so.

SUBMISSION FROM NORTH LANARKSHIRE COUNCIL

Thank you for the opportunity to respond to the consultation on the above cross cutting expenditure review of economic development expenditure in Scotland.

The Council’s response takes the form of responses to the questions raised by Peter Wood’s research.

Do you think the overall level and growth of what the research terms “primary spending” on economic development has been appropriate?

North Lanarkshire Council believes that the definition of “primary spending” used in the research does not embrace the full range of activities contributing to economic development. In 2000, EKOS carried out a Survey of Economic Development Activity of Scottish Councils for COSLA. This Survey used a definition of “direct economic activity” which included business competitiveness, physical business infrastructure, training and human resource development, tourism and economic inclusion/community economic development. The Scottish Executive’s own Framework for Economic Development in Scotland also highlights the “reduction of social deprivation and improved health” as a specific element of economic development and inclusiveness as one of the Framework’s key principles. The
definition of primary spending used in Peter Wood’s research, which informs this review, omits expenditure on economic inclusion and community economic development ostensibly because “its aim is not to improve the performance of the economy.” There can be no doubt however, that inclusion-related expenditure contributes to the economic health of Scotland. It is important to ensure that any proposed increased spend on primary spending should not be at the expense of the inclusion agenda. In many ways, the main regeneration successes have been physical, as can be seen from the transformation of many town centres and former derelict areas. Success in dealing with the intractable problems of exclusion is far less evident. While unemployment has fallen, recent studies of the North Lanarkshire labour market bear out wider Scottish evidence of large rises in the numbers receiving non-work related benefits, of those living in poverty and suffering from ill-health. All problems which seem to have been little affected by the numerous, often short term, funding initiatives.

The Council believes that the overall level and growth of “primary spending” on economic development (whatever definition is used) has not been sufficient to tackle the important and pressing economic development agenda. The EKOS report estimated that direct economic development expenditure by Councils in 1998/99 constituted 1.25% of total Council expenditure and that economic development budgets had fallen by approximately 5% in comparison with the previous year. Generally speaking, economic development service budgets have not risen significantly in the period since 1998/99 however in North Lanarkshire we have seen a growth in the level of capital budgets for economic regeneration.

The current North Lanarkshire Council Capital Programme for 2004/5 is £66m. Of that approximately £7m is allocated for capital investment in economic regeneration activities or ca. 10%. The revenue budget for economic development in 2004/5 is £2,699,729 (or £4,476,729 if ring-fenced funding for specific initiatives such as the Working for Families Fund is taken into account).

In North Lanarkshire there has been a reasonable amount of expenditure on physical infrastructure. There has been substantial investment in the redevelopment of brownfield sites at Ravenscraig and Gartcosh and both these initiatives have been successful in drawing down large sums of European Regional Development Fund grant to complement national, regional and local resources. More recently, the Council has been awarded £6m for the redevelopment of Vacant and Derelict Land via the Cites Review.

However, there has been a much lower level of investment in improvements to existing industrial sites and premises and a low level of investment in new property developments for business development. There are also inadequate resources to tackle fundamental strategic investment in road and rail networks.

There has been a slight increase in the levels of funding available for inclusion-related activities via initiatives such as the Working for Families Fund and the Better Neighbourhood Services Fund. However, at the same time, there is a considerable body of evidence, which points to the increasingly entrenched and difficult nature of problems of deprivation, and which would tend to indicate a need for a longer term more strategic approach to funding in this area.
At a strategic level, the biggest challenge for Economic Development Services in trying to deliver more effective joined up working/delivery is managing a proliferation of different funding streams, many with short term funding and different reporting timescales, formats and outcomes. Proliferation of funding streams directed at both a geographic area and on specific individuals e.g. Working for Families – not only cause difficulties in linking objectives but, it could be argued, has led to a fragmentation of core service delivery.

An increased level of core funding to enable the Council to deal strategically and over a longer planning period with economic development issues would be preferable to increased numbers of short term funding initiatives. Such an approach would also assist in aligning the economic development priorities of partners. Increasingly the Council engages with a wide variety of public, private and voluntary sector organisations in delivering economic development services. In Lanarkshire, the overarching framework for economic development is the Changing Gear strategy, which covers the period to 2010. The strategy is an ambitious one, which seeks to tackle a wide ranging economic development agenda from infrastructure improvements to addressing challenges in the skills and learning agenda. In order to enable partners to deliver the strategy effectively, budgets and priorities required to be aligned over longer planning periods.

To what degree do you think economic development considerations and priorities are reflected in decisions concerning the level and nature of “support spending” (e.g. transport and higher and further education)

We would suggest that, whereas considerable research has been undertaken on the economic impact of spending on education and transport for example, it is not necessarily economic development considerations which influence the setting of budgets. A recent SPICE briefing by Arthur Midwinter and Ross Burnside highlights the low level expenditure allocated to Enterprise and Lifelong Learning and Local Government compared to transport for example, and points out that, although transport can undoubtedly be linked to economic development, if expenditure is not scoped in terms of transport and jobs the economic outputs of that expenditure must be questionable.

There is considerable investment planned for the proposed Airdrie-Bathgate rail link for example, and yet there has been a reluctance to consider the potential wider economic development impact of the development. North Lanarkshire Council and West Lothian Council have been pressing for a more comprehensive study to be undertaken which would help to highlight the regeneration opportunities for local communities arising from the establishment of the new rail link.

Clearly further and higher education impact significantly on a wide range of economic development related agendas such as skills and employment. In Lanarkshire there is some concern at the relatively low levels of participation in further and higher education. There are concerns too at lower than average skills levels. At the same time, the imminent development of large-scale construction projects, such as Ravenscraig clearly offer opportunities for unemployed residents with the correct skills. However, attempts to find local solutions to some of these problems are
thwarted by a national policy on which caps FE provision at current levels and makes expansion in certain subject areas to meet defined local needs difficult if not impossible. Again, this would indicate that in the setting of national priorities, local economic development needs are not necessarily considered.

**Do you believe economic development impact of spending on items such as higher education and public transport has been adequately assessed – for example in the appraisal of such projects?**

Again, the answer to this question is probably no. While economic impact studies have been undertaken, what is lacking is the joining up of the information drawn from these studies to the formulation of future economic development policy. The lack of co-ordination between government departments on the economic development agenda is also unhelpful.

**What is your opinion of the available evidence on the output and impact of the budgets of Scottish Enterprise and HIE and of the scale of those outputs and impacts?**

There is probably some confusion over the reliability of the evidence on the output and impact of SEN budgets. The recent Audit Scotland Report on Scottish Enterprise highlighted the unreliability of the Network’s systems for collecting and reporting performance information. There is also an issue around the benchmarking of output targets, given there are not always clear comparitors.

The fundamental issue for Scottish Enterprise National may be a need to more clearly define its core activities and related targets. Clarity about targets might be helped by the organisations having a clearer strategic focus and by concentrating on the clear exposition of related targets. Thus, as highlighted in COSHEP’s response to an earlier review of the Scottish Enterprise Network a specific strategic target might be to increase the accessibility of new centres of employment to areas of high unemployment by improving transport links. This would reduce the dilution of effort that results from managing diverse projects with separately defined aims. It would also provide a clearer set of targets against which progress could be more readily, and visibly, measured.

**Do you think the balance of expenditure between primary and support spending has matched economic development needs and priorities?**

As indicated at the beginning of this response, North Lanarkshire Council believes that the definition of support spending used in the research is too narrow and should be expanded to include spending on community regeneration and inclusion. Budget trends over recent years have shown Education and Young People, Transport and Health receiving above-average increases with Justice, Lifelong Learning and Local Government receiving below average increases. The indications are that the above average increases in Support activity are not being effectively linked to the economic development agenda and spending on primary economic development activities is insufficient to tackle the scale of the challenge.
SUBMISSION FROM THE SCOTTISH CHAMBERS OF COMMERCE

1. About Scottish Chambers of Commerce

1.1 The Scottish Chambers of Commerce is the umbrella organisation of the local Chambers of Commerce. Its prime functions are to promote and protect the interests of local Chambers and their member businesses throughout the length and breadth of Scotland. It helps promote co-operation between the local Chambers in the provision of services and represents the common interests of Chambers at a national and international level.

1.2 Scottish Chambers policy is determined by a Council on which all Chambers have equal representation, and is executed under their direction. Policy groups, formed from a wide cross section of member Chambers, are used to develop policy initiatives. The national body represents the interests of members to the Scottish, UK and European Parliaments, opposition parties, the Scottish Executive and other Government officials, Enterprise bodies, COSLA and other public bodies, and works with other private-sector business support bodies in Scotland on areas of mutual interest.

1.3 Membership is open to any firm or company irrespective of size. Collectively, Chambers in Scotland have an annual turnover of over £7.3 million and the current membership ranges from the country’s largest companies to the smallest retail and professional operations. The present membership ranked by market capitalisation includes 23 of the top 25 companies, and 38 of the top 50 companies in Scotland. Together Scotland’s Chambers provide well over half the private-sector jobs in Scotland and provide an unequalled geographical and sectoral representation throughout Scotland compared to other organisations representing Scottish business.

2. Response

2.1 The Scottish Chambers of Commerce (SCC) welcomes the opportunity to contribute to the Finance Committee’s review.

2.2 SCC believes the best way to underpin economic success and wealth creation and generate an entrepreneurial climate is for Government to adopt pro-business policies such as free and open markets, low business taxes and a reduction in the burden of red-tape. Economic development policy should contribute to the achievement of these principle objectives, and primarily concern itself with establishing the right climate for enterprise to flourish.
The Consultation questions – SCC’s response

*Do you think the overall level and growth of what the research terms ‘primary spending’ on economic development has been appropriate?*

3.1 The research\(^{11}\) produced for the Committee’s review illustrates the wide range of public sector organisations and tiers of government involved in economic development, and the significant sums of public money involved. Indeed, the research paper says that total ‘primary spending’ on economic development in Scotland, by all layers of government, amounted to £1.6 billion on 2001/02 (excluding agriculture). This element of public expenditure has increased in recent years, albeit at a slower rate than public expenditure as a whole\(^{12}\), but nonetheless could be seen as a reflection of the continuing challenges facing the Scottish economy.

3.2 We agree that much of this spending on ‘market failure’ is considered necessary, yet the current availability of such huge sums provides an opportunity to think afresh and consider alternative uses for these funds. Indeed, south of the border there is rigorous public debate about the size, cost and role of state sector providers like the DTI\(^ {13}\) and their involvement in economic development.

3.3 We believe too there is a need for a fundamental, robust and complementary debate about defining exactly what is ‘market failure’ and what the state’s role should be in tackling it. Indeed, state intervention may create ‘market failure’ or provide additional barriers to private sector entry and activity e.g. witness the recent example of Thus plc successfully objecting to the scope of Scottish Enterprise’s Project Atlas initiative. This ‘mission creep’ by the public sector is reflected in the research\(^{14}\) for the Committee, which points out that there is still work to be done (primarily by Local Economic Forums) in reducing duplication and overlap in the economic development initiatives between local authorities and other agencies, potentially releasing substantial sums of public money for other purposes. It is therefore important that the public sector recognises when to disengage from areas of work, and Committee members are well placed to evaluate and lead the debate on these issues.

3.4 SCC believes the best way to underpin economic success and wealth creation and generate an entrepreneurial climate is for Government to adopt pro-business policies such as free and open markets, low business taxes and a reduction in the burden of red-tape. Economic development policy should contribute to the achievement of these principle objectives, and primarily concern itself with establishing the right climate for enterprise to flourish.

3.5 In the context of the principles outlined in paragraph 2.2 above, and the large yet finite availability of public money, SCC believes there is merit in diverting a portion of these funds for other uses, namely:

\(^{11}\) Tribal HCH 2004 external research report for Scottish Parliament’s Finance Committee

\(^{12}\) Key Trends in the Scottish Budget 1999-2003, SPiCe (March 2004)

\(^{13}\) Leader column, Daily Telegraph, 12 August 2004

\(^{14}\) Tribal HCH 2004 external research report for Scottish Parliament’s Finance Com. (paragraph 2.16)
- **Investment for competitiveness in transport infrastructure.** This will make Scotland better able to get goods to market, deliver a more efficient means for people to move around, which in turn will attract greater investment and create more jobs. This is particularly so if we are to finally deliver on major transport infrastructure projects and the proposed integrated transport system.

- **Reducing the burdens on business including red tape.** Policy towards economic development is somewhat undermined by other initiatives, e.g. policies directed at encouraging innovation and investment in R&D are undermined by other initiatives which have added to the regulatory burden on business. Research\(^{15}\) produced by the Chambers of Commerce, using HM Government’s own figures, shows that within the UK as a whole the total cost of regulations and red tape on business introduced since 1998 exceeds £30 billion. The opportunity cost of spending time and money on compliance means less time and fewer resources are available to businesses for innovation, marketing and R&D. In a submission\(^{16}\) to another Scottish Parliamentary inquiry, SCC called for the creation of a Business Burdens Unit to monitor and resist all the regulatory and other burdens that act as a barrier to business growth in Scotland.

- **Reducing the burden of taxation on all businesses.** The Scottish Parliament could lead the way by utilising existing powers to cut non-domestic rates, to encourage the creation of future businesses and sustainability of existing ones.

3.6 Policy makers face difficult and competing options, however SCC believes that diverting a proportion of the existing ‘primary spending’ towards some or all of the suggestions outlined above would: be more inclusive as it would benefit all businesses, not just a few; help deliver on the goals of economic development policy; and assist the Executive in fulfilling its stated aim of prioritising economic growth.

**To what degree do you think economic development considerations and priorities are reflected in decisions concerning the level and nature of ‘support spending’ (e.g. expenditure on transport and higher and further education)?**

3.7 The research\(^{17}\) produced for the Committee’s review illustrates the wide range of public sector organisations and tiers of government which spend public money that supports economic development, and the significant sums of public money involved. Indeed, the research paper says that total ‘support spending’ on economic development in Scotland, by all layers of government, amounted to £7.1 billion on 2001/02.

\(^{15}\) Burdens Barometer 2004, BCC (www.britishchambers.org.uk)

\(^{16}\) ‘Response to the subordinate legislation committee’s inquiry into the Regulatory framework in Scotland’, SCC 2004

\(^{17}\) Tribal HCH 2004 external research report for Scottish Parliament’s Finance Committee
3.8 SCC acknowledges that policy makers face competing demands on limited funds. We recognise and accept that ‘supportive’ expenditure on schools, transport and further and higher education is likely to be more heavily influenced by socio-political factors other than economic development.

3.9 Indeed, the provision of education is and ought to be about far more than simple economic imperatives like preparing people for work. In fact it is often the so-called soft skills – e.g. a person’s attitude, an ability to think and question, problem solving etc - that are most sought after by potential employers and which can be developed through general learning and education rather than more trade specific learning. Similarly, SCC recognises that the increased expenditure on transport other than roads in recent years is primarily about prioritising social and environmental objectives over economic considerations.

3.10 However, it is incumbent on representative organisations such as SCC to continue to make the case for a portion of this ‘supported’ expenditure to be directed towards more economic development related activities, e.g.

- **Transport**: In our most recent survey on transport issues, member firms said increasing road capacity was the most pressing issue that needed to be tackled. 99% of respondents said roads were ‘very important’ or ‘important’ to their business and its operations, particularly for receiving and dispatching goods. Roads remain the pre-eminent method of getting goods to market.

- **Education**: SCC has supported the establishment of the ‘determined to succeed’ enterprise programme in schools, and indeed is helping to deliver it in places such as Lanarkshire.

**Do you believe that the economic development impact of spending on items such as higher education and public transport has been adequately assessed – for example in the appraisal of such projects?**

3.11 SCC understands that prior to decisions being taken by the Scottish Executive on transport proposals, all new projects have to go through the Scottish Transport Appraisal Guidance process. One element of this, the Economic Activity & Location Impact study, is an explicit consideration of the economic development benefits and disbenefits of any proposed transport project.\(^{18}\)

3.12 While SCC applauds the early assessment of the contribution such projects might make to the economy before they are committed too, we believe it is equally as important to evaluate the impact once any such project is actually up and running. The move to reopen the Stirling-Alloa-Kincardine rail line will be one such opportunity once it is actually underway.

3.13 SCC believes the relevant Scottish Parliament committee should revisit such appraisals once projects are completed and up and running, and should

\(^{18}\) Scottish Executive’s Draft Budget 2004/05 Summary, Chapter 9 Transport
have the right to formally agree or disagree that the original assessment was a fair and accurate representation of the costs and benefits. This would be a constructive attempt to ensure the validity and accuracy of such assessments, useful for the future consideration of major expenditures. These measures would improve Parliament’s effectiveness at holding the Executive to account over its decisions.

3.14 SCC has previously\(^\text{19}\) called for the establishment of a Business Burdens Unit within the Scottish Executive, believing it ought to be able to insist on Business Impact Assessments on measures that will affect businesses. This would improve the quality of advice to Ministers, better inform public debate and parliamentary scrutiny. It would also more accurately reflect the business reality than the existing system of Impact Assessments, which only address a strictly defined range of regulations and red tape. SCC believes this would be an effective and instructive appraisal, of use to Ministers when considering what level of economic development ‘bang’ they are getting for their ‘buck’ from certain ‘supportive spending’ related projects.

**What is your opinion on the available evidence on the output and impact of the budgets of Scottish Enterprise and Highlands & Islands Enterprise and of the scale of those outputs and impacts?**

3.15 A number of bodies are responsible for scrutinising the effectiveness of both Scottish Enterprise and Highlands & Islands Enterprise, not least their own boards, the Executive who fund and influence their strategic aims, and of course the Parliament and its committees who scrutinise the policies and expenditures of public agencies, which in the case of Scottish Enterprise alone amounts to £500 million annually. Audit Scotland has on occasion also reported on the work of the enterprise companies and these studies have been scrutinised by the Parliament’s audit committee.

3.16 Indeed, Audit Scotland has itself pointed to the difficulties in assessing the outcomes derived from economic assistance provided by the enterprise companies, highlighting how complex it is and how difficult it can be to isolate from the general business environment.

3.17 SCC is supportive of a number of the projects progressed by the enterprise companies, not least the attempts to commercialise the research and development work done in our universities. However, we were struck by the findings of Audit Scotland\(^\text{20}\) earlier this year, when they found that the advice provided to businesses by the enterprise companies was of more impact than the financial assistance on offer.

3.18 In light of this, and our earlier remarks in paragraph 3.4 above, we continue to believe that some ‘primary’ economic development spending needs to be diverted towards transport infrastructure, lower non-domestic rates etc. SCC acknowledges that as a result the budgets of the two enterprise companies might be reduced.

\(^\text{19}\) ‘Response to the subordinate legislation committee’s inquiry into the Regulatory framework in Scotland’, SCC 2004

\(^\text{20}\) ‘Scottish Enterprise: account management services to high growth businesses’, Audit Scotland, June 2004
Do you think the balance of expenditure between primary and support spending has matched economic development needs and priorities?

3.19 SCC recognises that the level of and way public money is spent on economic development has to be kept under constant review and retain a degree of flexibility to respond to changing circumstances. However, as outlined above in paragraph 3.4, SCC believes a greater proportion of the overall ‘economic development cake’ should be spent developing the right environment for enterprise to flourish, beginning with investment for competitiveness in our transport infrastructure, reducing the burdens on business including red tape, and reducing the burden of taxation on all businesses. SCC believes that this would be more inclusive as it would benefit all, not just a few, businesses; help deliver the ambitions of economic development policy; and assist the Executive in fulfilling its stated aim of prioritising economic growth.

3. Summary

4.1 The Scottish Chambers of Commerce is greatly encouraged by the commitment of the Scottish Parliament’s Finance Committee to examine public expenditure on economic development in Scotland and seek improvements. This is vital if the Executive and the Parliament are to realise promises made on economic growth, wealth creation and greater employment opportunities.

4.2 The Scottish Chambers are willing to provide further assistance if the Finance Committee deem it helpful.

SUBMISSION FROM SCOTTISH COUNCIL FOR DEVELOPMENT AND INDUSTRY (SCDI)

The Scottish Council for Development and Industry (SCDI) is an independent membership network, which strengthens Scotland’s competitiveness by influencing Government policies to encourage sustainable economic prosperity. It is a broad-based economic development organisation, with membership drawn from Scottish business, trades unions, public agencies, educational institutions, non governmental organisations, local authorities, and the voluntary sector.

SCDI Main Recommendations

1. SCDI would prefer to see primary economic development spending at least keep pace with the growth in other budgets. If support spend can be more clearly shown to be linked to economic development benefits, the growth in this type of spending is also welcomed.

2. SCDI recommends that the Executive express a stronger prioritisation of economic development through identifying and listing a group of Key Economic Development Projects with full budget support. This would help to build stakeholder and public understanding of what the Executive is seeking to
achieve and greater public confidence in the statement that growing the economy is the Executive’s first priority.

3. SCDI supports moves to assess project spending for its economic benefits on a more structured basis across the Executive and its agencies. Further, the assessments must be widely available and readily comparable by stakeholder organisations and the layperson so that the relevant communities of interest can genuinely assess the information made available.

Inquiry Background

The Scottish Parliament’s Finance Committee is undertaking a cross-cutting inquiry into Economic Development. The cross-cutting expenditure review seeks to scrutinise expenditure in relation to policies which cut across Scottish Executive departments.

The Committee “wants to find out whether the level and structure of government spending on economic development in Scotland has been appropriate”.

The Committee’s principal questions are:

1. Do you think the overall level and growth of what the research terms “primary spending” on economic development has been appropriate?

2. To what degree do you think economic development considerations and priorities are reflected in decisions concerning the level and nature of “support spending” (e.g., expenditure on transport and higher and further education)?

3. Do you believe that the economic development impact of spending on items such as higher education and public transport has been adequately assessed – for example in the appraisal of such projects?

4. What is your opinion of the available evidence on the output and impact of the budgets of Scottish Enterprise and Highlands and Islands Enterprise and of the scale of those outputs and impacts?

5. Do you think the balance of expenditure between primary and support spending has matched economic development needs and priorities?

SCDI Response Introduction

1. Although SCDI welcomes an inquiry which should lead to wider and greater understanding of the economic development effort in Scotland, we share with some members of the Finance Committee some fundamental misgivings about the inquiry remit.

2. The very wide definition of economic development related spend would seem to detract from a clear inquiry focus on the appropriate levels and outcomes from “primary spending”. Without this clear focus, there is a risk of spending time and
effort discussing wider elements of general Scottish Executive spend when there is no possibility of allocating either success or failure rates to spend which has multiple benefits of which economic development is only one part.

3. An example of the confusion is Transport expenditure which is identified in the inquiry external research as “economic development support spending”. Taking road construction and maintenance as one of the stated examples, the purpose of maintenance spending is to maintain a road at existing standards - whereas the definition of economic development would surely have to involve some level of “increased output and rate of economic growth” as the research suggests. Maintenance would simply hold a road at existing levels of repair and not therefore contribute to increased output or economic development. In fact the best possible outcome of maintenance is simply to halt or stall the output lost as a road deteriorates. So, it would have been helpful for the Committee if the research had clarified the situation more carefully and provided only the true economic development elements of the budget.

4. There are other examples of the scope for confusion. For example, if transport spending is allocated as “support” spending then health spending (which might reduce the number of labour hours lost to illness or injury) is also probably a candidate for inclusion as ”support” spending. Again, “subsidy” spending might possibly lead to economic development (through for example the Air Route Development Funds) but might also exist simply to maintain income levels or better protect the environment rather than actively grow incomes or outputs and there are many other such examples.

5. To assess the spending as economic development spending, the transport and other budget lines identified as “support” need first to be broken down more clearly to identify spending to achieve growth as opposed to spending to achieve other aims such as care and maintenance levels or subsidy spending to achieve a mix of social and economic outcomes.

6. The Committee might choose to undertake just such an exhaustive analysis to identify the proportion of genuine economic development spending in all Executive budget lines but SCDI would suggest instead that the Committee might ask each Executive department to identify the elements of their spending they would consider to be primarily economic development related and that might be a starting point for a more informed discussion.

7. This area of budget allocation is undoubtedly extremely complex and unfortunately easily misrepresented to shape or support a particular argument. For example, a “subsidy” might be portrayed as an unearned benefit which raises tax levels generally or more benignly as an investment in the community or sector and often depends on which perspective is being supported. Drawing a wide inquiry remit and including support budget lines will increase the chances of incorrect allocation, generalisation or misrepresentation and perhaps cast the utility of the analysis and report into doubt. SCDI would therefore suggest that the Committee concentrate its efforts simply on identified primary expenditure in this first inquiry and might perhaps wish to return to support expenditure in a later inquiry.
8. The direct link which the inquiry documentation appears to draw between increased or reduced expenditure and increased or reduced outcomes is also questionable - especially in the absence of other evidence. Amongst other factors, the focus of expenditure and efficiency of investment mechanisms are perhaps equally important here.

9. These are important aspects to consider if the Committee is to avoid unhelpful generalisations in its analysis and report. Nonetheless, the SCDI responses given below are based on the research figures and terminology published by the Committee in order to promote comparison of our views with others.

SCDI Response to the Inquiry Key Questions

**Question 1 - Do you think the overall level and growth of what the research terms “primary spending” on economic development has been appropriate?**

10. Given that “Growing the economy” is cited as the “number one priority” in the “Partnership for a Better Scotland” agreement and yet the committee research identifies primary expenditure as just 5.5% of the Scottish Executive budget there would seem to be an immediate mismatch between declared priority and actual budget provision.

11. We note from the Committee research that from 1999 to 2005, primary spend has increased by 10% to £1303 million in 2003/04 but at a lower rate than support spend (22% rise to £3126 million) and at a lower rate than most other categories of spending in the Executive budget. (Which is identified as growing at 12.9% from 1999-2003.) This suggests strongly that other spending areas took priority in a period when the Executive’s available budgetary resources actually grew quite strongly.

12. The wide inclusion of support and other spending with reference to economic development would seem to offer the Executive an ideal opportunity to present spending as economic development related and part proof of the previously stated prioritisation. But there are certainly doubts in the wider economic development community that this prioritisation is genuine. (Put simply, is the 5.5% the first priority in the budget or is it whatever is left over after the other 94.5% is allocated?) The lower rate of growth in economic development spending (in relation to other Executive budget areas) is often cited here as proof.

13. Other factors are relevant in holding down spending on economic development in any case. The Scottish economy has only a certain capacity to utilise economic development spending and other restrictions in spending are in place such as the requirement to follow EU State Aid and RSA rules or EU Regional Policy rules.

14. On balance, SCDI would certainly prefer to see primary economic development spending at least keep pace with the growth in other budgets. If support spend
can be shown to be heavily prioritised towards economic development benefits, the growth in this type of spending is certainly also very welcome.

15. As ever, spending levels are less important than the actual positive outcomes from spending. SCDI would take the view that the Executive can better express its prioritisation of economic development through identifying and listing a set of key projects which will have full budgetary support. Put simply, SCDI supports the creation of a list of Key Economic Development Projects like the Ten Transport Priority Projects previously indicated by the Executive. Such a listing and prioritisation sends strong signals to the Executive’s stakeholder partners and further improves the commitment to the projects by all partners. (Project targets could range from 75% Broadband Take-Up by Businesses to the creation of Edinburgh and Glasgow Airport rail links to securing a target number of Fresh Talent individuals and families taking up employment in Scotland.) Agreeing the key projects would best be done through consultation with partners and should not be an unduly centralising process.

16. Note - As outlined above, SCDI does have reservations about the inclusion of CAP and Fisheries spend as primary economic development spend.

**Question 2 - To what degree do you think economic development considerations and priorities are reflected in decisions concerning the level and nature of “support spending” (e.g., expenditure on transport and higher and further education)?**

17. As outlined in our response introduction above, SCDI has strong reservations about the inclusion of support spending in the inquiry remit as the degree to which it can be ascribed to economic development spending is questionable.

18. In an increasingly joined-up government environment, it is not surprising that spending in one area is often described as having a mix of benefits across several areas. A cynical view would be that this can be very useful for presenting often complex policy and projects spending decisions in the most positive light.

19. The division within the committee research of several large areas of spending as support spending does itself suggest that economic development is at best a secondary by-product of spending in these areas. That in turn suggests a considerable variation in project range from a high degree linkage to economic development to very low degree linkage towards economic development benefits.

20. SCDI considers that the degree to which economic development considerations are reflected in such decisions is currently unclear. SCDI would certainly support moves to assess project spending for its economic benefits on a more structured basis and against a measurement scale that the layperson and stakeholder organisations can readily contrast and compare.
Question 3 - Do you believe that the economic development impact of spending on items such as higher education and public transport has been adequately assessed – for example in the appraisal of such projects?

21. SCDI has no doubt that some assessment goes on and that it is well intentioned, but considers that the criteria for identifying which projects are assessed is by no means clear or the same for different Executive departments and agencies.

22. Further, to be of real utility, the assessments must be widely available and readily comparable by the layperson so that stakeholders and the relevant wider communities of interest can genuinely assess the information made available.

23. The development of standardised assessment procedures should also lead to familiarity and quicker assessment. This, in turn, should lead to quicker facilitation of positively assessed projects.

24. Although there is some progress on assessment, SCDI would not consider current assessment activity and scale to be adequate in regard to the size of the spending.

Question 4 - What is your opinion of the available evidence on the output and impact of the budgets of Scottish Enterprise and Highlands and Islands Enterprise and of the scale of those outputs and impacts?

25. The main published evidence available on the output and impact of these budgets appears to be published in the respective agencies annual reviews and, with respect to their guidance from Smart Successful Scotland, the report of the Joint Performance Team which was last published in March 2003.

26. Both networks have agreed targets and are currently reaching them successfully. (HIE reached 28 of 30 and SE reached 20 of 21 in 2002/03.) The assessment of the JPT is also positive but recognises there has been only a short time in which to assess trends since those targets were adopted. The targets are agreed with the Scottish Executive so their source should be traceable back to the coalition Partnership Agreement; and the Framework for Economic Development in Scotland (FEDS); and Smart, Successful Scotland (SSS). The latter two documents currently being refreshed.

27. In terms of outcomes, broadly speaking over previous years there has been a shift away from more infrastructure related spending towards softer skills, training, business advisory, research and development related spending which is clearly of importance in growing the Scottish economy but perhaps less visually obvious to the layperson in its impact.

28. Questions could also be raised over the importance placed on certain targets within the whole group. For example, the Scottish Enterprise key sectors or clusters appear to have received only £4.5 million from the overall expenditure of £511 million by SE in 2002/03 which suggests a lower priority than might be expected.
29. A further factor which might be beneficial but actually reduce the visibility of provision is the practical importance of SE / HIE working with other stakeholder partners (such as local authorities, HE / FE, Communities Scotland et al) in delivering services or projects so that SE / HIE are not sole providers. SCDI believes that rather than being considered a problem, this joint working should be extended and considered a strength to all providing partners and a benefit to customers. (The reference in Para 2.19 to Local Authority economic development services “mirroring” the development agencies in the Committees research is inaccurate and unfair as partnership provision would be more accurate than the duplication that mirroring suggests. SCDI would also expect the discretionary LA spend of around 10% of the Executive’s spend on economic development to be more positively assessed by the research than in Para 4.4.)

30. On a positive note, Parliamentary Committees are also proving to be an effective source of accountability for the two enterprise networks as they are both regularly called to provide evidence which is often of a more detailed nature, helping to fill out information from the annual reviews.

31. A different approach which ties funding more closely to activity on certain priority targets appears to operate in the English Regional Development Agencies which is a model the Committee might wish to review in the context of this inquiry.

32. As outlined in Q3, SCDI would support moves towards a comparable assessment structure which could apply to SE / HIE / VS projects and services and to Scottish Executive projects. This would undoubtedly improve public confidence in the published evidence on outputs and impacts.

33. As outlined in Q1, SCDI would support clearer identification of priorities to allow for easier assessment of the Executive and other partners’ performance in delivering stated key priority projects.

Question 5 - Do you think the balance of expenditure between primary and support spending has matched economic development needs and priorities?

34. Working on the basis that SCDI accepts the economic development needs and priorities expressed in FEDS and SSS, it would seem that expenditure has broadly been supportive of these aims and that primary spending has followed these aims. There remain questions over the inclusion of some budget lines in both the primary and support spending categories. There are also questions over the attribution of the total of this support spending to economic development when SCDI believes much of the benefit to be a by-product of its initial aims.

35. Broadly speaking however, the balance of spending has been positive and SCDI does not believe this spending to be wasteful or unnecessary.
36. SCDI remains supportive of increased spending on economic development, especially if this can be assessed across the Executive and agencies against a comparable framework which is meaningful, readily accessible and easy to understand.

Other Comments

37. The role of the planning process in facilitating economic development is often not fully appreciated. SCDI believes that the planning process in Scotland could be more development friendly and act more positively to facilitate development rather than control it. (An example might be when multi-partner development projects receiving public funds could be fast tracked if they are assessed as providing a public or greater common good.)

38. As an example, infrastructure investment remains key to supporting economic development from treating different types of infrastructure equitably and supportively (such as telecoms) to warding off development constraints due to investment problems (such as water infrastructure) and limiting potential bottlenecks (security of power generation and supply). This area is complex but again would benefit from a more unified approach and a facilitative planning system.

39. This response has concentrated on the Scottish Executive and Scottish Enterprise and Highlands and Islands expenditure. SCDI also certainly fully recognises and supports the extensive expenditure undertaken by other partners in economic development - perhaps principally the local authorities on behalf of their own communities - which includes UK and EU level spending and the related spending from other public agencies, LA’s and, of course, private sector partners which are often significant contributing partners.

Conclusion

40. This is a complex and difficult area of investigation in which the proportion of spending aimed at economic development is open to different interpretations. SCDI acknowledges that spending levels are significant, but we are unable to clearly assess whether these levels are appropriate and meet the perceived need.

41. SCDI believes that a stronger prioritisation of economic development projects in the form of a listing of a group of Key Economic Development Projects would help to build stakeholder and public understanding of what the Executive is seeking to achieve and greater public confidence in the statement that growing the economy is the Executive’s first priority.

42. The creation of an assessment framework which clearly links spending and outcomes in a comparable fashion across the Executive and its agencies would certainly also make an overall assessment of value from economic development expenditure more possible. This framework should be readily accessible and understandable to the layperson.
43. In suggesting this assessment framework, SCDI does not wish to suggest that past or current projects are improperly assessed. Rather, we would suggest that widely accessible, readily understandable and comparable assessments - good reporting of assessments - should be a principal objective of assessment activity.

Recommendations

- SCDI would prefer to see primary economic development spending at least keep pace with the growth in other budgets. If support spend can be more clearly shown to be linked to economic development benefits, the growth in this type of spending is also welcomed.

- SCDI recommends that the Executive express a stronger prioritisation of economic development through identifying and listing a group of Key Economic Development Projects with full budget support. This would help to build stakeholder and public understanding of what the Executive is seeking to achieve and greater public confidence in the statement that growing the economy is the Executive’s first priority.

- SCDI supports moves to assess project spending for its economic benefits on a more structured basis across the Executive and its agencies. Further, the assessments must be widely available and readily comparable by stakeholder organisations and the layperson so that the relevant communities of interest can genuinely assess the information made available.

- SCDI believes that joint working with partners and stakeholders in the wider economic development community is essential in broadening co-operative behaviour and “ownership” of projects.

SUBMISSION FROM SCOTTISH ENTERPRISE

Introduction

1. The Scottish Executive’s Partnership Agreement in 2003 is clear: “Growing the economy is our top priority. A successful economy is key to our future prosperity and a pre-requisite for building first class public services, social justice and a Scotland of opportunity”

2. Scottish Enterprise (SE), alongside Highlands and Islands Enterprise (HIE), is the main public agency for stimulating investment in the Scottish economy in pursuit of this priority. However, we are only directly responsible for a relatively small proportion of the investment in the economy each year. Our role is essentially catalytic, with the aim of stimulating more, better or faster investment than would otherwise take place to realise Scotland’s full potential. There are many dependencies involved in promoting economic development and success requires an effective investment alliance across the public, private and voluntary sectors.
3. We are guided in our task by the Ministerial ambitions set out in A Smart Successful Scotland (SSS). Over the longer term, our aim is to help Scotland become one of the best performing economies in the OECD. To achieve this will require:

- a strong, growing business base which is innovative and successful on an international stage
- dynamic and growing industries – both existing and emerging, such as energy and life sciences
- vibrant, well connected city regions which will be the hubs around which wealth is generated
- a skilled and talented workforce drawn from those that are educated in Scotland and those that choose to come and live and work here.

4. Our response to the Committee’s request for evidence reflects the serious budgetary issues we feel should be addressed if the Executive’s ambitions for the economy are to be realised. We recognise the difficulty in reconciling competing priorities in public spending. Given these difficulties we think it is important that public expenditure on economic development is seen as an investment which, in addition to improving living standards directly will help generate the wherewithal to meet spending priorities elsewhere in the Government’s programme, through increasing the tax base and generating additional revenues.

Summary

5. We feel that there is a strong case to be made for greater public resources to be invested in stimulating additional economic development in Scotland. There are three main elements to this case. We would argue that current investment is low relative to:

- the economic challenge Scotland faces - despite significant achievements as a result of past investment - not least in coping with major economic restructuring - on many of the lead indicators in the SSS measurement framework the Scottish economy is only in the third quartile of OECD economies.

Not only is there a gap in current performance to be bridged, but the rest of the world is not standing still. There is therefore a real urgency to make the most of Scotland’s undoubted economic potential in this unforgiving environment.

- past investment - Peter Wood’s review highlights the significant real decline in public investment in economic development in Scotland over recent years. Although public investment is not confined to SE’s budget alone, this provides a good example - we estimate that if the SE budget
had kept pace with inflation and the level of public spending in Scotland since it was established in 1991, it would now be around 90% higher than its current level.

- **investment in other areas** – it is difficult to do like for like comparisons with other places, but it is our strong impression that other countries and regions have been increasing or at least maintaining their investment in economic development as Scotland’s investment has declined, for example, the emergence of the English RDAs and the attention being given to strategic physical regeneration in England.

6. As well as greater investment there is also a strong case for better investment. In the main this means making more of the potential synergies and dependencies between different activities, for example, business development, further and higher education, infrastructure provision and planning. This will require a stronger investment alliance across the public sector to both stimulate and support private investment. To be effective this alliance must be guided by a shared clarity of purpose and strategy. The refreshed Framework for Economic Development in Scotland and SSS, provide the foundation on which such an alliance can be built.

7. The remainder of this response to the Committee’s inquiry is structured around the questions posed by the Convener in his letter of 28 June 2004.

**Do you think the overall level and growth of what the research terms ‘primary spending’ on economic development has been appropriate?**

8. The SSS measurement framework shows the scale of the task in context against which spending levels can be judged. Although significant progress has undoubtedly been made in restructuring the economy at a time of major industrial change, much remains to be done. The chart overleaf shows that against a series of indicators reflecting the priorities of SSS, Scotland performs relatively poorly against OECD comparators. On the overall measure of Gross Domestic Product (GDP) per head we are in the third quartile, as we are for the majority of other indicators and on some, like business R&D (which is only a quarter of the top quartile average) the gap we need to bridge is large. There is no question that Scotland has the potential to succeed, as our best companies demonstrate. The issue is to improve average performance by helping more businesses to perform closer to the levels of the best. This is amply demonstrated in relation to productivity, where on average Scotland’s performance is 20-30% below major competitors, yet within Scotland (and within individual sectors) the performance of the best is five times that of the worst.
Table 1: The relative position of the Scottish economy against OECD countries for a range of indicators.

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<tr>
<th>Overall Objective</th>
<th>Standard of Living (GDP/head)</th>
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<td>Growing Business</td>
<td>Global Connections</td>
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<tr>
<td>High growth firms (starts)</td>
<td>Broadband cost/coverage</td>
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<tr>
<td>Businesses trading online</td>
<td>Companies Exporting</td>
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<tr>
<td>Business R&amp;D</td>
<td>Graduates in workforce</td>
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<td>Labour productivity</td>
<td>Working age net migration</td>
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<td>Learning and Skills</td>
<td>Employment rate</td>
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<td>Long term aspiration - top quartile OECD</td>
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9. Whilst recognising the difficulties of definition and categorisation, the findings of the Committee’s research highlight how the relative scale of investment in economic development has fallen. This supports our own analysis which suggests that if SE’s budget had kept in line with the proportion of government expenditure it was at in 1991, it would now be c. £850m e.g. some 90% more than it currently is. We do not think this trend is appropriate given the scale of the challenge faced.

10. We focus resources on what we judge to be the top priorities for achieving the ambitions of a SSS. In essence, identifying those projects that have the greatest potential to contribute to economic development and most need our support to realise this potential. As with all organisations, resource constraints mean that not all aspirations can be met. The scale and speed of our investment in new and growing Scottish companies, the existing and future workforce and the environment for business could have been greater with greater financial resource. This would have led to a greater impact on growth in the Scottish economy than would otherwise have been the case.

11. As well as the amount of investment, we also recognise the need to improve the effectiveness and efficiency of our investment. This is why we embarked upon our ‘Business Transformation’ initiative to reduce our costs and increase productivity, to increase the impact of our activities relative to the inputs. We will continue to strive to make every pound of taxpayers money with which we are entrusted go as far as possible.

12. The review highlights a number of specific issues such as the relatively high proportion of economic development expenditure in rural areas. This is in part a consequence of the costs of providing services in rural areas. It draws attention to the importance of developing a better understanding of the changing nature of Scotland’s economic geography in relation to the wider international economy, and how best public investment should be deployed to stimulate development. We are increasingly convinced of the need to realise the potential of Scotland’s city regions as wealth hubs and the complementary role that can
be played by Scotland’s rural areas. This ties in closely with “Cities Review” and the National Planning Framework for Scotland.

13. The Committee’s research draws out other consequences of the changing nature of economic development. For example, the reduction in ‘demand led’ spending on Regional Selective Assistance (RSA), as a result of falling inward investment activity. It is important that changes in conditions do not automatically lead to reductions in investment when reallocation to meet the changing conditions may be more appropriate. A good example of this was the way in which RSA resources were diverted to help establish the Co-investment Fund which supports venture capital investment in growing businesses.

To what degree do you think economic development considerations and priorities are reflected in decisions concerning the level and nature of ‘support spending’ (e.g. expenditure on transport and higher and further education)?

14. Economic development is an area where there are many dependencies across Government and its agencies. If anything the move towards more knowledge based and more globally mobile activities has exacerbated this. This puts growing demands on the need to effectively join up action to make the most of these links. A good example of this is in Higher and Further education where we are working ever more closely with the Funding Councils to increase the impact of our investment in skills and learning. As a relatively small, well connected country, building effective alliances between investment partners should be one of our competitive advantages - we have to guard against fragmentation of effort. Great improvements have been made in recent years but more could be done. SE can and will do all it can to act as a catalyst to make the most of vital opportunities for joint action in pursuit of economic development.

15. In addition to aligning investment there is also an opportunity to make sure that ‘non spending’ factors such as land use planning and the statutory and regulatory environment play their part in promoting development. Not only could this help promote the development of existing businesses, it will also help make Scotland a more attractive place to do business.

Do you believe that the economic development impact of spending on items such as higher education and public transport has been adequately assessed – for example in the appraisal of such projects?

16. There is evidence that this is increasingly being taken into account in spending decisions, although there is scope to increase this and give it greater priority.

What is your opinion of the available evidence on the output and impact of the budgets of Scottish Enterprise and Highlands and Islands Enterprise and of the scale of these outputs and impacts?

17. As the review notes, estimating the impact of economic development expenditure is challenging. For example, it is difficult to isolate the precise cause of one change in the economy, particularly one that occurs over a long period of time, let alone completely attribute that to any specific public
intervention. However, this is not a reason not to attempt it. We are committed to improving the quality of our impact analysis to improve our understanding of our impact on the economy, so that we can improve our strategy and operations and help demonstrate value for money to our stakeholders.

18. The diagram below charts the link between inputs and eventual impacts. The nearer the bottom of the triangle the easier it is to record reliable data. As you move up the triangle unambiguous attribution becomes harder. There is a danger that this leads to too much attention being focused on the things which can be measured relatively easily and not enough on the end results we really want to achieve.

19. The briefing note in Appendix 1 sets out some of the issues involved in measuring outputs and impact, and SE’s approach to measuring impact in more detail. This approach allows a number of different perspectives on performance to be taken to allow a more rounded performance judgement to be made:

- Benchmarking key indicators (SSS Measurement Framework);
- In year output performance monitoring;
- Evaluation of individual projects and programmes;
- Aggregation of evaluation/output performance evidence;
- Macro economic modelling;
- Customer feedback.

_Do you think the balance between primary and support spending has matched development needs and priorities?_

20. The balance between primary and support expenditure will vary over time given the nature of what is involved. For example, major infrastructure projects, such
as the M74 extension, will require significant expenditure, but will not necessarily be at a consistent level over time. Where possible support investment should be considered as additional to primary expenditure, not a substitute for it. The issue is not so much the balance between primary and support spending, more it is the relationship between them and the need to make sure that support spending does indeed support economic development goals. This is becoming more important as the complementarity between primary and support activity grows. For example, the importance of the quality of the built environment, diverse cultures, thriving communities and creative people all interact to contribute to an enterprising culture. This further emphasises the need for a more “joined up” investment alliance.

21. The processes for prioritising how resources are used to build on the complementarity between primary and support spending are important. For example, the effort that has gone into building a stronger strategic relationship between the higher and further education funding councils and the enterprise networks is now starting to bear fruit, as is the alignment of local strategic priorities of partners through the Local Economic Forums (LEFs). The more we can move to a greater shared ownership of our economic development strategy and activities the more effective they will be.

Appendix 1 – Measuring the impact of SE

Introduction
This briefing note describes the approach being taken by SE to assess and better understand the impact of our work to help build a Smart Successful Scotland. It also sets out some of the results of this work.

Our approach to measuring impact
Measuring the impact of an economic development agency is a complex task. In recognition of this we have developed several different ways of measuring impact to provide a number of perspectives on this issue. The different approaches include:

- benchmarking key indicators (SSS Measurement Framework);
- in year output performance monitoring;
- evaluation of individual projects and programmes;
- aggregation of evaluation/output performance evidence;
- macro economic modelling; and
- customer feedback.

A complex task
The complexity of the task stems from a number of factors:

Nature of our economic interventions
- The economy is becoming increasingly complex (for example, through more global links, ‘intangible’ activities and changing business relationships). In this environment the consequences of particular actions are sometimes difficult to assess and measure.
• The wide range of activities undertaken by SE, and the nature of the interrelationships between them (business start-ups, innovation, inward investment, physical infrastructure, skills, inclusion etc.)

• The increasing focus on actions that will impact on a systemic basis to build a virtuous, self-reinforcing cycle of development. Disentangling cause and effect in this environment is difficult.

• The growing recognition of the importance of partnership working, which makes it hard to isolate the individual contribution of partners.

Issues of methodology

• Difficulties in accurately assessing what would have happened without any intervention.

• Accurately assessing the further, unintended consequences of intervention. For example, some assistance can ‘displace’ activity from elsewhere in the economy. This may be less of an issue for initiatives aimed at improving inclusion in some specific areas, but it is important when trying to assess the overall impact on Scotland.

• Difficulties in capturing accurate and objective estimates of the impact of a particular action through asking those in receipt of support.

These complexities are presented to give an insight into the nature of the task; they do not present an excuse for not trying to get a better understanding of the impact of development agencies. Indeed, these difficulties are experienced by economic development agencies across the world and we try to learn from what others are doing elsewhere.

Benchmarking Key Indicators (SSS Measurement Framework)

When SSS was published a ‘Joint Performance Team’ comprising members from the Scottish Executive, SE and HIE was set up. The first task of this group was to develop a framework for measuring progress towards achieving the objectives of a SSS. The measurement framework developed by the team, after widespread consultation, was published in January 200221.

The framework identifies twelve lead indicators (and a number of support indicators) against which to measure progress in each of the priorities of Smart Successful Scotland. It also identifies one overall standard of living indicator (GDP per head – currently 3rd quartile OECD). The aspiration is for Scotland to perform on a par with the top quartile of OECD countries in each indicator in the medium to long term. A progress report is published annually. The table below shows the headline indicators and the results from the 2003 report. The 2004 report will be published shortly.

21 Measuring Scotland’s progress towards a SSS: Scottish Executive (2002)
<table>
<thead>
<tr>
<th>SSS theme/priority</th>
<th>Lead Indicator</th>
<th>2003 report position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growing Business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entrepreneurial dynamism</td>
<td>High growth firms</td>
<td>3&lt;sup&gt;rd&lt;/sup&gt; quartile</td>
</tr>
<tr>
<td>e-business</td>
<td>Businesses trading online</td>
<td>2&lt;sup&gt;nd&lt;/sup&gt;</td>
</tr>
<tr>
<td>Innovation</td>
<td>Business R&amp;D</td>
<td>3&lt;sup&gt;rd&lt;/sup&gt;</td>
</tr>
<tr>
<td>Key Sectors</td>
<td>Manufacturing productivity</td>
<td>3&lt;sup&gt;rd&lt;/sup&gt;</td>
</tr>
<tr>
<td>Global Connections</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Digital connectivity</td>
<td>Broadband cost/coverage</td>
<td>2&lt;sup&gt;nd&lt;/sup&gt;</td>
</tr>
<tr>
<td>Global markets</td>
<td>Companies exporting</td>
<td>1&lt;sup&gt;st&lt;/sup&gt;</td>
</tr>
<tr>
<td>Global location</td>
<td>Graduates in workforce</td>
<td>2&lt;sup&gt;nd&lt;/sup&gt;</td>
</tr>
<tr>
<td>Living and working in Scotland</td>
<td>Net migration</td>
<td>4&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Skills and Learning</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labour market</td>
<td>Employment rate</td>
<td>2&lt;sup&gt;nd&lt;/sup&gt;</td>
</tr>
<tr>
<td>Young people</td>
<td>16-19 in employment etc.</td>
<td>3&lt;sup&gt;rd&lt;/sup&gt;</td>
</tr>
<tr>
<td>Unemployment gap</td>
<td>Worst 10% areas ratio</td>
<td>3&lt;sup&gt;rd&lt;/sup&gt;</td>
</tr>
<tr>
<td>In work training</td>
<td>% in employment training</td>
<td>3&lt;sup&gt;rd&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

**In year Output Performance**

Over recent years we have developed our in house system to improve the recording and analysis of in-year performance (the Knowledge Management Information System - KMIS). KMIS provides detailed in-year information on the inputs, activities and outputs for individual projects and programmes that can then be aggregated up to measure overall performance. We publish measures of progress and targets in our Operating Plan and report on performance in our Annual Report. The measures of progress for 2004/05 are shown in the table below.

<table>
<thead>
<tr>
<th>04/05 target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total business start ups we helped</strong></td>
</tr>
<tr>
<td>Business starts supported through the services such as the Business Gateway.</td>
</tr>
<tr>
<td>Businesses have to either have started trading or opened a business bank</td>
</tr>
<tr>
<td>account</td>
</tr>
<tr>
<td>9,000 – 9,900</td>
</tr>
<tr>
<td><strong>- high growth business start ups</strong></td>
</tr>
<tr>
<td>Start ups forecast to achieve a turnover of over £750k or have at least 15</td>
</tr>
<tr>
<td>employees within three years</td>
</tr>
<tr>
<td>140-150</td>
</tr>
<tr>
<td><strong>Account managed businesses improving their business performance</strong></td>
</tr>
<tr>
<td>Improvements in performance of the companies against specific growth</td>
</tr>
<tr>
<td>characteristics tracked against an agreed development plan.</td>
</tr>
<tr>
<td>330-350</td>
</tr>
<tr>
<td>Knowledge Transfer supported by the Network</td>
</tr>
<tr>
<td>-------------------------------------------</td>
</tr>
<tr>
<td>Academic and company spin outs supported, licences acquired by businesses to exploit intellectual property, and the number of new technology based collaborative ventures between universities and business.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Organisations helped to do business internationally^{22}</th>
<th>720 – 780</th>
</tr>
</thead>
<tbody>
<tr>
<td>Businesses supported to internationalise (new to international activity or supported to further develop internationally). More attention is being focussed on deeper forms of international participation like setting up an international joint venture</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Planned high value jobs brought to Scotland through our support for inward investment</th>
<th>950 – 1,050</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned jobs through inward investment activities which are either jobs in research, design or development, or jobs which are advertised at 20% above the current Scottish average salary (currently above £25k).</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Individuals, of working age, benefiting from career planning</th>
<th>177,000 – 184,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Includes career guidance interviews, job search support and career planning.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Individuals on occupational training programmes</th>
<th>41,000–46,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Includes young people participating in Modern Apprenticeships, Skillseekers and Get Ready for Work and older people participating in adult MAs and Training for Work.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Individuals achieving a positive outcome from occupational training programmes</th>
<th>14,700 -16,700</th>
</tr>
</thead>
<tbody>
<tr>
<td>Includes the achievement of a Modern Apprenticeship etc, moving into full time education or employment. Related to the above target but as some programmes last for more than a year there is not a direct relationship between the two.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Small to Medium sized companies helped to take steps to develop their workforce</th>
<th>2,000 – 2,200</th>
</tr>
</thead>
<tbody>
<tr>
<td>Includes successful first time recognitions of Investors in People, companies engaged in Business Learning Accounts and small and medium size businesses supported to engage in workforce development activities.</td>
<td></td>
</tr>
</tbody>
</table>

The main drawback is the difficulty of measuring impacts (e.g. increase in value added) from this performance information. This is because although in-year outputs are relatively easy to record, the ultimate impact of an initiative may not be realised until some time well after action is taken.

^{22} These measure reflect Scottish Development International’s all-Scotland remit, including the Highland & Island Enterprise area.
Project and Programme Evaluation

To attempt to address some of these difficulties, we undertake more in depth evaluation studies. These studies are designed to:

- assess how well a project has worked relative to its original objectives;
- capture the experience of those involved in the projects;
- identify ways in which future projects can be improved; and
- estimate the impact of the project over a longer period.

To estimate impact in an ideal world, we would go back to each company or organisation we have worked with, measure the impact of these individual interventions and aggregate them. However the number of businesses helped makes this an unrealistic proposition. (Around 20,000 businesses each year alone can be involved in varying ways and to varying degrees with SE). Most evaluation studies involve a sample survey of clients.

The studies aim to estimate the ‘net additional’ impact of SE activities. This takes into account the effects of deadweight (what would have happened anyway) and displacement (activity lost in other parts of the economy as a result of the activity), and thus provides estimates of the ‘additionality’ of interventions. Sample surveys are then grossed up to provide an overall estimate of the impact of a project or program.

We have carried out over 250 evaluations since 1997 and we have an ongoing programme of evaluations. Evaluations range from analyses of small projects delivered by Local Enterprise Companies to analyses of strategic, network wide programmes.

Aggregating Evaluation/Performance Evidence

Although it is not possible to evaluate every project or programme, evaluation evidence has been used to develop an ‘Evaluation/Impact Model’ (in conjunction with Cambridge Policy Consultants) to estimate the overall impacts of our activities. This involves grouping evaluation evidence by SSS themes and priorities. This evidence is then used to develop a set of parameters which can be used to estimate the impacts resulting from various types of activity and outputs. For example, business growth evaluations were examined to calculate the average impact (in terms of jobs created or value added) per business assist, and inclusion evaluations were examined to estimate the average number of jobs created or redistributed per programme trainee.

These estimates can then be used to estimate the impact of activities in any one year. Applying this methodology to 2001/02 gave estimates of over 15,000 net additional jobs (after allowing for displacement etc) generated during the three years after the activity and almost £240M added to GDP.

The main advantage of this approach is that it uses evidence taken from a large number of independent evaluations, along with up-to-date performance information. However, there are a number of disadvantages. Given that the approach is based on evaluation evidence, the model is dependent on the quality of the original evaluations. For example, it is important that evaluations of similar types of activities treat the concepts of displacement and deadweight in a consistent manner. We are
addressing this by providing training and guidance to those undertaking evaluation work.

To be robust, this approach also requires a good spread of evaluation evidence across different types of activity. In some cases, evidence may be based on just one or two evaluations. Where this happens, the model uses evaluation evidence from outside the network, or relies on evaluation evidence from other similar types of activity.

Despite its drawbacks this is an innovative approach to impact assessment (no other organisation which operates on the scale of SE appears to have followed this type of methodology) which adds to the overall understanding of the impact of our activities.

**Macro Economic Modelling**

Although individual programmes of SE activity are targeted on achieving specific objectives, they also generate indirect effects, or ‘spin-off’ benefits to the wider economy. Individual evaluation studies usually include some estimate of these indirect impacts, but the main drawback is that the ‘multipliers’ used to measure them don’t necessarily capture all of the wider impact on the economy, such as that generated by:

- increased demand from increased investment;
- improved linkages between firms;
- supply-side effects on productivity and their impact on consumption.

To address the difficulty of measuring wider impacts, we have worked with Fraser of Allander Institute (FoA), using their model of the Scottish economy. This approach was used in 2000 to estimate the impacts of SE activity in 1997/8. Evaluation results, based on a 1998 version of the Evaluation Impact Model outlined above, were input to the FoA model which provided an overall (direct and indirect) estimation of impacts. This exercise suggested that SE’s 1997/8 programme of work generated 33,100 jobs in Scotland (22,700 direct and 10,400 indirect jobs). This highlights the magnitude of the indirect or spin-off impacts of SE’s activities when compared to the evaluation aggregation approach.

Even this approach may not capture all of the impact, as it focuses on a limited number of variables in order to simplify the analysis. For example, it focuses primarily on variables measuring changes in economic activity (employment and GDP) and did not consider other impacts from activities (particularly relating to social inclusion, skills and environmental improvements). It also does not pick up some of the potential benefits from inward investment, such as new technology or management/skills transfers, so even this analysis may have underestimated the overall impacts of our activities.

**Customer Feedback**

We have also instituted a more rigorous approach to gathering customer intelligence and feedback. This helps us better understand the issues and competitive pressures facing customers, but it also provides us with almost ‘real-time’ feedback about how

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23 The Impact of SE Policies on the economies of Scotland and the rest of the UK: Fraser of Allander Institute, Quarterly Economic Commentary, Volume 25 No. 1, (2000)
we are treating and assisting our customers. Sources of intelligence include business forums, focus groups, customer satisfaction research, comments and complaints from customers (e.g. through the Network Helpline and Website) and feedback from the biggest 100 companies in Scotland.

These provide information on the standards of SE’s activities as well as feedback on the issues facing clients, which in turn feed into policy and programme development.

Conclusions
The precise impacts of the work of an economic development agency are difficult to determine unambiguously. However, we are committed to better understanding the impact of our work, both to demonstrate value for public money and to learn the lessons of experience to help us improve future performance.

This paper has outlined the various approaches we are developing to give as robust estimates of impact as possible. On the basis of the work to date we estimate from our analysis of recent years that our annual activities help generate in the order of 20,000 and 25,000 jobs over a three year period in Scotland that would not otherwise have existed. This would imply an additional £600M - £750M a year in value added in Scotland by the end of the third year.

The relatively short-term employment impact of our work is only one, albeit extremely important, part of the picture. We are also trying to help build a strong, sustainable Scottish economy over the longer term through structural improvements in factors that drive economic performance like investment in innovation.

SUBMISSION FROM SCOTTISH LOCAL AUTHORITIES ECONOMIC DEVELOPMENT (SLAED) GROUP

SLAED welcomes this opportunity to comment on the scale and management of the economic development resource in Scotland.

1. SLAED is firmly of the view that the economic development effort of Scottish Local Authorities should be taken into account fully in this inquiry. The main focus of the Tribal HCH study is on expenditure from the “Scottish budget” (Scottish Executive) and SLAED recommends that full recognition be given to the significant contribution being made by Local Authorities in terms of their mainstream economic development activities as well as their indirect contribution through provision of local authority services.

2. Local Authorities provide a range of vital services to their local business communities. As well as direct business development, tourism and land & property activities, LAs create the “conditions for growth for business” through infrastructure development, transport, licensing, environmental health services, planning and consumer protection. In most cases, individual businesses benefit more from LA investment in creating the right “conditions for growth” rather than providing a grant or a loan.
3. LAs often provide vital match funding for economic development projects and programmes in Scotland to lever in European Union and Lottery scheme monies. The leverage of external funding by LAs for economic development purposes is possibly greater than by any other sector and some account of this should be made by the Inquiry.

4. SLAED recommends that the Inquiry should acknowledge the key partnership role of local authorities through “primary” economic development activity alongside the Scottish Executive and enterprise networks. Local Authorities are key funding partners in local Area Tourist Board and Business Gateway arrangements. Funding contributions made by local authorities are substantial at local level giving significant additionality in terms of range and quality of services offered. SLAED is concerned that the £139m attributed to direct local authority economic development spend does not give a total picture of all LA expenditure on economic development and an exercise is required to bring forward a more robust assessment is required (see paragraph 6 below). However, the report’s recognition that “support” spend by local authorities is on a par with Scottish Executive support spend is to be welcomed.

5. SLAED is concerned about the definition applied to the assessment of spending. The Inquiry’s research classifies the entire Scottish Enterprise budget as economic development expenditure. However, as much as 40% of its budget is dedicated to the delivery of national training programmes which could more accurately be classed as “support” expenditure. There are other areas of possible inconsistency. Transport spending is allocated as “support” spending but other areas of expenditure such as health spending (which might arguably increase productivity) are not included. To undertake a consistent assessment of economic development spending, the transport and other budget items identified as “support” need first to be defined more clearly as spending to achieve direct growth as opposed to spending to achieve indirect outcomes. SLAED believes that a comprehensive review of local government expenditure on economic development (both primary and support spending) is required to facilitate the deliberations of the Parliament Finance Committee, and recommends that this should be undertaken by the Scottish Local Authority Economic Development Group (SLAED) with support from CIPFA.

The Call for Evidence by the Inquiry invited comment on the following specific questions:

**Question 1: Do you think the overall level and growth of what the research terms “primary spending” on economic development has been appropriate?**

a. SLAED is of the opinion that there is an apparent mismatch between declared priority and actual budget provision. “Growing the economy” is cited as the “number one priority” in the “Partnership for a Better Scotland” agreement but the committee research identifies primary expenditure as just 5.5% of the Scottish Executive budget. There is no other means of assessing how effective this has been.
b. Whilst the overall level of growth has been below that of total public expenditure it is accepted that there are reasons why this may legitimately be the case, including reduced demand for Regional Selective Assistance (following on from lower levels of foreign direct investment) and reductions in agricultural support payments. SLAED feels that such generalisations about the overall level of primary spend are not particularly useful. The targeting and efficacy of spend would be a far more significant consideration and especially the need to focus on achieved outcomes.

c. The Inquiry’s research has confirmed that total expenditure on economic development is significant. SLAED feels the Inquiry should investigate ways of improving the overall management of public sector funding of economic development to harness greater synergy between national and local priorities. There are many examples of effective local partnership arrangements but management of the current multi-track national arrangements for economic development funding through the enterprise network, other agencies and local government could be further improved upon. SLAED feels there is merit in looking at the Regional Development Agency approach in England to the provision of business development, regeneration, skills and employment, infrastructure and image. This is done through “single pot” funding administered through local partnerships between the RDA and the local authority. This is seen as potentially conferring particular advantages of linking national expertise with the resources and knowledge of local authorities.

Question 2: To what degree do you think economic development considerations and priorities are reflected in decisions concerning the level and nature of “support spending” (e.g., expenditure on transport and higher and further education)?

a. It is critical for Scotland to have a modern, efficient transport infrastructure and that it is served by an excellent and reputable education system. In general terms the economic development dimension would appear to be a factor in considerations about this type of support spend. However, the economic dimension seems to be missed when considering other types of issues affecting the economy. For example, the Scottish Executive’s apparent lack of urgency in dealing with the scale of problems posed by the current financial predicament of Scottish Water - a problem that is a major barrier to growth for many communities across Scotland - is unacceptable. There are other areas of activity affecting the prosperity of Scotland that should be paced higher on the agenda. The viability of town centres and the integrity of the built environment as well as other areas of utilities expenditure should be given greater importance from an economic development perspective. The report should also give greater recognition of the contribution of the development-planning framework in promoting economic development and the important role of Local Authority regulatory functions in providing an equitable framework for doing business.

b. LAs are concerned with creating the overall conditions for economic growth within their areas, which usually includes direct economic development services, business support and/or training as well as the familiar range of wider
Local authority services (Planning, environmental health, licensing etc.). LAs see the process as more ‘bottom-up’ - especially now in terms of their lead responsibility for Community Planning. The Community Planning process throughout Scotland places Economic Development and Prosperity as a key strategic objective or theme and the duty placed on LECs has ensured a greater buy-in by them to this bottom up approach. The partnership with further and higher education has also been forged through the community planning process. Despite progress, there is still a lack of real communication and joined up working with Local Authorities at the national level that greatly affects operations at Local Economic Forum level. Increased centralisation and a greater focus on national priorities are leading to more decisions being made unilaterally by the enterprise networks. This is perhaps more acute in the more rural areas of Scotland but there is an increasing problem of lack of dialogue or consultation over the way resources are being allocated at operational level. There is however a growing acceptance by many Local Authorities that this is outwith the control of the LEC and more a part of the increasing centralisation within Scottish Enterprise and HIE.

c. No two councils are alike - they each deliver their own choice of projects and programmes dependent on local priorities. However, taking account of the wider role of Local Authorities in terms of roads, development planning, public transport, education, cultural and tourism activities and attractions, it could be argued that Local Authorities are, in practice, the “main economic development agency” within their respective areas – not the LECs. It is also clear that LAs are making a major contribution to the “Smart Successful Scotland” agenda within their own areas but there is little recognition of this at national level.

**Question 3:** Do you believe that the economic development impact of spending on items such as higher education and public transport has been adequately assessed – for example in the appraisal of such projects?

a. This is covered already in the answer to question 2. However, the partnership between the Scottish Executive and Local Authority Education departments in the implementation of the “Determined to Succeed Programme” and its potential contribution to Scotland’s future prosperity is to be applauded.

**Question 4:** What is your opinion of the available evidence on the output and impact of the budgets of Scottish Enterprise and Highlands and Islands Enterprise and of the scale of those outputs and impacts?

a. SLAED is of the opinion that a close scrutiny of the effectiveness of enterprise network spending is essential and that substantial progress has been made in terms of focus on performance targets.

b. The respective agencies publish annual reviews giving the main source of evidence on the output and impact of their budgets based on the guidance they receive from Smart Successful Scotland. Another important source is the report of the Joint Performance Team which was last published in March 2003. SLAED notes the position that, of the published targets, HIE reached 28 of 30 and SE reached 20 of 21 in 2002/03. The JPT assessment is also positive but
recognition is made that it is too soon (since the targets were introduced) to assess trends. It is also noted that the adopted targets are agreed with the Scottish Executive and are routed in the coalition Partnership Agreement. The Framework for Economic Development in Scotland (FEDS); and Smart, Successful Scotland (SSS) are also important overarching frameworks for target setting.

c. The Smart Successful Scotland vision of growing businesses, global connections and learning and skills is just as relevant now as it was in 2001. The vision is long-term. In some cases measures are only now being put in place e.g. the enterprising/education agenda is now being given new resources under the Scottish Executive’s Determined to Succeed Programme – this is a long-term initiative. The priorities under each of these three themes are also just as relevant now as then. There is however some scope for greater prioritisation of the measures that could be taken under each of these to achieve the desired outcomes. For example, digital connectivity could be accelerated if more resources were made available. As indicated above, lack of investment by Scottish Water is acting as a major barrier to growing businesses – more resources and a firm commitment to tackle the legacy of lack of investment is required rather than what appears to be a political debate over the efficiency and competence of a quango. The mechanics of providing visas and easier immigration channels to enable more people to live and work in Scotland could also be made a high priority if the Government is serious about its fresh talent initiative. Another example would be the need to focus more on providing technician and vocational training for key skill shortages e.g. engineering and construction.

d. The Business Gateway model has served as a good example where through a partnership approach with Local Authorities recent streamlining is improving the effectiveness of support services to businesses. Scottish Enterprise should perhaps now consider transferring the delivery of all residual company support from the local enterprise companies to the Gateways to ensure a genuine one-stop shop for company development support.

e. There is also room for improvement in terms of measurement of the results achieved through enterprise network spending. Specifically, there needs to be adequate focus on “outcomes” achieved for the local economy or the individual.

Question 5: Do you think the balance of expenditure between primary and support spending has matched economic development needs and priorities?

a. More clarity is required over the definition of “primary” and “support” but the crucial inter-relationship between them must be investigated to fully understand relative impacts. The critical aspect is the need to focus on key economic outcomes; community sustainability and quality of the environment, which are all inter-related. Improving the built environment, the regeneration of town centres and improvements to our transport systems will not only enhance the quality of life for the communities affected but will also make places more attractive to visitors and prospective investors alike. A more holistic, innovative and creative approach must be adopted to achieve economic prosperity and
sustainability through more focused and joined up intervention and encouragement by the public sector at the community planning level. Whilst the Inquiry is helpful in assessing the scale of economic development expenditure, an investigation should be made into the synergy of various actions and how they impact on key economic development outcomes.

b. The Community Planning process has probably done most to make connections across a range of themes for communities within Scotland. The links between Economic Development and key policy objectives such as social justice, equal opportunities and transport etc., are much more focused and obvious now than ever before. Linkages are more easily observed in the context of regeneration where key outcomes include a range of measures associated with access to new opportunities, improved schools and employability (through training, childcare and more fundamental services such as life skills programmes) and investment in community development and capacity. There is a much greater realisation that introducing these components in combination is likely to be more effective. Areas are different and in some cases the key priority will be investment in development of skills whereas in other areas the key will be to focus on other areas e.g. transport links.

c. In this context SLAED feels that the definition of economic development used in the review is too narrow and that expenditure on key aspects of regeneration and social exclusion should be given fuller consideration.

CONCLUSION

SLAED welcomes this Inquiry as an opportunity to explain

1. The true contribution of Scottish Councils to the Smart Successful Scotland targets through their mainstream economic development activities as well indirectly through provision of vital local authority services.

2. The merits of the holistic approach of community planning efforts to achieve local economic prosperity and sustainability in accordance with the national guidance frameworks promoted by the Scottish Executive.

3. Ways of improving the overall management of public sector funding of economic development to harness greater synergy between national and local priorities.

SUBMISSION FROM THE SCOTTISH TRADE UNION CONGRESS (STUC)

Introduction

1. The STUC is Scotland’s trade union centre, representing some 630,000 workers across all industrial sectors.
2. The STUC welcomes the Committee’s consideration of whether the level and structure of government spending on economic development in Scotland has been appropriate. We hope that this review will lead to a greater understanding of the nature and cost of economic development in Scotland.

Background

3. The recent growth in public spending has helped sustain economic growth through provision of jobs and improvements in services and infrastructure. However,

- Growth in Scotland continues to lag behind the rate for the UK as a whole;
- Unemployment remains above the UK average and economic activity remains persistently and worryingly high;
- Scottish manufacturing industry continues to decline at a rate faster than that for the UK as a whole; and,
- By any measure, productivity remains lower in Scotland than the UK average, which is in turn considerably lower than that of our main competitor nations.

4. Of course, we do not seek to conflate economic performance with economic development but there is an expectation that economic development in the devolved Scotland should seek to address these long-standing problems. Decisions on spending must be informed by an understanding that public money is spent on developing our economy to serve all our citizens and that priorities must not be driven by narrow sectoral interests e.g. lowering non-domestic rates.

5. It may be too early to gauge whether the level and growth of primary spending since devolution has been appropriate. Outcomes must be considered over the longer-term. Ill considered short-term targets seeking to measure the success of economic development would at best offer only a crude measure of success and could conceivably act as a constraint to development in the longer-term.

Tribal HCH Report

6. The STUC accepts for the purposes of this review the distinction drawn between ‘primary’ and ‘support’ spending drawn in Peter Wood’s report. However, we have some concerns about the scope of the support spending discussed in the report. The difficulties involved in extrapolating and measuring the effectiveness of support spending on economic development should not be underestimated given that the spend is intended to provide multiple benefits of which economic development is only one.
In reply to the specific questions asked by the Committee:

**Do you think the overall growth and level of what the research terms ‘primary spending’ on economic development has been appropriate?**

7. During the period 1999-2004, a time of consistent and considerable growth in public spending, the Tribal HCH report informs us that spending on ‘primary’ economic development has fallen from 5% to 4% of the Scottish Executive budget and ‘support’ spending from 16.4% to 12.2%.

8. There does, therefore, appear to be a potentially worrying inconsistency between the monies spent and the Executive’s claim that economic development remains their top priority.

9. However, it is also fair to argue that the outcomes resulting from the spending on economic development are more important than the proportion of the budget spent. No one would argue if the Executive could demonstrate it is achieving greater positive outcomes while the proportion of budget spent is falling. The concern is that neither the Executive nor stakeholders have sufficient information to make these judgements.

**To what degree do you think economic development considerations and priorities are reflected in decisions concerning the level and nature of ‘support spending’ (e.g. expenditure on transport and higher and further education)?**

10. In general terms, our experience is that Scottish Ministers are very well aware of the role ‘support’ spending plays in economic development and seek to achieve a sustainable and appropriate balance between social and economic objectives. However, Ministers may wish to consider whether wider considerations on economic impact are sufficiently reflected in announcements on ‘support’ spend projects.

11. It is not immediately clear to us at this moment in time just what constitutes the Executive's ‘economic development considerations and priorities’. A Smart, Successful Scotland which should set out priorities with regard to primary spend is currently being refreshed and the review of the Framework for Economic Development (FEDS), which should be used to inform ‘support spend’ priorities has yet to be published.

12. The relationship between these two documents and how they are used, if at all, by departments to inform spending decisions is not currently clear to us. We have a particular concern that FEDS has lost profile, is currently little discussed by stakeholders or indeed within the Executive and is therefore not providing an effective framework for support spend decisions.
Do you believe the economic development impact of spending on items such as higher education and public transport has been adequately assessed – for example in the appraisal of such projects?

13. We are not in possession of the information that would allow us to provide a rigorous evidence based response to this question.

14. Generally speaking, gauging the economic development impact of spending on such projects is likely to prove very difficult but this should not prevent attempts to do so. However a proper assessment of such projects must consider the full range of social and economic impacts. We assume that some assessment is currently undertaken but would ask that it is more widely disseminated and in a form readily understood by stakeholders.

What is your opinion of the available evidence on the output and impact of the budgets of Scottish Enterprise and Highlands and Islands Enterprise and of the scale of those outputs and impacts?

15. In discussing market failure, the report is accurate in stating that,

"With specific regard to economic development it may, for example, be argued that “left to themselves” firms will under-invest in skills, technology, research, marketing and so forth. Much economic development spending is this concerned with encouraging companies to undertake such activity”.

16. SE and HIE undertake a broad range of often innovative activity aimed at addressing the market failures mentioned above. However, Scottish companies continue to under invest in skills and research and development despite the present phase of stability in the UK economy which should a window of opportunity to increase investment.

17. This is not an implicit criticism of SE and HIE although it is of course important that they continually review the effectiveness of their activities. Rather, it is an acknowledgement of the poor performance of Scottish industry in this regard and a tacit acceptance that there are limits to the effectiveness of public spending on economic development.

18. The only evidence on outputs and impacts that we are aware of are the agencies’ annual reports and the report of the joint performance team which we understand was last published in March 2003. This evidence suggests that the agencies are being generally successful in meeting the targets set. However, it is essential that there is an ongoing debate on the relevance and utility of these targets.

Do you think the balance of expenditure between primary and support spending has matched economic development needs and priorities?

19. It may be too early in the life of the devolved structures to make an effective assessment on policies which must be considered in the long-term. The well-
rehearsed problems in relating outcomes to financial inputs only exacerbate this difficulty.

Conclusion

20. The STUC welcomes this inquiry but does not underestimate the complexities involved.

21. Spending on economic development must not be driven by narrow sectoral interests but rather seek to address the long-term failures of the Scottish economy.

22. Economic development policies must be given time to work and should not be abandoned due the difficulties in measuring their effect. Innovative and rigorous assessment frameworks should be developed by the Executive in conjunction with stakeholders.

23. The current reviews of A Smart Successful Scotland and the Framework for Economic Development should seek to provide clarity on the Executive’s ‘economic development considerations and priorities’.

24. Ministers must continue to consider the economic development impact of support spending and ensure that public and stakeholders are assured that these considerations have been taken sufficiently into account in the decision making process.

SUBMISSION FROM UNIVERSITIES SCOTLAND

The Scottish Executive and most of the political parties in Scotland have identified economic development as the priority (or at least one of the main priorities) for Scotland. By looking at the strengths of and opportunities open to Scotland in the global economy a consensus has emerged that economic growth in Scotland will be based on high-skill, high-value activity. The broad principles for achieving this kind of activity set out in the Scottish Executive’s Smart, Successful Scotland strategy are also generally accepted to be the right ones. However, there is weaker consensus and therefore less clarity on how those principles should shape government activity and public expenditure.

Most politicians and almost all economic development theorists recognise that the teaching and the research which takes place in the higher education sector have an important contribution to make in developing and sustaining a high knowledge-content economy. However, awareness of precisely what that contribution is tends to be less clear – for example some commentators might concentrate on the commercialisation of research while others focus on the importance of graduates.

In fact, to concentrate on either of these is to miss the point; higher education makes an essential contribution to generating a knowledge economy in a wide range of ways and each of these strands of activity is a necessary aspect of such an
economy. Attempting to identify the specific part of the work of universities which is of most benefit to the economy (with the assumption that investment can be skewed towards this activity) is a mistake. In fact, almost every aspect of the work of higher education has an important part to play.

If there is a primary role which higher education plays in the knowledge economy it is to act as the hub around which other economic activities take place. This paper attempts to show that there is no greater lever available to the Scottish Parliament to support the development of a knowledge economy in Scotland than investment in higher education. Lip service paid to the value of universities is insufficient; advanced teaching and in research must be put at the heart of Scotland’s economic strategy and public expenditure must be prioritised accordingly.

Our business

The role of higher education as a business in its own right is often overlooked. In fact, higher education is one of Scotland’s most significant service sector industries with an annual income of £1.7 billion. To give an idea of the scale of the higher education economy it is broadly similar in size to the computing services industry in Scotland. It is a major employer providing 42,300 high-quality jobs – more than two in every three of these jobs are at a professional level. Even despite the high quality of these jobs, five Scottish universities are among the top 50 biggest non-governmental employers in Scotland and nine are in the top hundred.

It is also a business which is very much rooted in Scotland; in 2001-02 £1.29 billion of its £1.66 billion expenditure was spent on Scottish goods and services. This is independently estimated to have had the knock-on effect of creating another £1 billion of Scottish GDP and almost 11,000 extra jobs elsewhere in the economy. For a public investment of less than £700 million higher education created £2.8 billion of wealth and created over 50,000 fulltime jobs. Again, all of the jobs and £2.3 billion of the expenditure were in Scotland.

And because Scottish higher education is a significant importer of students and sells services overseas it represents nine per cent of the market share of all Scottish service sector exports. The higher education sector ranks among the top five service sector export industries behind oil and gas, tourism, and computer and software services, and represents almost double the market share of banking sector exports. In 2000, exports from the higher education sector increased substantially by £56 million, from £195 million in 1999 to £251 million in 2000.

Simply by carrying out its day-to-day work, and even before the other benefits of that work are considered, higher education is a major job creator and wealth generator.

People

The expansion of existing businesses, the creation of new industries, attracting inward investment and achieving productivity increases are all reliant on the skills available in the labour market. People are by far the most important factor in creating and sustaining a knowledge economy. While a wide range of skill sets are required
to support any economy, it is graduates who will drive the economy and create other jobs and not the other way round.

Employers today seek employees with strong cognitive, communicative and problem solving skills and it is the core ‘soft’ skills which are precisely what a university education delivers – in a survey by the Scottish Executive for Future Skills Scotland, 82 per cent of employers reported that recruits coming from higher education institutions were well prepared in soft and core skills compared to 48 per cent of those coming straight from school.

However, higher education is sometimes contrasted with ‘vocational’ education. This is wrongheaded. In 2002 the Scottish higher education sector produced 46,240 graduates. As an indication of the types of disciplines which made up this cohort…

- 1,390 were medics and dentists
- 5,965 were nurses and other health professions
- 4,450 were teachers
- 2,920 were biologists
- 1,735 were physicists
- 570 were mathematicians
- 2,825 were computer scientists
- 255 were vets
- 505 were agriculturalists
- 3,435 were engineers
- 1,430 were architects and planners
- 2,935 were Social, economic and political scientists
- 1,565 were lawyers
- 7,425 were business graduates
- 835 were librarians and information scientists
- 1,445 were linguists
- 1,470 were in the humanities
- 1,500 were artists and designers

Even if you were to argue that the social sciences, arts and humanities were not directly vocational, it would still be the case that 87 per cent of graduates come from directly vocationally-applicable courses. In any case public policy-making and analysis is essential to creating the right environment for economic growth and relies very heavily on social science graduates and the creative arts are worth over £5 billion to the Scottish economy. And higher education is responsive to the student demand and the needs of the economy – subjects such as computing science and mathematics have grown in recent years and postgraduate work in the biological sciences is also growing faster than the sector as a whole.

It is also important to consider the role of higher education in meeting the needs of future industries which are only now beginning to emerge. From time to time the opinion is voiced that we now have ‘too many graduates’; the evidence suggests quite the opposite. Future labour market predictions make it clear that, over the coming decade, every single net new job in the Scottish economy will be at graduate level. So while there will of course be new sub-graduate jobs created in the economy these will be offset by jobs at the same level disappearing. The Higher Education
Policy Institute estimates that in terms of future demand for high-level skills, the majority of new jobs projected to be created by 2010 – around two million in total – will require graduate qualifications. Scotland is only mid-table internationally when it comes to the proportion of the workforce with a degree. Eighteen per cent of Scots aged 25-64 are graduates which is behind the US (29 per cent), Norway (26 per cent), the Netherlands, Japan, Australia, Canada, Iceland (20-22 per cent) and is on a par with the UK, Korea, and Spain.

There is now a widespread recognition that Scotland’s demographic changes are likely to lead to a sharp reduction in the size of the available labour market in Scotland. This is not due to out-migration – net migration rates have been neutral since the early 1990s. However, the fact that there is no net out-migration from Scotland relies on the fact that Scotland attracts a significant net in-migration of people at the 15-19-year-old age bracket (see graph below). These are mainly students who come to Scotland to study and many of them stay. The Scottish Executive estimates that 31 per cent of students who come to study in Scotland from elsewhere in the UK eventually stay here to work and that 22 per cent of EU students end up staying. It is difficult to track graduates once they have left higher education but over 2,500 specific ‘stayers’ were identified last year. These are new high-skill employees for the Scottish economy. Scotland has a significant in-migration of high-skilled young people because of the strength of its higher education sector and universities are probably the most important tool Scotland possesses for attracting ‘fresh talent’.

But it is a mistake only to think of graduates as filling ‘graduate-shaped gaps’ in the labour force. One of the most important roles a graduate plays in the economy is as a medium of ‘technology transfer’. The cutting-edge skills which graduates learn are brought into the work place and help to transform businesses – improving methods, generating new ideas and helping to improve productivity. The DTI-run Knowledge Transfer Partnerships aim to bring new skills and technologies into small businesses by helping them to employ graduates. For examples, Scottish graduates:
• are developing an innovative environmentally sustainable and economically viable solid waste treatment process for a medium-sized industrial cleaning and environmental waste management company

• are building in-house garment and fashion design capability and an ‘own label’ collection for a small textile printing and embroidery company

• are creating computer simulation tools for fire and smoke propagation on a ship and have integrated them into the passenger evacuation computer code for a small maritime consultancy company

• are helping one major Scottish distillers to closely monitor their energy consumption thus saving an estimated £1 million per year in energy costs with further environmental benefits realised through the installation of a site effluent treatment system

While these examples are taken from a specific initiative, they represent precisely the sort of transformational skills which high-skill graduates bring to businesses and the Scottish economy. They also show the extent to which industries and small companies, which do not traditionally employ any or many graduates, can benefit from their skills. The modernisation of the Scottish economy will be achieved by graduates.

New technology

The commercialisation of university research is an issue which has become much more visible. Much of the academic research which is carried out in the sector has a potential commercial application, whether it might lead to new technologies or new processes. Commercialisation is the process through which that commercial application is realised. There are a number of ways in which this can happen: spin-outs, start-ups and licensing.

The mode of commercialisation which has had the highest profile in recent years is the formation of spin-out companies. These are commercial entities which are established by the university and which are used to take the intellectual property from a piece of research and create a business from it. They will usually be part-owned by the university but will also seek to attract venture capital. In 2000-01, 23 spin-out companies were established by Scottish universities, which represent 12 per cent of the UK total. And Scottish spin-outs are relatively successful – there were 58 active spin-outs in that year which had survived at least three years (13 per cent of the UK total).

Start-ups are similar, but rather than being established by a university the academic who has developed the research will establish a company to commercialise it. There is currently no accurate counting of the number of businesses set up by academics independently of their institutions.

Finally, licensing is a process of allocating the intellectual property rights of a piece of research to an existing company to allow it to exploit the research. Scottish
institutions executed 102 licenses for the use of their intellectual property in 2000-01, which represents 17 per cent of the UK total in that year.

While greater recognition of the economic role of research commercialisation is very much welcomed by the sector, at times too much emphasis has been placed on this one activity. In particular, the focus on spin-outs as opposed to other forms of commercialisation can be counterproductive. A spin-out company may have a very good product, but it still has to face all the difficulties of a new start company and a small business. Spinning out companies may be eye-catching but it may not be the best way to create economic activity. For example, if a valuable cancer drug was developed in a Scottish university it would make no sense to set up a company from scratch to manufacture and distribute that drug with all the start-up time and uncertainty that would involve. The commercialisation of research can play a very valuable part in the Scottish economy, but it must be considered in a balanced way.

**Economic services**

Higher education also engages in a range of activities which is seldom widely recognised. Universities work directly with industry and employers to provide them with high-value services which would be difficult to source elsewhere: Continuing Professional Development (CPD), commercial research contracts and consultancy.

CPD is training and upskilling which is provided by universities and is designed for the specific skills needs of specific employers. Professions such as medicine, education and law have always relied on higher education to provide up-to-date training. But many other forms of CPD are delivered by the sector. Examples of training delivered by the Scottish higher education sector in the last year include health and safety training for guesthouse owners, senior management training for a large multinational company, training for network engineers on the latest internet routing technology and psychological training for emergency decision making. A few years ago Universities Scotland surveyed member institutions and identified more than 6,000 businesses which had purchased training from the Scottish higher education sector in the previous year at a cost of more than £33 million. CPD activity accounts for around five per cent of full-time equivalent student numbers at Scottish higher education institutions. CPD accounts for most of the non-credit-bearing course activity in Scottish higher education institutions (around 72 per cent). Business and administrative studies account for about half of CPD students. Subjects allied to medicine comes next (13 per cent), then languages and related disciplines, and education with about 11 per cent each.

And if businesses come to Scottish higher education for the quality of their teaching services, they come for the quality of research services as well. Millions of pounds worth of research and development work is done for industry by universities. In 2001-02 Scottish higher education institutions earned £319 million by winning contracts to carry out specific pieces of research and development. These contracts were won from both the public and private sectors in Scotland, Europe and the rest of the world.

Even less well known are the consultancy services that universities provide to business. These are not the core work of teaching or research but are the applied
outputs of teaching and researching. Simply put, sometimes the best expertise on getting a task done can be found in the higher education sector. Scottish higher education institutions helped almost 1,400 companies with consultancy services last year with an income from this activity of more than £10 million. Consultancy services can include anything from advising on the protocols for commercial drug trials to advising golf courses on how to stop midges disturbing customers. In 2001-02, the largest client for the consultancy services offered by Scottish higher education institutions was the Scottish private sector, with the UK private sector only a little behind. Together these represented 65 per cent of all consultancy services by higher education institutions in Scotland in this year. The Scottish and UK public sectors comprised around 20 per cent of all consultancy service clients, while the rest of the EU and overseas custom was around 15 per cent.
The higher education sector supports economic growth in Scotland in a number of important instrumental ways. This paper has explored several of these issues. However, it is a mistake to try to understand the contribution of the higher education sector only in instrumental terms. The case for a more enlightened approach to understanding the role of the university in fostering a knowledge economy is made by American economic development theorist Richard Florida:

“A theory of sorts has been handed down that assumes a linear pathway from university research to commercial innovation to an ever-expanding network of newly formed companies. This is a naive and mechanistic view of the university’s contribution to economic development. While the university is a key institution of the Creative Economy, what’s not so widely understood is the multifaceted role that it plays. It is not there merely to crank out research projects that can be spun off into companies. To be an effective contributor to regional growth, the university must play three interrelated roles that reflect the 3T’s of creative places – technology, talent and tolerance

- Technology: Universities are centres for cutting edge research in fields from software to biotechnology and important sources of new technologies and spin-off companies.

- Talent: Universities are amazingly effective talent attractors, and their effect is truly magnetic. By attracting eminent researchers and scientists, universities in turn attract graduate students, generate spin-off companies and encourage other companies to locate nearby in a cycle of self-reinforcing growth.

- Tolerance: Universities also help to create a progressive, open and tolerant people climate that helps attract and retain members of the Creative Class”

Florida argues that the presence of top-quality higher education institutions is essential not only for the specific things they do but for the conditions they set in an economy which enables it to attract the kind of talent and businesses which will help it to grow. He believes that if factories were the hub of the industrial economy, then universities are the hub of the knowledge economy. “In my view, the presence of a major research university is a basic infrastructure component of the Creative Economy – more important than the canals, railroads and freeway systems of past epochs – and a huge potential source of competitive advantage... The Boston high-tech miracle is due in large measure to MIT. Silicon Valley is unthinkable without Stanford University, its long-time creative hub.”

In the UK, a recent study by the Institute of Education at the University of London indicated that, on average, graduates are less likely to smoke, are less obese, have a higher sense of well-being, and read more to their children. They are also more likely to be involved with their children’s school’s parent-teacher association, hold more tolerant attitudes towards other races, to be involved in their communities through
charitable and voluntary activities, and to vote in general elections. Despite the expansion of the graduate population over the past 25 years, there was no evidence of dilution; the study found that the benefits of higher education were sustained as the graduate population increased. These kinds of factors can be just as important to creating a positive climate for economic development as specific skills or spin-out companies.

It is also important to mention one other non-mechanistic – but equally important – role that higher education plays. Universities raise the international reputation of Scotland as a whole. Higher education builds important networks with educational, public and private sectors around the world. This has important long-term benefits for the Scottish economy.

**Conclusion**

Higher education has both ‘hard’ and ‘soft’ roles in creating and supporting economic development in Scotland. There are direct outputs which lead to economic growth. Equally there are wider outcomes which set social and economic conditions essential to economic development in the age of the knowledge economy. The best conceptual model for understanding those roles is to see higher education as a hub around which much of the activity of a knowledge economy coalesces. It is also helpful if investment in higher education is seen in these terms. Yes, expenditure on higher education gains the public sector specific services but that expenditure has a transformational effect which exerts a much greater influence on the economy than the sum of those services. One of the themes which appeared repeatedly throughout the series of Fraser of Allander lectures on the Scottish economy was that investing in higher education is one of the best ways of securing a competitive advantage for Scotland in the global economy.

The Scottish Parliament does not have a more effective lever for promoting economic growth than investment in higher education. If economic development is a priority, public expenditure must reflect that.

**SUBMISSION FROM THE UNIVERSITY OF EDINBURGH**

1. **Introduction and background**

The University of Edinburgh welcomes the opportunity to submit evidence in response to the Committee’s crosscutting inquiry into economic development. The Executive’s Smart, Successful Scotland policy document outlines a significant role for Scotland’s universities in developing the knowledge economy and the University’s submission is made in this context.

The University of Edinburgh is a major player in Scotland’s economic development and since August 1999 has produced 46 spin-out and start-up companies which are now estimated to employ just under 500 people. The University also makes a significant contribution through licensing technologies, delivering continuing
professional development, providing business incubator facilities and undertaking other forms of knowledge transfer.

The University's primary motive in undertaking knowledge transfer activity is the economic and social benefits this provides to Scotland. Financial gains derived from these activities are both long term and speculative in their nature. The SHEFC Knowledge Transfer Grant is therefore crucial in providing sustainable funding for much of the University's activity in this area and we look forward to working with the Scottish Enterprise Intermediary Technology Institutes in a similar context.

2. Do you think the overall level and growth of what the research terms “primary spending” on economic development has been appropriate?

No comment

3. To what degree do you think economic development considerations and priorities are reflected in decisions concerning the level and nature of “support spending” (e.g., expenditure on transport and higher and further education)?

The increase to SHEFC’s formula-allocated Quality Research and Knowledge Transfer Grants in 2004-05 made a welcome contribution to two areas of the University's work closely linked to economic development. This funding will aid Scotland’s higher education institutions’ continuing work in support of economic growth within Scotland. However, successive analyses (including that commissioned by the Committee) make clear, in recent years the relative overall spending on higher education has declined as a percentage of the overall Scottish budget.

In order to maximise the economic contribution of Scotland’s universities sustained investment in the higher education sector is a necessity. The need to address the very slow recent annual growth in spending on higher education is heightened by the significant increase in funds available to universities elsewhere in the UK through the introduction of top-up fees and the concentration of research funds on a limited number of this University’s direct competitors. Given the Executive’s identification of economic growth as its number one priority, the University believes that the economic development considerations and priorities should be afforded greater weight with regards to the overall level of support spending devoted to higher education, in order that such activities are not undertaken to the detriment of essential basic research and teaching. As Universities Scotland has previously identified, the percentage share of the Scottish Budget allocated to higher education should return to at least the same proportion of overall Scottish Executive expenditure as applied in 2002-03. This additional investment is essential in order to enable the sector to deliver effectively on a number of policy objectives, including economic development.

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4. Do you believe that the economic development impact of spending on items such as higher education and public transport has been adequately assessed – for example in the appraisal of such projects?

The higher education sector is accountable to SHEFC and is independently monitored in a number of ways. The performance of Scottish higher education institutions as compared to that of institutions in the rest of the UK and elsewhere in the world suggests the Scottish Executive receives excellent value for money from the sector. Scottish higher education institutions demonstrate their efficiency in contributing to economic development through:

- Securing 11% of UK Research Council income with only a 9% share of the UK population
- Generating 35% of UK universities' royalty income from intellectual property
- Launching a significantly larger number of spin outs per £100M of research spending than the USA
- Ensuring the proportion of students from low participation neighbourhoods is higher in Scotland than in other parts of the UK
- Attracting 21,000 international students to Scotland. In living expenses alone, this group is estimated to contribute over £1.26 billion to the Scottish economy per annum during their studies. A significant number also take employment in Scotland on completion of their studies, making an additional economic contribution through taxation.

Beyond these broad measures the sector provides performance related statistics in a number of specific areas of relevance including the HEFCE Higher Education-Business Interaction survey and the HESA First Destinations of Students Leaving Higher Education Institutions. In addition, the University reports to SHEFC on the outcomes of Knowledge Transfer Grant spending using a series of metrics which create incentives for desired behaviours through determining levels of funding in future years.

In light of these various existing measures, the University of Edinburgh believes the economic development impact of spending in the higher education sector can be adequately assessed and that the current levels of data collection are broadly appropriate in striking a balance between accountability/impact assessment and the need to avoid undue bureaucracy. Any increase in data collection requirements across the sector as a whole or in response to specific funding initiatives would limit the sector’s ability to operate in a flexible and entrepreneurial manner in what is an

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26 Performance indicators in higher education in the UK, Higher Education Funding Council for England, 2002
28 The Knowledge Society, Universities Scotland, July 2002
29 Performance Indicators in higher education in the UK, Higher Education Funding Council for England, 2002
31 Based on the figure of £6,000, per student per annum in Projecting demand for UK higher education from the Accession Countries, Higher Education Policy Institute, March 2004 (http://www.hepi.ac.uk/articles/docs/acdemanda.pdf)
increasingly competitive international marketplace. The trend to decrease the regulatory burden for higher education institutions in England through initiatives such as the creation of the Higher Education Regulation Review Group (HERRG)\textsuperscript{32} means increased regulation in Scotland would result in a competitive disadvantage for Scottish universities.

5. What is your opinion of the available evidence on the output and impact of the budgets of Scottish Enterprise and Highlands and Islands Enterprise and of the scale of those outputs and impacts?

Scottish Enterprise’s overall performance can be measured against published targets\textsuperscript{33} and is subject to the rigorous scrutiny of both parliament and the media. Individual programmes with which the University is engaged such as the Proof of Concept Fund draw on overall Scottish Enterprise targets and this particular Fund’s “cluster priority” areas refer to ambitious, detailed and measurable targets as outlined in documents such as \textit{Life Sciences – A Framework for Action}\textsuperscript{34}.

Initiatives such as the Scottish Enterprise Proof of Concept Fund have provided welcome support, created new opportunities for researchers and enabled academics to consider the commercial applications of their research at a much earlier point in the development cycle. Such behavioural change, accompanied by the available statistics on job creation and the additional commercial and EU funding the scheme has attracted, provide suitable evidence by which output and impact can be measured.

The University is of the opinion that adequate mechanisms exist to monitor the impact of economic development spending in both the higher education and Scottish Enterprise areas. There is, however, a question mark over the timescale over which the impact of economic development policy is measured.

In his recent Allander lecture paper in which he drew comparisons between the economies of New England and Scotland, Paul Krugman identifies that in moving away from a historical reliance on heavy industry “high-level institutions of higher education... can be nuclei for development” and goes onto suggest that such institutions “seem to play a crucial role”\textsuperscript{35} in shifting the balance within economies formally reliant on such sectors. Crucially, however, Krugman also notes that the shift from manufacturing to a more knowledge driven export economy within New England has occurred over a period of two decades.

In the same way, the University’s own experience with successful spin-out companies such as Wolfson Microelectronics, (now valued as one of Scotland’s top 20 listed companies\textsuperscript{36} and employing more than 100 Scottish workers in high-skill, high-wage roles) is that such enterprises take considerable time to mature. It is therefore necessary that policy analysis in this area applies realistic timescales when considering the scale and effectiveness of outputs and impacts. Analysis which is

\textsuperscript{32} DFES media release, 17th June 2004 (http://www.dfes.gov.uk/pns/DisplayPN.cgi?pn_id=2004_0119)
\textsuperscript{34} Scottish Enterprise, March 1999
\textsuperscript{35} \textit{Growth on the Periphery: Second Winds for industrial Regions}, Paul Krugman, Allander Series, 2004
based on the relatively short time periods dictated by the political cycle is unlikely adequately capture the impact of economic development policy and spending.

6. **Do you think the balance of expenditure between primary and support spending has matched economic development needs and priorities?**

The University is of the opinion that Scottish Executive, through agencies such as Scottish Enterprise and SHEFC, has implemented a number of policies which provide a cogent and considered framework to underpin the shift towards a knowledge based economy for Scotland. However, as indicated above, the identification of economic growth as the Executive’s number one priority and the increased investment in higher education research elsewhere in the UK suggest that the support spending on higher education should not be falling in comparison to other areas of the Scottish Budget. If the higher education sector is to deliver on a range of policy objectives including economic development, the balance between primary and secondary support spending needs to be addressed. As a minimum, higher education’s percentage share of the overall Scottish budget should return to 2002-03 levels.