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Convener
Economy, Jobs and Fair Work Committee

3 September 2018

Dear Gordon

Economy, Jobs and Fair Work Committee Report on ‘Scotland’s Economic Performance’

Please find attached the Scottish Government’s response to the Committee’s report *Scotland’s Economic Performance* published on 21 June 2018. The Scottish Government responses to the specific recommendations highlighted in your report are set out in Annex A.

I welcome the work the Committee has undertaken on examining the performance of Scotland’s economy and engaging a wide range of individuals in considering which economic policies will best serve Scotland in the forthcoming decade. The policies and activities it examined span the responsibilities of several core Scottish Government Departments, partners and Agencies. This is a complex area with inter-linking themes and dependencies and I commend the Committee for the thoroughness and breadth of its enquiry.

Scotland has huge economic potential and we are well placed to take advantage of the economic opportunities that come from our established strengths and innovation and technological change.

As the Committee acknowledges, there are considerable challenges in the Scottish Economy, but also significant opportunities and the Scottish Government is working hard to utilise these in relation to promoting sustainable and inclusive economic growth. As a Government we have a strong platform to build upon. So far, we have increased our investment in the economy this year by 64%, as part of our £2.4 billion investment in

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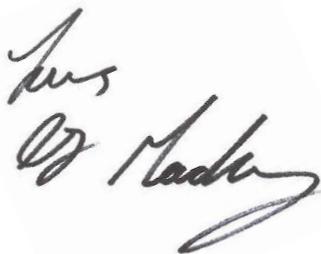
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enterprise and skills. We have the most competitive business rates system in the UK and we are supporting sectoral and business growth by, for example, delivering the National Manufacturing Institute (NMIS) and the Scottish National Investment Bank (SNIB). The Lightweight Manufacturing Centre, which is a first step to NMIS, will open later this year and the Building Scotland Fund, which is a precursor to SNIB, will support £150m Investment in our economy over the next 3 years.

I wholeheartedly agree with the Committee's conclusions and recommendations. Where we have the powers we will continue to use them to best effect. Our drive on internationalisation, infrastructure investment, innovation and fair work is gathering pace and our business tax policy is purposefully designed to accelerate growth. I will continue to meet and listen to business and trade union leaders to focus our actions on business growth, jobs and fair work.

Finally, I would like to reassure the Committee of this Government's determination to build Scotland's economy. Our strong commitment to address each of the recommendations from this report demonstrates, as the Committee has recognised, the importance of promoting and boosting inclusive economic growth.



DEREK MACKAY

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Annex A

Recommendation	SG Response
<p>National Performance Framework <i>Para 72. As stated in its response to the Scottish Government's consultation on National Outcomes, the Committee has concerns about the ability to measure policy impact under the new performance framework.</i></p>	<p>Following a public engagement and consultation exercise on what kind of Scotland people would like to live in, the National Performance Framework (NPF) underwent substantial change during its recent review to better reflect the views and aspirations of the people of Scotland. As a result of this exercise, the revised 11 National Outcomes are the outcomes we want to see as a result of the contributions of all of Scotland. This includes national and local government, the wider public, private, third sectors, and civil society. No single organisation or sector can deliver our National Outcomes on its own. To achieve the vision set out in the NPF will require individuals and organisations to take collective responsibility for delivery.</p> <p>The indicators in the NPF have been designed to provide a strategic, long-term view of the performance of Scotland as a whole, resulting from the contributions of many organisations and individuals. The NPF indicators are appropriate high level measures to judge our progress towards national outcomes as a country, but they only comprise a small part of the wider evidence base the Scottish Government uses to inform decisions and monitor and evaluate the impact of policy. We continually look to make better use of economic data and analysis within individual policy areas as well as at the strategic level of the NPF, and we will seek to align measurement and evaluation frameworks for Scottish Government policies and initiatives more closely with the NPF. The movement of the Equality Evidence Finder to sit alongside the NPF will raise the profile of equality breakdowns of key indicators.</p> <p>Specifically, in response to the recent enquiry from the Economy, Jobs and Fair Work Committee on economic data, the Scottish Government is taking steps to develop the evidence base that will help evaluate progress and measure impact towards sustainable and inclusive economic growth. These measures include: prioritising the needs of the Scottish Fiscal Commission to ensure that fiscal and economic forecasts are based on the best available data and analysis; providing real terms expenditure components of GDP; producing GDP earlier each quarter; producing more economic data and analysis for sub-Scotland regions; and renewing the impetus in the measurement of social inclusion. Further details are available in the Scottish Economic Statistics Plan 2018/19</p>

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<p>Entrepreneurship <i>Para 87. The Committee believes that entrepreneurial thinking and the commercialisation of ideas should be encouraged by colleges and universities. Whilst acknowledging that some educational institutions are already doing this, consideration should be given to how best to increase the integration of practical entrepreneurial, commercial and problem solving skills into courses.</i></p>	<p>The Scottish Government fully recognises the role of our Universities and Colleges in supporting entrepreneurial culture in Scotland. It is key that students are exposed to entrepreneurial thinking, and believe that an entrepreneurial journey is possible and beneficial throughout life and work. Partners, such as the Converge Challenge, Bridge2Business and the Scottish Institute for Enterprise receive public support to help further this agenda.</p> <p>The Committee is right to acknowledge many of our institutions already undertake such activity and may wish to note that at the upcoming 2018 UK-wide National Enterprise Educator Awards all three nominees for Further Education are Scottish colleges. Given the importance of the task though, we will engage further through the Scottish Funding Council to drive acceleration of work between the sector and partners.</p>
<p>Scale-Up <i>Para 98. The Committee notes evidence on the need to ensure that Scotland ‘remains a good place in which to do business’ and asks the Scottish Government to ensure that the Scottish business environment enables businesses to achieve their potential.</i></p>	<p>The Scottish Government is committed to creating and sustaining the best conditions for businesses to help them to grow and contribute to the economy. Scotland’s continued success in securing inward investment demonstrates that there are strong and compelling reasons for businesses to choose Scotland as a globally competitive place to locate and grow their business. In a challenging economic climate, it is also important to ensure that we optimise the work of our agencies and provide clear and challenging goals to ensure that through their efforts we create a more successful country with opportunities for all.</p> <p>We have combined the finance and economy portfolios into one Cabinet position, supported by Ministers for Business, Trade and Finance and Digital Economy will provide a cohesive platform to ensure that the government’s finance, tax and business support functions are also aligned to better deliver sustainable economic growth. Our drive on internationalisation, infrastructure investment, innovation and fair work is gathering pace, and our business tax policy is purposefully designed to accelerate growth. We will continue work with to business and trade union leaders to focus our actions on business growth, jobs and fair work</p>
<p><i>Para 99. Evidence to the Committee suggests that ‘missing middle businesses’ cannot access support to grow. The Committee believes that there is a missed opportunity if we do not give support to businesses that have growth potential and the desire to grow, but that there are not currently</i></p>	<p>Through implementation of the Enterprise and Skills Review, Scotland’s core public enterprise support agencies will deliver for the whole customer base through a single system approach. Business Gateway, while not a part of the core Review are contributing to this development to further ensure that no gaps nor cliff-edges are created in the public support system.</p> <p>It is important to recognise that account-management might not be the most appropriate form of</p>

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<p><i>eligible for Scottish Enterprise account-management support. The Committee asks the Scottish Government to quantify the scales of businesses which fall into the ‘missing middle’ category and to set out to the Committee how it will ensure that these businesses receive the support they need to thrive.</i></p>	<p>support for every business on every step of its growth journey. Nor is account management the only form of support that is offered to businesses of growth potential. Outwith account management a business of growth potential would, dependent upon individual circumstance and need, have access to various support products including those for; business development, product & service development, funding & grants, exporting and improving productivity & skills. On average, Scottish Enterprise provides support to 10,000 companies each year based on the particular business issue or opportunity they are facing to help them to grow, it is worth noting that for every company supported through Account Management, Scottish Enterprise delivers services to a further four companies each year.</p> <p>It is crucial that the overall public support system, in partnership with private sector support, is able to flex and offer the best and most relevant support to each business individually; this is the intended outcome of the implementation of the Enterprise & Skills Review. While there is much debate as to what is meant by a ‘missing middle’; it is clear, that as noted above, companies of growth potential are receiving support outwith the route of account management.</p>
<p><i>Para 107. The Committee is aware that in Scotland businesses are often being acquired rather than scaled-up. If the money is reinvested in the Scottish economy, that can be beneficial. However, it can also result in the loss of entrepreneurial role models and experienced people to manage larger scale businesses based in Scotland.</i></p>	<p>Growing and selling a company is often part of an individual’s entrepreneurial journey. The Committee is right to note that this is not a negative in itself and that entrepreneurial ‘recycling’ is an important feature of sustainable growth.</p> <p>As well as the benefits to the company, there is an additional benefit from acquisition – namely that it “frees up” the entrepreneur to move on to their next idea. A study by Scottish Enterprise in 2015 found no evidence that a cashed-out entrepreneur stopped activity, they are more likely to see out new opportunities and new challenges. This recycling of talent, not money, is of critical importance to the economy. A lack of sales/exits prevents the recycling of talent, money and ideas to stimulate the next generation of growth companies.</p>
<p><i>Para 108. In order to gain a fuller picture, the Committee asks the Scottish Government how many account-managed companies have subsequently been sold and how much is reinvested in Scotland.</i></p>	<p>Whilst this data is not currently captured, when we look at figures for inward investment overall Scottish companies sit around mid-table in terms of comparator countries for inward acquisitions (at 0.28% of the business base 2003-17, compared to 0.32% for rUK). When you then look at those companies post-acquisition, Scotland has the highest proportion of companies still operating in Scotland of any comparator country (58.65%, higher than rUK at 49.38% or Germany at 56.83%). The reason why people acquire companies in Scotland include: the network of public and private sector support; the quality of the workforce; infrastructure; and</p>

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	access to markets.
<i>Para 109. The Committee notes that the scale-up of companies has been a long-standing challenge in Scotland. There is a lack of business confidence to do so and the Committee recommends that the Scottish Government sets out how it will tackle this 'fear of heights'.</i>	Ambition is often cited as an inhibitor to scaling. Through Entrepreneurial Scotland, a CAN DO Scale movement has been established to provide more and better coordinated support across public and private sector support for businesses to achieve significant growth. The Scottish Government is also undertaking behavioural insight work to better understand this issue and will share findings with public and private partners so that we can address together what may be found.
<i>Para 110. The Committee believes that targeted employee ownership policies (discussed below) and incentives may help to keep business ownership in Scotland. Other policies would provide the 'anchoring' effect needed to embed businesses in Scotland including ensuring that there is adequate investment, not just from Government, but from other sources. As Jim McColl told us, we need more large businesses based in Scotland to support those coming through the pipeline.</i>	<p>As the Committee highlights there is strong evidence regarding the positive impact of employee-owned businesses, but this model may not be suitable or desirable for all business owners. The Scottish Government will continue to support Co-operative Development Scotland, through Scottish Enterprise, to grow the employee-owned sector in Scotland.</p> <p>Scottish Government's economic strategies have long recognised the importance of addressing gaps in capital markets that are constraining Scottish businesses. We believe, where possible, public funds should be used to lever private sector investment and address known evidence based market failures.</p> <p>This includes the establishment of the Scottish National Investment Bank. The Scottish Government is committed to investing £2 billion over 10 years to capitalise the Bank. This scale is deemed to be ambitious and achievable, at a level that will make a material difference to the supply of capital to the Scottish economy and can lever in additional private investment. The Bank will provide finance and act to catalyse private investment to achieve a step change in growth for the Scottish economy by powering innovation and accelerating the move to a low carbon, high-tech, connected, globally competitive and inclusive economy.</p>
Withdrawal from the EU <i>Para 120. The Committee did an inquiry on the economic impact of leaving the EU and made a number of recommendations, including asking the Scottish Government to detail how it will engage with Scottish businesses on the issues arising from negotiations on leaving the EU. 8 The Committee asks for an update on what work the Scottish</i>	<p>To help prepare business for Brexit, a package of support will be created to ensure Scotland's successful drive to increase exports continues. The first element of the package was announced in June with a grant of up to £4,000 for exporters and potential exporters. The 100% funded grants, delivered through Scottish Development International (SDI), will be used to support eligible companies mitigate risks and capitalise on export opportunities despite the challenge Brexit will bring. Further support will be unveiled in due course.</p> <p>Scottish Government Ministers routinely engage with businesses across Scotland to hear their</p>

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<p><i>Government has done to engage Scottish businesses in this way and what representations it has made to the UK Government on their behalf, including steps to prepare businesses to trade with countries outside the EU, such as USA, China, Japan and India.</i></p>	<p>views on matters which relate to boosting productivity and sustainable inclusive growth, which of course includes the implications of Brexit. Specific engagements began soon after the referendum result, when the First Minister met with Scotland’s main business organisation and hosted a separate National Economic Forum. As a result of the former, the Scottish Government led the creation of the Scottish Business Growth Group https://beta.gov.scot/groups/scottish-business-growth-group/ which provides a forum for the Scottish Government and the Scotland Office to engage directly with business, employer and employee representative organisations. The next meeting of the group is scheduled for 13th September 2018.</p> <p>The UK Government has said on many occasions that the future trade policy of the UK must reflect the needs of all parts of the UK. It has said it will take an inclusive approach to the development of policy and future trade agreements involving the devolved administrations, legislatures and wider society. The potential risks to Scottish interests from leaving the EU demonstrates why the Scottish Government needs to have a role in the development of future trade arrangements so that Scottish businesses and consumers are protected. We have repeatedly pressed the UK Government to deliver on its commitment to a more inclusive approach as it looks to develop a new UK trade policy and new trade deals.</p> <p>We know, for example, that a joint working group has been set up to allow discussions between the UK and USA Governments on the scope of a possible future trade deal but we are being kept in the dark.</p> <p>The Scottish Government has asked to be involved in discussions such as those underway with the USA Government not least to ensure that the interests of the Scottish economy are protected. As yet the UK Government has not agreed to our involvement, but we continue to press the case.</p>
<p>Technology and Automation <i>Para 131. The Committee recommends that the Scottish Government reviews its labour market strategy to ensure that its policies reflect developments in automation and technology in the workplace. The committee also asks that the enterprise and skills agencies set out a range of</i></p>	<p>As set out in both our Labour Market and Economic Strategies, placing Scotland and its people in the best possible position to take advantage of future economic opportunities is one of this government’s highest priorities. Specifically the Labour Market Strategy sets out the principles and priorities that will allow Scotland to take advantage of the opportunities that will present themselves through AI, automation and other technologically driven changes in the workplace. The Strategic Labour Market Group has also identified automation and technology as a priority issue for consideration at one of its regular meetings.</p>

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<p><i>actions to reflect developments in automation and technology in the workplace.</i></p>	<p>Regarding the exploitation of technological change in the workplace we are, through the Enterprise and Skills Agencies, undertaking a wide range of activity to reflect and prepare the Scottish Economy for the changes and opportunities that automation and technological change will bring. This includes:</p> <ul style="list-style-type: none"> • Establishing a National Manufacturing Institute for Scotland (NMIS) which will include a Manufacturing Skills Academy; • Delivering a Manufacturing 4.0 Review service for businesses; • Through SFC, putting in place a prioritised and enhanced focus on STEM subjects within University and College Outcome Agreements. This includes better linking curriculums with industry and developing new vocational pathways; • Work being undertaken by the newly established Centre for Work Based Learning to understand the skills, capabilities and systems that will best allow Scotland to drive and thrive future technological change; • The SDS Skills 4.0: a skills model to drive Scotland's Future work stream and associated publication. With SQA, SDS are piloting the model and exploring how these skills can form the basis of work-based learning standards for the future; • Developing a Coding Academy for the Highlands to train and develop a future generation of software engineers; • Continuing to support the HelloDigital business support, demonstration and enablement venture in the Highlands and Islands; • Establishing the FUTURE equipped pilot project, bringing together Colleges, Innovation Centres, and Industry, to identify and demonstrate new approaches to skills training for future industry demands; • Conducting sector specific research to better understand the impact of Automation of food, manufacturing, financial, and business service sectors; and • Supporting company-led development projects to develop workplace-based automation (software & machine based) into new products or services.
<p>Procurement and Payment <i>Para 141. The Committee encourages the Scottish Government to take social impact into account in</i></p>	<p>Scotland is at the forefront of promoting social and economic benefits to communities through its public procurement. For over a decade, with the support of successive Cabinet Secretaries, socio-economic requirements have increasingly been included in public contracts across the</p>

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procurement decisions. The Committee believes that the Scottish Government could show greater flexibility in its approach to finding delivery models which would allow for such factors to be considered, along with the need to support Scotland's SMEs.

public sector and have achieved thousands of training and recruitment opportunities and opportunities in the supply chain for small businesses, the third sector and supported businesses. There is also a focus on fair work for those providing our goods, services and works.

Research¹ published in 2015 shows that this approach is making a difference in Scotland, achieving a range of jobs, training and supply-chain opportunities that would not otherwise have occurred:

- Over 1000 individuals from priority groups were recruited across the 24 sample contracts that were examined.
- Over 200 apprentices from priority groups were recruited. Where data was available, 78% of the apprentices were estimated to be additional and 100% were sustained.
- More than 650 work placements were offered to priority groups. Where data was available, 72% of the work placements for priority groups were estimated to be additional (i.e. would not have been offered without the community benefit requirement).

The research also provides a range of measures that can be included in public contracts to demonstrate their social impact.

Building on this approach, the sustainable procurement duty in the Procurement Reform (Scotland) Act 2014 requires public bodies to consider and act on opportunities to improve socio-economic and environmental wellbeing; to facilitate involvement of SMEs, the third sector and supported businesses in procurement and to promote innovation in the course of their procurement activity. Statutory guidance² underpinning the Act draws on the measures recommended by the 2015 research.

By framing sustainable procurement in terms of the purpose and national outcomes individual public bodies have the flexibility to tailor the outcomes and outputs they seek through their

¹ <http://www.gov.scot/Publications/2015/06/6812/0>

² <http://www.gov.scot/Publications/2016/03/8410/7>

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	procurement activity to their particular priorities, while keeping sight of the ultimate aim of a more successful country with opportunities for all of Scotland to flourish through increased wellbeing, and sustainable and inclusive economic growth.
<i>Para 148. The Committee asks the Scottish Government to encourage greater uptake of the Business Pledge, including the commitment to prompt payment.</i>	Please see response to paragraph 360
Growth Sectors <i>Para 166. The Committee believes that there is a need to evaluate the growth sectors. There are unanswered questions about the benefits of supporting growth sectors and the possible detrimental impact exclusion of other businesses may have. Whilst the Committee agrees that the Scottish Government should provide support in areas where Scotland has natural advantage, a lack of flexibility could be limiting opportunities for growth. Evaluation is needed so that we have a better understanding of the growth sectors and can channel resources accordingly.</i>	This is a very interesting issue with strong links to the recommendation in para 174. The SG will undertake work, along with the Enterprise Agencies, to evaluate the growth sectors, and will specifically focus on the potential impact on businesses excluded in other areas, including (as suggested in para 174), the benefits of exploring the impact of focusing on sectors that currently have low productivity. The work will be led by officials in the Office of the Chief Economic Advisor and completed in 2018.
<i>Para 174. The Committee recommends that in addition to evaluating the growth sectors, the Scottish Government commissions research to analyse the potential economic gain that could be made from investing more resource into improving productivity in the low productivity sectors.</i>	Please see response to paragraph 166 – this will be undertaken as part of the analysis discussed there. This work will be valuable and will be undertaken in 2018.
<i>Para 179. The Committee highlights its previous recommendation in its Gender Pay Gap report that: It is vital that we raise the status of care in Scotland. As a first step in recognising its importance, the Committee recommends that care becomes a</i>	The care sector will be covered in the work mentioned in the response to para 166 and 174. It should be noted that there are obvious issues with placing economic values on the care sector as whilst it has an economic component it has strong social value. However, this difficulty will be considered within the analysis.

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<p><i>Scottish Government priority sector with a monetary value put on the sector.</i></p> <p><i>The Committee reiterates that recommendation in relation to this inquiry and asks the Scottish Government to put a monetary value on the sector and grant it the same status as the six growth sectors mentioned in the Economic Strategy.</i></p>	
<p>Economic Strategy</p> <p><i>Para 183. Whilst the Cabinet Secretary made no indication that there were any plans to update the Scottish Government's Economic Strategy, we note that there have been different iterations in the past and believe that any future economic strategy should be accompanied by a strong action and implementation policy, backed up with a monitoring and evaluation plan.</i></p>	<p>We accept this recommendation, which will assist us in our aim of providing a clearer and more transparent approach to the development, delivery and monitoring of our interventions relating to sustainable and inclusive economic growth in Scotland.</p> <p>The monitoring and reporting of performance against the Economic Strategy's high level objectives will continue to be undertaken through Scotland Performs and the National Performance Framework.</p> <p>The Economic Strategy was informed by a range of published evidence. We will look to develop and strengthen our approach for any future iterations of the Economic Strategy, in keeping with this recommendation.</p>
<p>Inclusive Growth</p> <p><i>Para 203. The Committee notes that the Scottish Government is developing an inclusive growth framework and we call on the Scottish Government to promote a consistent, commonly held and settled definition. The enterprise and skills agencies should be working from the same understanding of inclusive growth and this should be reflected in their operational plans.</i></p>	<p>The Scottish Government defines inclusive growth as growth that combines increased prosperity with greater equality, creates opportunities for all, and distributes the dividends of increased prosperity fairly. The Government is committed to creating a shared understanding of both what inclusive growth is, and how it can be achieved.</p> <p>With the launch of Scotland's Centre for Regional Inclusive Growth (SCRIG) in July – an interactive platform for collaboration with stakeholders to strengthen our shared ability to deliver inclusive and sustainable economic growth throughout Scotland's economy, and across all of our regions – the Scottish Government published both an outcomes framework and a data tool that directly address this recommendation. The outcomes framework focusses on the 5 "Ps" of Productivity, Participation, Population, People and Place, as well as sustainability constraints. This helps set out the core aims of inclusive growth policy makers and practitioners.</p>

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	<p>As such, both the outcomes framework and data tool (including core indicators that are aligned to the National Performance Framework) aim to ensure a consistent understanding of what inclusive growth and how it is to be measured. However, while it is important to ensure a common understanding of what inclusive growth is, it is also important to allow for some flexibility at a local level – so that priorities in different places and amongst different groups of people can be reflected in the process and practice of inclusive growth. Both tools also provide this flexibility, allowing for the addition of these priorities to the framework.</p> <p>Inclusive growth is already a core element of the Scottish Government’s strategic guidance to the enterprise and skills agencies and therefore a key factor in their business planning. In addition, driving inclusive growth is also at the core of the Enterprise and Skills Strategic Board’s work and will feature strongly in the Board’s Strategic Plan to be published later in 2018, ensuring that the agencies will further align behind the policy.</p>
<p>Regional Growth <i>Para 212. The Committee notes the different approaches to boosting the economic prospects of regions and recommends that the Scottish Government evaluate and consolidate these policies. The Committee believes that it is vital that the gap between low-performing and high-performing regions in Scotland is reduced.</i></p>	<p>We acknowledge the committee’s findings about regional economic disparities in Scotland. The Scottish Government has taken various steps to address these issues, including our work to enable formation of a network of Regional Partnerships covering Scotland and the development of an enterprise agency for the South of Scotland, and continues to consider fresh action aimed at driving inclusive economic growth in every region and community.</p> <p>We appreciate the importance of evaluation and evidence-led policies. Our Inclusive Growth Diagnostic, piloted with North Ayrshire Council, seeks to identify regional drivers of inequality and constrained growth, and helps to identify tailored regional solutions to these problems. As highlighted above, SCRIG will support evidence-based policy making on a regional scale, including providing access to analytical tools and relevant research, as well as opening dialogue on best practice via communities of practice for economic development professionals.</p> <p>The focus of regional policy extends beyond economic development. Whilst our enterprise and skills agencies have taken a more regional focus in recent years, we have also seen transport, planning, energy and other areas of government considering how they can work with a more regional focus.</p> <p>Improved outcomes for Scotland’s regions will require committed partnership working between the Scottish Government, local government, our Enterprise and Skills agencies and private sector</p>

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	partners. As with developing Scotland’s economy overall, progress in this area is likely to be accelerated by a commitment to collaboration between partners and a joint focus economic growth with the potential to benefit everyone.
<i>Para 213. The Committee is considering regional policy in the context of its current inquiry into European Structural Funds. The Committee is keen to ensure that the long-term investment given to regions through that funding is maintained.</i>	We note the on-going inquiry into regional policy and the replacement of the European Structural Funds programmes. We remain committed to ensuring that Scotland continues to receive no less than the current level of funding and the autonomy over that funding to align it to Scottish priorities. Any proposed arrangements must respect the devolution settlement and the role of the Scottish Parliament. We will continue to involve and engage with stakeholders with regards to the design and delivery of any replacement funding.
<i>Para 214. The Committee believes that there is an opportunity for the South of Scotland enterprise agency to build transparent measures and evaluation into its activities from the outset. This will allow it to establish what works in the region and adapt its approach accordingly. The Committee would like to have sight of such evaluations and information on how policies have been changed based on the results.</i>	We share the Committee’s belief set out in paragraph 214 that the South of Scotland Enterprise Agency offers considerable opportunity for economic growth in the South of Scotland. Our commitment to establishing a new South of Scotland Enterprise Agency recognises the unique circumstances of the area and the opportunity to take a tailored approach doing things differently to drive inclusive growth, increase productivity and tackle inequality. Clear and transparent measurement and evaluation, relevant to the area and informed by its economic needs and opportunities, will be important to ensure the South of Scotland Enterprise Agency delivers against its aims. Like other public bodies, the Agency will be required to identify clear indicators against which performance can be measured and report on that. This will help to shape the activities of the new agency and in preparing for the agency we are improving the evidence base and learning from approaches elsewhere. We expect its activities to evolve and change over time, responding to circumstance and informed by impact.
Women <i>Para 221. The Committee highlights its previous recommendation in its Gender Pay Gap report that: “The Committee asks the Scottish Government and its agencies to review the funding streams available to new and existing female entrepreneurs. Of particular concern to the Committee is the suggestion that male entrepreneurs are more successful in accessing capital than females. It is important to establish whether this has been the</i>	The Scottish Government co-developed Europe’s first collaborative policy framework designed to tackle the gender-gap in enterprise. This work, Women In Enterprise, was refreshed with partners last August and is being taken forward by an Action Group chaired by the Minister for Business, Fair Work & Skills and involving by public and private sector partners. Through our Women in Enterprise partner, the Hunter Centre for Entrepreneurship, research into the issues women face in relation to access to finance is on-going and public agencies are a part of this discussion. This has to date recognised that women do start businesses with lower levels of overall capitalisation. Access to finance concerns cannot though be separated from the wider socio-economic restrictions that female entrepreneurs face.

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<p><i>experience of female-owned account managed companies and Business Gateway clients, and recommends the Scottish Government and its agencies undertake research in this area.</i></p>	<p>As such, this is high on the agenda for this Action Group, who are collectively exploring the provision for improvement in this area and will report on options in September to be refined and taken forward over the coming year This is in addition to the funding Scottish Government provides to Investing Women, Scotland's only women's business angel group, and other CAN DO partners to increase the support for female entrepreneurs.</p>
<p>Social Enterprises <i>Para 232. The Committee recommends the Scottish Government supports the creation of a kite-mark that helps identify the wider value that a social enterprise brings beyond traditional growth, success and earnings.</i></p>	<p>The Scottish Government agrees with the principle of this recommendation. Accordingly our Social Enterprise Action Plan 2017-20, which was produced in partnership with the sector, commits to build the social enterprise brand by introducing the internationally recognised 'Buy Social' third party certification scheme into Scotland. Buy Social will be carefully tailored to ensure responsiveness to the Scottish social enterprise sector, and Scottish Government-funded work to engage the sector and test the market is currently on-going to inform its implementation.</p>
<p><i>Para 233. The Committee recommends that there is a role for the new Scottish National Investment Bank (SNIB), working with Social Investment Scotland, to consider how social enterprises can be better supported in accessing finance.</i></p>	<p>The Scottish Government is continuing to work with Social Investment Scotland and other partners to make repayable finance available to social enterprises, as part of our world-leading ecosystem of support under Scotland's Social Enterprise Strategy 2016-26.</p> <p>The future relationship and role of the Bank, Social Investment Scotland and other bodies who provide public investment is key to the Bank's future success. Working out these relationships, and looking at the coverage of financing and funding across Scotland, is informing the next stage of the programme to set up the Bank.</p>
<p>Employee Ownership and Co-operatives <i>Para 239. The Committee believes that employee-owned companies and co-operatives have huge potential to improve productivity, facilitate future growth, reduce inequality and retain jobs in Scotland.</i></p> <p><i>The Committee asks the Scottish Government to publish transparent targets to grow the number of employee-owned and co-operative businesses being supported. The Committee asks that progress towards these targets is measured and published. The Committee believes that support with</i></p>	<p>We welcome the recommendation from the Committee and acknowledge the contribution that employee-owned companies have on business performance, the people that work in them and the local economies where they are placed. A recent independent inquiry recognised Scotland as leading the UK in its approach to employee ownership, a fact which has galvanised our aspiration to be world-leading in this area.</p> <p>The 2017-18 Programme for Government outlined our commitment to investigate further expansion of this support. As a result, the Scottish Government is working closely with the employee-ownership sector and Co-operative Development Scotland, through Scottish Enterprise and Highlands and Islands Enterprise, to establish a new Industry Leadership Group for Employee Ownership.</p> <p>This Group will bring together key figures from the private and public sectors to develop and</p>

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<p><i>succession planning is vital in promoting this model of ownership.</i></p>	<p>deliver an industry-led strategy for the Employee Ownership sector. It will also provide support and advice for businesses considering transition to inclusive business models (including through succession planning), as well as raising the profile of these models in Scotland. Together, we will agree and publish targets for increasing employee ownership in Scotland.</p>
<p>Innovation <i>Para 249. The Committee notes the Scottish Government's new "innovation active" indicator which adopts the wider definition of business innovation as used in the UK Innovation Survey. We therefore request the Scottish Government provides the Committee with details of how it is supporting Scottish businesses to become more innovation active.</i></p>	<p>The Government's long term ambition is to boost Scotland's innovation performance to match the level of the best performing countries internationally. The "innovation active" indicator was adopted so that progress against different types of innovation (eg organisational innovation, product and process development) can be monitored and compared against the rest of the UK and EU countries.</p> <p>We agree that in order to drive up productivity, Scotland needs to improve business innovation performance across the whole economy and in all sizes and types of firms. Our Innovation Action Plan, published in January 2017 sets out four strategic priorities for driving business innovation forward.</p> <p>These are:</p> <ul style="list-style-type: none"> • Directly encourage more businesses to innovate; • Use public sector needs and spend to catalyse innovation; • Support innovation across sectors and places; and • Make best use of University research knowledge and talent to drive growth and equip Scotland's people with the tools and skills needed to innovate. <p>We are supporting businesses to become more innovation active by for example :</p> <ul style="list-style-type: none"> • We aim to double business expenditure on R&D in Scotland from £871m in 2015 to £1.75bn in 2025. This will accelerate economic growth through innovation; • As a first step, we will increase support for R&D grant funding by a total of £45m over the next 3 years. This is almost a 70% increase; • This money will be allocated to SE and will be on top of the £22m they currently spend p.a. on Business R&D grants; • Working with the private sector innovation to solve public sector challenges through our £9.2m Scotland CAN DO Challenge Innovation Fund and the £1.2m we are

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- investing in CivTech - the world's first cross-public-sector tech accelerator; and
- Working with partners to develop and deliver projects to support innovation through City Region Deals.

Our enterprise agencies are also supporting businesses to become more innovation active:

- Scottish Enterprise is seeking to grow business innovation through 4 main routes: increasing customer led innovation; deepening innovation investment by existing innovative companies; focussing on sector innovation and drawing more companies in through their wider innovation approach;
- Over the last 3 years (2015-18) SE has supported 4,000 businesses to become innovation active, exceeding their published target of 2,400 to 3,000 businesses;
- Highlands & Islands Enterprise help businesses to close the productivity gap by enabling businesses to do things more efficiently, introduce new products to the market and reach more customers. Their four main targets are:
 - Increase the numbers of innovation active businesses
 - Increase the numbers of new products and services on the market
 - Increase productivity within those businesses supported
 - Increase sales resulting from innovation
- Over the last three years, HIE's innovation service has delivered:
 - Business R & D commitment of over £7.million
 - £486k of small Innovation grants awarded
 - Increased turnover of almost £68 million
 - Over 500 jobs

Scottish Enterprise Wider Innovation Approach: Boosting Scottish Competitiveness

One of Scotland's most significant challenges is the need for more businesses to be engaged in innovation. SE's wider approach seeks to tackle this issue head on. It recognises the relationship that organisations such as the Business Gateway and councils have with local businesses, and builds on that channel, providing the local partner with innovation support grants and expertise to help their businesses on their innovation journey. The combined approach of

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	<p>facilitating easier access to grant support and complementing existing locally led activities has allowed the programme to help 4000 new businesses become innovation active over the last 3 years.</p>
<p><i>Para 260. The Committee recommends that the Scottish Government develops the funding model for universities in order to incentivise innovation and impact. The Committee also recommends increased investment in the innovation fund.</i></p>	<p>While the REF includes element of impact, the UIF is the key mechanism for encouraging knowledge exchange and this replaces the previous Knowledge Exchange Grant and provides incentives to universities to work collaboratively to exploit their research to improve Scotland's economy. Seven outcomes have been identified for 2017 to 2020 where universities will be expected to demonstrate progress. These outcomes are:</p> <ul style="list-style-type: none"> • Demand stimulation: working with Scotland's Enterprise Agencies (EAs), Scottish Government, business networks, Interface, and others, Scottish HEIs will have helped to increase the demand and quality of engagement from businesses and the public sector for university services. • Simplification/commercialisation: in partnership with the EAs and Interface, Scottish HEIs as a sector will have demonstrably simplified business access to the knowledge and expertise in Scottish universities. • Simplification/greater innovation: in partnership with the EAs and Interface, Scottish HEIs will, at a national level, have made strategic use of their sectoral knowledge to promote greater innovation in the economy (including beyond non-STEM). • Entrepreneurialism: Scottish HEIs as a sector will have made a significant and positive change in the way entrepreneurial opportunities are promoted and delivered to students, HEI staff, and businesses. • International: in partnership with Scottish Development International, Connected Scotland and others, Scottish HEIs will have pooled their knowledge and networks, and shared good practice to promote and engage Scotland internationally (operating under Scotland's International Framework). • Inclusive growth and social impact: building on current and good practice, Scottish HEIs will have scaled up their support of the Scottish Government's ambitions for inclusive growth. • Equality and diversity: building on current and good practice, HEIs will have ensured positive promotion of equality and diversity in staff and all who are affected by the use of the UIF.

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	<p>The UIF budget for this academic year has been increased by £5.2 million to £18.7 million (39%) as a result of Scottish Ministers' decision in respect of the allocation of Barnett consequentials (see also response to paragraph 262).</p>
<p><i>Para 261. Consideration should be given to how less innovative firms could engage more with universities to spread good practice and improve productivity. There should be structures in place to allow businesses to easily access the resources for promoting innovation that universities can provide.</i></p>	<p>The Scottish Government recognises that improving links between Universities and business is key to driving up the number of innovation active businesses which is why this is a key priority of our innovation action plan. The Scottish Government engages directly with universities on this agenda and also supports the Scottish Funding Council to foment greater impact from industry/academia links. Support is available through a range of channels and programmes including Interface, Innovation Vouchers and our 8 Innovation Centres located across Scotland.</p> <p>The Innovation Voucher Scheme provides businesses with up to £5,000 for their first academic partnership and follow on vouchers of up to £20,000.</p> <p>Innovation Centres are a key part of our innovation infrastructure in Scotland. Our 8 Innovation Centres support ambitious collaborations between businesses, universities and others to capitalise on Scotland's world-class research. We are providing substantial strategic funding via the Scottish Funding Council to support this programme, investing up to £120 million over six years to 2019.</p> <p>Colleges also play an important role in supporting businesses to innovate by providing the skilled workforce they need. Through the College Innovation Fund we are working with Colleges to design new skills training through increased collaboration with innovation centres and industry. The Fund is also supporting the increased uptake of innovation vouchers in the college sector.</p> <p>Case Study: Interface Funded by the Scottish Funding Council, Scottish Enterprise and Highlands and Islands Enterprise, Interface is a free-of-charge and impartial service which aims to stimulate business demand for innovation and encourage companies in all sectors across the whole of Scotland to consider academic support to help solve their business challenges. Since being established in 2005, Interface has introduced over 2790 businesses to academic partners across all of Scotland's universities and research institutions. Businesses supported by Interface generate £64.2m GVA/year for the Scottish economy,</p>

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<p><i>Para 262. Whilst we recognise that it is for the Scottish Government to decide how to use Barnett consequentials, the Committee asks the Scottish Government to clarify what additional funding is available to Scottish universities as a result of the UK Government's Higher Education Innovation Fund in England. The Committee also asks the UK Government what funding is available to Scottish businesses and research institutions through the UK-wide Industrial Strategy Challenge Fund announced in April 2017.</i></p>	<p>supporting around 1,060 Scottish jobs (Interface Annual Review 2016/17).</p> <p>The Barnett consequentials arising from the increased Research England budget for financial year 2018-19 amount to an additional £11.6 million. Scottish Ministers are responsible to determining the allocation of the Scottish block grant to reflect priorities across all portfolios. However, for the first time ever, they approved allocating these consequentials this year specifically for research and innovation in Scottish universities. SFC has allocated this increased funding through an uplift in both the Research Excellence Grant (REG) and the University Innovation Fund (UIF) to support partnership with:</p> <ul style="list-style-type: none"> • UKRI, in supporting Scotland's research excellence; and • Scottish-based businesses, to maximise the use of academic excellence and the opportunities offered by the UK Government's Industrial Strategy Challenge Fund, in order to contribute to inclusive economic growth in Scotland.
<p><i>Para 268. The retention of intellectual property in Scotland is linked to ensuring that businesses are based in Scotland (discussed above). Whilst we recognise the positive role of incubator facilities in assisting with protecting intellectual property, it has been suggested that there is not sufficient infrastructure to ensure that it is retained in Scotland. The Committee asks the Scottish Government to clarify its policy on intellectual property.</i></p>	<p>The UK Intellectual Property Office (IPO) is the official government body responsible for intellectual property (IP) rights including patents, designs, trademarks and copyright. The IPO is an executive agency, sponsored by the Department for Business, Enterprise, Innovation & Skills.</p> <p>We recognise the importance of supporting Scottish businesses to retain and protect their IP. There is a range support available free of charge in Scotland https://www.mygov.scot/intellectual-property/. Companies can get further advice on IP and Intellectual Assets (IA) through Scottish Enterprise and Highlands and Islands Enterprise.</p> <p>Support is also available through the UK's PATLIB network .The Patent Libraries (PatLibs), previously known as Patent Information Centres, have qualified and experienced staff who offer practical assistance on a variety of Intellectual Property Rights. There are 16 libraries/information centres in the United Kingdom, including centres in Aberdeen and Glasgow https://www.gov.uk/government/publications/uk-patlib-network.</p> <p>The Scottish Government is also keen to improve the level of economic benefit from the research undertaken in Scotland's businesses, universities and research institutes. For example the Converge Challenge, operating since 2010, is a nationwide competition open to all Scotland's universities which supports the best and brightest ideas from the next generation of entrepreneurs in Scotland. This year's Challenge received 223 applications, a 500% increase on application in its inception year 2011.</p>

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<p>Internationalisation <i>Para 289. The Committee recommends that SDI should report both the number of businesses being supported to export and those companies which are supported to export for the first time.</i></p>	<p>Scottish Development International captures both the number of businesses being supported to grow their exports and tracks the number of new exporters each year. In 2015/16, these numbers were 340 and 141 respectively and in 2016/17, they were 312 and 200. The 2017/18 figures will be available when Scottish Enterprise’s Annual Report is published shortly.</p>
<p><i>Para 290. The Committee agrees with SDI that the problem is not the Scottish Government's international ambition or trade strategy, it is the level of investment dedicated to this policy commitment. The Committee seeks clarity on what proportion of the budget is allocated towards realising the Scottish Government's export ambition.</i></p>	<p>At present budgets are aligned to supporting international activity that supports trade and investment. Scottish Enterprise’s business plan for 2018/19 anticipates investment of £85.5m in international activity, which includes a range of interventions not limited to just exporting - including funding of SDI. Highlands & Islands Enterprise does not provide separate figures for international or export activity. The Scottish Government’s Directorate for International Trade & Investment budget for 2018/19 is approximately £11.5m, of which £5m is for food and drink activity.</p> <p>However, it is important to note that these figures do not capture the totality of the Scottish Government’s investment in realising its exporting ambitions. Much of Visit Scotland’s operations, for example, contribute strongly to Scotland’s internationalisation and trade activity, building our global profile and attracting international visitors and students to Scotland, both of which count towards export statistics. Its budget in 2018/19 is £50.7m. The Scottish Government’s Directorate for External Affairs also undertakes a number of important functions relating to Scotland’s international engagement, profile and reputation, which will have a wider impact, including on trading relationships. In addition, activity across a wide range of areas, including skills and education, innovation and technology and infrastructure, goes beyond the direct business support provided by SDI and others but nevertheless makes an indirect but vital contribution to our efforts to grow Scottish exports.</p>
<p><i>Para 291. The Committee highlights its previous work on economic data, where it was recommended that the Scottish Government and the Office of National Statistics prioritise improving the coverage and quality of trade (export and import) statistics and asks the Scottish Government to provide an update on what progress has been made in this area.</i></p>	<p>The Scottish Government has recently published the Scottish Economic Statistics Plan 2018-19. This sets out the work being undertaken to enhance the economic statistics published by the Scottish Government, including trade statistics. This document highlights a number of recent and forthcoming developments on trade data, including developing export statistics at a sub-Scotland level and assessing new data sources, as well as making better use of existing sources, to improve the Scottish export figures. The Scottish Government are also piloting a new online data collection system for their Global Collections Survey to improve response rates and help reduce respondent burden on businesses. We have also published the export data on the Scottish Open</p>

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	<p>Data Platform (www.statistics.gov.scot) which will improve the use and accessibility of export data.</p> <p>As part of a wider Economic Data Transformation programme, Scottish Government statisticians are also in discussions with HMRC to secure access to new firm level trade data which will enhance our estimates of Scotland's exports, and provide new import data for Scotland. We are also working with colleagues in the Office for National Statistics (ONS) to improve the use of their data on trade in services and will continue engage with ONS to ensure that enhancements to their UK trade data are extended to Scotland where possible.</p>
<p>Investment <i>Para 308. The Committee recognises the evidence that the SIB funding model has been beneficial to businesses. The Committee seeks reassurances from the Scottish Government that this will not be lost or diluted when the two banks merge.</i></p>	<p>The SNIB Implementation Plan recommends that the financing activities carried out by the Scottish Government and its agencies come under the Bank's remit to build on the success and skills within current operations. The Bank will work collaboratively with Scottish Enterprise (provider of SIB) and other agencies (Highlands and Islands Enterprise, as well as the new South of Scotland Enterprise Partnership) as key partners supporting Scotland's company base. To ensure the establishment of the Bank provides an opportunity to make access to finance and advisory support easier for businesses in Scotland and that consolidation brings a greater coherence for those firms looking for finance.</p>
<p><i>Para 309. The Committee notes the low take up in the Growth Scheme and recommends that the Scottish Government conduct research into the reasons for this to allow any lessons to be learned before it is subsumed into the SNIB.</i></p>	<p>Following the launch of the Scottish Growth Scheme in June 2017, 72 companies have benefitted from nearly £90m of investment. These companies are from a range of sectors including life sciences, creative industries and enabling technologies. Further elements of the Growth Scheme will be launched during September and October 2018 and their performance will be monitored on a regular basis to ensure delivery agents meet targets. We are confident that £500m of investment will be delivered through the Growth Scheme by June 2020.</p>
<p><i>Para 322. The Committee agrees that the SNIB has potential to improve economic performance. The risk however is that it has a growing list of priorities and demands and success will be diluted if it seeks to address them all. We welcome the Scottish Parliament motion that calls on the Scottish Government for clarity of focus and delivery with respect to the role and objectives of the bank. The Committee also welcomes the SNIB implementation</i></p>	<p>The Implementation Plan set out a clear direction and purpose for the Bank. We will shortly be consulting with a full spectrum of stakeholders and sectors about more detailed aspects of the Bank's implementation arrangements, including priorities for investment, strategic focus and governance of the Bank. The consultation will support and inform the development of legislation, providing further clarity about priorities and agreed objectives. While strategic priorities for the Bank will be set by Ministers the Investment Strategy and operational decisions such as where to invest, how to invest and who to invest with will be determined by the Bank.</p>

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<p><i>plan and the Scottish Government's acceptance of its recommendations.</i></p>	
<p><i>Para 323. The remit and ambition of the SNIB will be set out by the Scottish Government. The Committee recommends that budget for assessment and evaluation is built in to the SNIB from the outset, and that all investment decisions should be subject to equality impact assessments, and any other appropriate assessments.</i></p>	<p>We welcome the committee's recommendation. The process of assessment and evaluation of investments will be built into the Bank's overall operating model and budget. The actions of the Bank will be framed to support Inclusive Growth as a key delivery mechanism for the SG's Economic Strategy. Equalities will be fully explored, informing details on the banks role, and operation. There will also be links to the National Performance Framework. To support this, the Bank's implementation team are currently in the early stages of an Equalities Impact Assessment (EQIA).</p>
<p><i>Para 324. The Committee requests clarity from the Scottish Government over what operational currency will be used by the SNIB over the 10-15 year investment period mentioned in the implementation plan.</i></p>	<p>The Bank will provide finance, not funding, through loans (debt) or an equity stake in businesses, at all stages of the investment life-cycle, and be able to invest both directly or alongside private sector investments (using the established co-investment model). The Bank will operate on a commercial basis and generate a positive financial return. The Bank's initial capital will come from the SG budget in an appropriate form. This capitalisation will take place over a number of years to enable the bank to have a rolling portfolio of debt and equity loans with each being generally repaid over 10-15 years, with the Board deciding where to invest and on what terms. The Bank's Board will determine what investments products to offer, in response to the missions set for it by Ministers and the identification of how the Bank can most effectively shape and create markets.</p> <p>The Bank's Board will determine what investments products to offer, in response to the missions set for it by Ministers and the identification of how the Bank can most effectively shape and create markets.</p>
<p>Enterprise and Skills <i>Para 332. The Committee has launched an inquiry into local business support to give further consideration to the role of Business Gateway within the wider ecosystem of public sector support agencies.</i></p>	<p>As its record indicates Business Gateway continue to play a crucial role in the provision of publicly funded support to businesses throughout Scotland. Supporting local authorities to deliver Business Gateway ensures that local economic development is informed by, and tailored to, local needs.</p> <p>The successful delivery of the service also benefits from full collaboration with partners, including Scottish Enterprise and Highlands and Islands Enterprise. The Scottish Government is committed to working closely with local authorities and partners on the continual improvement of the Business Gateway service, responding to the ever-changing needs of the business base. We</p>

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	welcome the opportunity to support the Committee's work.
<i>Para 336. The Committee notes that there has been a move away from the 'key sector' approach in the 2018-19 Scottish Enterprise business plan. Instead the focus is on 'opportunities'. If this is indicative of a more flexible look at the merits of individual businesses and a move away from a rigid prioritisation of sectors, then it is welcome.</i>	The Scottish Government welcomes the Committee's consideration of Scottish Enterprise's business plan and confirm that this does show our move to a more flexible approach.
<i>Para 337. The Committee notes the evidence that creative/digital companies can miss out on agency support and asks Scottish Enterprise to report back to it on what steps it takes to keep pace with digital and technological developments to ensure that it is able to offer advice to such companies coming through the pipeline.</i>	SE continuously adapts to changing economic circumstances, including advances in the digital economy. In responding to the opportunities and challenges presented by these developments they have taken a range of actions, including 1) creating a new Digital Economy Team to provide strategic direction to SE's activities with sectors and businesses 2) deploying a number of digital specialists to working directly with companies to advise on use of digital technologies 3) established a data advisory service to help companies to develop strategies and processes to support their business growth. In addition, working with partners SE have supported the delivery and development of innovation centres, including DataLab and CENSIS; funded cluster development work in critical digital sectors such cyber security and the Internet of Things; and delivered a number of training and awareness events.
<i>Para 349. The Committee welcomes the Strategic Board's focus on de-cluttering and streamlining of the enterprise and skills support landscape.</i>	The Strategic Board will bring improved clarity based on evidence and data, as well as a focus on delivery, to the enterprise and skills support landscape, ensuring that its recommendations are firmly rooted in good evidence and data. It will provide a singular point of strategic focus for the agencies and beyond, ensuring that each of the agencies support shared goals and aspirations of the whole system, and influencing the wider system by driving a culture of collaboration. At the heart of this will be the board's focus on inclusive, sustainable economic growth, and an emphasis on the needs of the end user – the learner and the business support customer.
<i>Para 350. The Committee recommends more transparency on the performance targets set by the enterprise agencies, how these targets are measured and whether they have been achieved. These targets must also include support for women</i>	The Enterprise and Skills Strategic Board is developing a performance framework that will be consistent with the Scottish Government's National Performance Framework. The purpose of the Strategic Board's framework will be to: <ul style="list-style-type: none"> • specify the enterprise and skills system's objectives; • identify the "steps along the way" to achieving the objectives;

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<p><i>in business and enterprise agencies must incorporate these into their measurement frameworks. The Committee asks the Enterprise Agencies to respond to this recommendation.</i></p>	<ul style="list-style-type: none"> • ensure consistency between the objectives and the agencies' activities; and • measure and monitor progress towards meeting objectives. <p>Individual agencies will, of course, continue to use bespoke frameworks in parallel. For example, the measures within Scottish Enterprise's performance framework are published in their business plan each year, the SE Board reviews progress against these quarterly, and their validated performance is published in their Annual Report and Accounts. Sitting alongside those published measures is a framework of supporting measures which monitor SE's performance against a wider range of activities, including tracking measures enabling a better understanding of how inclusive and sustainable their activities are. Recognising that women in business play a really important role in Scotland's economy, SE introduced a measure to understand the impact of their activities in this area. This will establish baseline information that will allow them to consider the introduction of further outcome measures for inclusive growth areas in future plans.</p>
<p><i>Para 351. We agree with the Strategic Board that an assessment needs to be made of what works and resources need to be directed accordingly.</i></p>	<p>Through the publication of its Strategic Plan, the Board will drive a strategic direction that is focussed on maximising the impact of Scotland's investment in the enterprise and skills system. A key part of the Board's focus is on understanding what the economic and social impact of the investments made in the enterprise and skills system are in order to make recommendations on where the focus should lie. The proposal for the Board's performance framework is that it will be based on a logical and evidenced relationship between agencies' actions and impacts on productivity, equality, wellbeing, and sustainability, allowing actions to predictably lead to impacts. The Board will use evaluation evidence from the agencies where it exists and work with the Analytical Unit and the agencies to identify and fill any knowledge gaps.</p>
<p><i>Para 352. We look forward to hearing future updates from the Strategic Board on its progress.</i></p>	<p>The Strategic Board will ensure that it updates the Committee on any key milestones or publications, including the publication of its full strategic plan later in 2018.</p>
<p>Council of Economic Advisers <i>Para 354. The Committee encourages the Scottish Government to work with the Council of Economic Advisers to consider how economic policies could be consistently evaluated. The Committee asks the Scottish Government to clarify the role of the Council of Economic Advisers in future work on Scotland's economic performance.</i></p>	<p>The Scottish Government confirms that the role of the Council Economic Advisers is an independent advisory group to the First Minister. Therefore, the Council's role is to provide advice on Government policy and direction, acting as a critical friend in providing constructive challenge and putting forward suggestions, which members of the Council believe could strengthen Scotland's economic performance, and thereby improve the lives of the people of Scotland. The overarching remit is to provide advice to the First Minister and the Scottish Government on actions to improve the competitiveness of Scotland's economy, and to tackle inequality - the central pillars of Scotland's Economic Strategy. As part of this role, the Council will continue to</p>

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<p>Business <i>Para 360. The Committee is not aware of the existence of any evaluation of the impact of the Business Pledge. Our evidence suggests that it is not necessarily reflective of the number of employers encouraging fair work practices in workplaces; we ask the Scottish Government to set out the action it will take to encourage businesses to sign up to the pledge, including those businesses that provide goods and services to the public sector; and to establish whether the pledge has encouraged businesses to evaluate their policies and to publish its findings.</i></p>	<p>provide advice on the monitoring and evaluation of economic policies in Scotland.</p> <p>The Government has announced a short review of the Scottish Business Pledge. This is in response to the survey report that was published on 27 March, which highlighted the case for increased awareness of the Pledge and greater support for Pledge businesses working to meet more of the Pledge elements.</p> <p>Ministers remain absolutely committed to the Business Pledge and want the review to focus on how it might evolve in order to increase uptake and impact, and provide better support for our existing Pledge companies.</p> <p>The Review will explore the relative merits of amending: elements of the Pledge, except the real Living Wage requirement; and the structure of the Pledge, for example to align better with businesses of different sizes or in specific sectors. It will ensure any substantive changes to the design and operation of the Business Pledge are evidence-based, through dialogue, consultation and collaborative work with existing Pledge partners and companies, business representative organisations, sectoral bodies and the wider business community.</p> <p>Paying the real Living Wage is at the heart of the Business Pledge and is outside the scope of the review. Similarly, the development of the Scottish Government Fair Work Action Plan will look at public funding and how it can better support businesses that demonstrate fair work practices.</p> <p>Review outcomes will be announced following the Summer 2018 Parliament recess.</p>
<p><i>Para 365. The Committee believes that learning from one another could help grow business ambition in Scotland. Skyscanner is a great success story and geography is not a barrier to it keeping abreast of the activities of other companies in its field. The Committee encourages businesses in Scotland to seek out such learning, from those who are succeeding in what they do.</i></p>	<p>The Government shares the Committee's belief that business to business learning is a powerful improvement tool. We recognise the related on-going work by a wide range of business organisations, trade associations, companies and others, and will encourage and work with them. We want Scotland to be the best place to live, work and invest. Scotland has huge economic potential and we are determined to work with business to unlock it.</p>
<p><i>Para 370. The Committee encourages continued meaningful engagement between the UK and</i></p>	<p>The Scottish Government is fully committed to working with the UK Government to ensure the UK Industrial Strategy delivers maximum benefit for Scotland. We are continuing to engage at official</p>

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<p><i>Scottish Governments on the Industrial Strategy and sector deals.</i></p>	<p>and Ministerial level across the Industrial Strategy, particularly on issues such as sector deals, Industrial Strategy Challenge Funds and the Grand Challenges.</p>
<p>Apprenticeships and Skills <i>Para 384. The Committee agrees that skills are key to the success of the economy and intends to look at skills in more depth in a future inquiry.</i></p>	<p>The Scottish Government welcomes the Committee's focus on skills and to considering any recommendation that are presented as a result of the inquiry.</p>
<p><i>Para 385. The committee recommends that the Scottish Government considers what more could be done to support job transitions, in-work training and reskilling.</i></p>	<p>The Scottish Government accepts this recommendation, and shares the Committee's views on this important aspect of skills policy.</p> <p>Our ambition is that our investment in the skills of the Scottish workforce ensures they are best equipped to take advantage of economic opportunity, supporting improved productivity. However we recognise that economic and employer demand are not static but dynamic, and that our supporting interventions must keep pace with and reflect this changing environment. This is why we have established an Enterprise and Skills Strategic Board to better align and co-ordinate the activities of Scotland's enterprise and skills agencies with the opportunities and challenges that the Scottish Economy faces, in order to maximise the impact of the collective investment we make in enterprise and skills development, and to create the conditions for delivering Inclusive Growth.</p>
<p><i>Para 386. The Committee recommends that the Scottish Government takes further action on matching the skills needs of businesses, including language skills, with its education policies.</i></p>	<p>Both Curriculum for Excellence (CfE) and Developing the Young Workforce (DYW) explicitly aim to create an excellent and work relevant education offer to young people in Scotland. Priority activity to deliver this involves further embedding employer engagement in education, for example through the establishment and institution of employer led DYW Regional Groups, which formally bring together regional industry, employers, and schools in collective endeavour to drive forward work relevant education that reflects business requirements and needs. As a result of this focus employer involvement across education and training sectors is continuing to grow, and as such features clearly and prominently in school inspections and reporting arrangements.</p> <p>Regarding language skills we remain committed to expanding and improving language learning in Scotland's schools, recognising the importance for Scotland that our young people are attracted to learning languages, so that they are well equipped for life and work in the ever-changing global marketplace. Our ambition, in accordance with the "1+2" European model of language learning, is to enable and encourage every child to learn two languages in addition to their native tongue.</p>

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	<p>By 2021 every child will begin to learn an additional language when they start Primary One (age 5) and a second from Primary Five at the latest (age 9), with the expectation that this will continue until they reach their third year of secondary education.</p> <p>To support delivery of this ambition we have invested an additional £27.2 million to assist local authorities with the implementation of the 1+2 language policy, set up the Strategic Implementation Group (SIG) in 2013 to oversee delivery of the 1+2 policy, and have also put in place a wider engagement network to take forward actions concerning direct engagement with employers, further and higher education, and those linked with industry.</p>
<p><i>Para 392. The Committee agrees that there is a continual need to support young people seeking apprenticeship opportunities, but urges the Scottish Government to balance this with consideration of apprentice opportunities for older people. The Committee believes that particular focus should be given to sectors that are seeing changing skill needs and increased digitisation.</i></p>	<p>Expansion of our Modern Apprenticeship programme is supporting older people as well as those who have recently completed compulsory education. This is demonstrated by recent Apprenticeship statistics (published by Skills Development Scotland – 12 June 2018), which show a significant year on year increase (26.9%) in the number of Modern Apprenticeship starts aged 25 and over (6,415 starts in 2016/17 vs. 8,138 starts in 2017/18).</p> <p>In addition to continuing our commitment to implement Scotland’s Youth Employment Strategy: ‘Developing the Young Workforce’ we are also delivering in this financial year a range of measures to further widen access to apprenticeships for the over 25s. These include: Increasing the number of Modern Apprenticeships Frameworks that can be supported for apprentices aged over 25; Enhancing contribution rates for disabled people and those with experience of care up to the age of 29, and; Increasing the number of Graduate Apprenticeship opportunities which are not age restricted.</p> <p>For those 25 years and over Government support for individuals in this age group is targeted towards specific key sectors, reflecting changing skills needs and with frameworks devised in consultation with the sector in question. This is reflected in Government contributions, which focus on enhancing Modern Apprenticeship take up within these sectors and at the appropriate type and level. For example 25+ supported Modern Apprenticeship Frameworks include Creative and Digital Media, Digital Applications, Digital Marketing, IT and Cyber Security.</p>
<p><i>Para 393. We also ask the Scottish Government to provide an update on the uptake of modern apprenticeships in relation to disability, Black and</i></p>	<p>As reported in the Quarter 4 Modern Apprenticeships (MA) statistics for 2017/18, 39% (10,451) of starts were female and 61% (16,694) were male. Over the last five years however there has been an increase of 22% in the number of females at level 3 and above (+1,220 starts) compared to a</p>

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<p><i>Minority Ethnic (BME) people, gender and care leavers.</i></p>	<p>16% increase for males (+1,649 starts) over the same period.</p> <p>Regarding disability 11.3% (2,954) of MA starts self-identified as having an impairment, health condition or learning difficulty in 2017/18. Whilst these represent a headline increase of 35.6% on 2016/17 (2,954 vs 2,178) the increase in part reflects improvements in the way that SDS collect this data, and this should be considered when comparing the figures.</p> <p>Regarding ethnicity 508 MA starts self-identified being from a Mixed or Multiple; Asian; African; Caribbean or Black; and Other ethnic group. This represents an increase of 16.5% on the previous year's figures (508 vs 436). Regarding those that self-identified as having experience of being in care 429 MA starts in 2017/18 self-identified, an increase of 30.8% on the previous year (429 vs 328).</p> <p>Despite these headline level successes is it recognised that in many cases we are starting from a low base, and that in certain sectors and framework areas there are specific, and significantly ingrained, challenges and societal stereotypes that need to be overcome. Continued long term effort will be required from all partners across the education and skills pipeline to challenge stereotypes, improve attraction, and improve take up in those sectors with identifiable levels of imbalance and under-representation.</p>
<p><i>Para 400. The Committee asks the Scottish Government to provide an update on how funds raised through the apprenticeship levy will be spent in Scotland.</i></p>	<p>The UK Government Apprenticeship Levy is a UK Government tax that was introduced without the consultation of the Scottish Government or other devolved nations. We have been clear that the introduction of the Levy is a means by which the UK Government is using a new tax to generate and replace funds they previously distributed, and as such replaces previous funding within the Scottish block grant - a challenge shared across all devolved nations.</p> <p>When the estimated £73 million that the public sector in Scotland, including Scottish Government, paid into the Levy in 2017-18 is also taken into account the net effect was a reduction of around £30m in the Scottish Budget last year. This is within the context of imposed public expenditure conditions, where between 2010-11 and 2019-20 Scotland's discretionary budget allocation has decreased by around £2.6 billion in real terms – a decrease of 8%.</p> <p>Despite this we have continued to increase our investment in employability, skills, and training priorities, as identified through our public consultation in summer 2016 on the introduction of the</p>

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Levy in Scotland, and in line with our strategic imperative of Inclusive Growth. The attached table outlines how Scottish Government spending commitments in 2018-19, consistently based on the priorities identified through our public consultation on the introduction of the Levy, have grown

and now substantially exceed the notional UK Government allocation of £230m Levy funds for Scotland in 2018-19.

Skills, Training and Employability spend 2018/19

Activity	2018-19
APPRENTICESHIPS	
Modern Apprenticeships	81.3
National Occupation Standards	0.7
Graduate Level Apprenticeships	6.1
Foundation Apprenticeships	12.5
Sub-total	100.6
WORKFORCE DEVELOPMENT	
Support to employers to help disadvantaged young people to access and sustain employment	8.95
Developing the Young Workforce Regional Groups	4.1
Flexible Workforce Development Fund	10
Digital Economy Skills & Business Support	2.7
Care Sector Skills - Voluntary Sector Development Fund	0.9
Early Years Recruitment & Training	53
Energy Sector – Transition Training Fund	2
Teacher Training	2.5
Individual Learning Accounts	4
Sub-total	88.15
PRE-EMPLOYMENT SUPPORT	
Employability Programmes	33.6
Employment focussed college provision for young people	53.7
Inspiring Scotland	2.5
Sub-total	89.8
Total	278.55

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	<p>This demonstrates that the Scottish Government continues to prioritise investment in skills, training, and employability, to meet the needs of employers, the workforce, young people, and Scotland's economy, and is doing so at a level over and above - and in spite of - budgetary changes over the period such as the UK Government Apprenticeship Levy.</p>
<p>Strategy <i>Para 408. The Committee recommends that the Scottish Government produces an action and implementation plan for its economic strategy, backed up with a monitoring and evaluation plan.</i></p>	<p>Please see response to paragraph 183.</p>
<p>Conclusions <i>Para 414. The Committee strongly recommends that:</i> <i>1. The Economic Strategy is reviewed and updated as a matter of urgency, not least to take account of the potential economic consequences of Brexit;</i> <i>2. Whilst the creation of the Strategic Board is welcome the enterprise and skills agencies need to be much more clearly focused on delivering on the strategy;</i> <i>3. There is a consistent, commonly held and settled definition of inclusive growth and this should be reflected in the enterprise and skills agencies' operational plans;</i> <i>4. There is a robust and appropriately resourced</i></p>	<p>We agree with these conclusions and have set out more detail of how we are taking them forward in the relevant individual responses in the table. In particular:</p> <ol style="list-style-type: none"> 1. As described in para 183, whilst we believe the current Economic Strategy remains relevant, we need to monitor what we are doing to ensure our efforts to deliver sustainable and inclusive economic growth address changing financial, economic and social factors, which are often beyond our control. 2. As set out in paras 349-51, the Strategic Board will bring improved clarity based on evidence and data, as well as a focus on delivery, to the enterprise and skills support landscape, ensuring that its recommendations are firmly rooted in good evidence and data. The Board is developing a performance framework that will be consistent with the Scottish Government's National Performance Framework, and therefore with the Economic Strategy. 3. As stated in para 203, the Scottish Government defines inclusive growth as growth that combines increased prosperity with greater equality, creates opportunities for all, and distributes the dividends of increased prosperity fairly. The Government is committed to creating a shared understanding of both what inclusive growth is, and how it can be

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action plan that identifies lead responsibility for key areas of the strategy; and
5. A comprehensive, monitoring and evaluation framework is in place to measure outcomes and establish what works.

achieved.
4. We agree with this and are exploring the best way to deliver this.
5. As described in para 72, the National Performance Framework went through an extensive change process following consultation. As a result of this exercise, the revised 11 National Outcomes are the outcomes we want to see as a result of the contributions of all of Scotland. This includes national and local government, the wider public, private, third sectors, and civil society.

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