

Economic Data Inquiry

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Notes on Statistics and the Scottish Economy

This note is supplementary to the paper submitted to the Economy, Jobs and Fair Work Committee, September, 2017, by Margaret Cuthbert. In that paper, issues in agriculture, land ownership, and fisheries information/statistics as well as trade and business statistics were raised. There are a number of issues with regard to the information available on the performance of the Scottish economy and on the monitoring and evaluation of government activity in support of the economy which could not be raised in the session of the Committee which I attended due to the need for a discussion on estimates of expenditure and revenues for the whole economy. This note considers the use and availability of statistics for a number of other matters in the economy. It is hoped that they will be of some assistance to the Committee. The note is not complete as it does not cover statistics on the labour market, housing, and deprivation; nor does it cover regional variations within Scotland.

Principally of interest as to what we need from statistics is how well they inform policy makers and the public as to

- (a) how the economy is performing for the benefit of all strands of Scotland's population;
 - (b) whether we will be able to maintain the economy; and
 - (c) what policy decisions and actions might be taken to improve the economy without harmful effects for particular sections of the population, the long term future of the economy and the environment.
- For (b), we require statistics that would assist in determining Scotland's debt, and to whom.

Here, a critique of the statistics available for Scotland on a number of sections of the economy is given. They include the subject areas:

1. Business Statistics
2. Transport
3. Local Authorities and the Economy
4. Tourism
5. Trade

The list is not exhaustive.

Overall, an examination of the information provided in these subject areas suggests that more information is required on each one of them if the points raised in (a), (b) and (c) above are to be met.

Business Statistics

The following points give cause for concern.

- A. *Growth Sector Statistics and their usage.*

In a report on economic policy¹ in 2013, the Scottish Government wrote “As new sectors and businesses emerge, strong domestic supply chains - and not just final demand - is key. Supply chains are where sectors source their inputs, which they then use to produce products and services.” It went on to note that the Scottish Input-Output model showed that Scotland’s manufacturing sector largely obtained its inputs from overseas suppliers. To tackle the problem and improve matters in Scotland, the Government adopted a Growth sector approach, noting that “the fact that certain Scottish supply chains are broken and have high degrees of import penetration reflect a wider structural challenge in the Scottish economy and lack of competitiveness at various stages in the production process”.

Scotland's Economic Strategy identifies those sectors where it believes that Scotland has a distinct comparative advantage:

- Food & Drink (including agriculture & fisheries)
- Creative Industries (including digital)
- Sustainable Tourism.
- Energy (including renewables)
- Financial & Business Services.
- Life Sciences.

Time series data is provided for these growth sectors on employment and GVA.

But what is missing is statistical information on whether the policy is correcting the very problem that was identified: namely, the need to improve the supply chain within Scotland. What is missing is data on how the sectors are integrating into the economy so that spin off effects on other Scottish SMEs, possibly suppliers from other sectors, are benefitting from the policy.

Further, the quality of the data needs to be checked. An examination of just one of the growth sectors, the Creative Industries, and choosing architecture, the turnover in 2007 is quoted as £1.5b in 2007, (creative industries key sector report Scottish Government, November 2009), but the tables for 2008 to 2015. give architecture turnover in Scotland as falling from £495.5m in 2008 to £414 million in 2015. (Scotland's Economic Strategy - Growth Sector Statistics, August 2017).

If this data is correct, this was a startling fall in turnover in one year.

B. Scottish Annual Business Statistics. The latest tables cover 2008-2015 data and were published on 30th August 2017. Other than for historical purposes, the data are rather out of date. In its key facts, right at the beginning of the publication, it notes “To set the SABS results in context it is useful to consider the performance of the Scottish economy as a whole in terms of Scottish Gross Domestic Product (GDP). Scottish GDP in constant basic prices grew each year from 1998 reaching a peak in Q2 of 2008.” It then fails to give the necessary information on the values of GDP and proceeds later in the page to give information on Gross Value Added rather than GDP.

¹ [Building Security and Creating Opportunity Economic Policy Choices in an Independent Scotland](#)

Further, the data does not cover some important sectors: specifically, it does not include Section K "Financial and insurance activities", parts of the public sector which includes Section O "Public administration and defence" and does not include parts of agriculture. Note that for the UK, Section K in 2015 was £120 billion, having increased 2.4 times in money terms since 2000. So, where the SABS records "Between 2014 and 2015, GVA in the services sector increased by £2.6 billion (5.0%)", this presumably does not include any change in financial and insurance activities.

The statistics given are, however, still very important. They reveal that between 2012 and 2015, while total employment rose by 8.8%, turnover remained fairly constant and fell very slightly. Gross wages and salaries in current prices rose by just over 12%, and gross value added per head dropped by 1 percentage point.

In one of the major areas for growth potential: computer, electronic and electrical equipment, employment in Scotland is only 75% of what it was in 2008, and 90% of what it was in 2012. Such data should give cause for serious concern, and deserve more publicity. It begs the question as to whether the policy is achieving the results hoped for, and what actions need to be taken to get the policy on track.

Tables on such statistics as gross wages and salaries per head by local authority area and by business sectors are provided. They show tremendous disparity across Scotland and across different sectors. Again, much more publicity of this performance is required.

It would be useful for the Committee to determine how much use is made of these statistics by policy departments in the Scottish Government.

C. *Procurement Contract Data:* Public Contracts Scotland (PCS) is the national advertising portal for the Scottish public sector and their prime contractors to advertise their contract and sub-contract opportunities, and publish contract awards. It was launched in 2008 and is a principal source of data on public procurement.

It estimates that, of the around £11.3 billion public sector procurement spend in 2015-2016,

- 49% went to SMEs in all locations. This can be further broken down as: (8% went to micro businesses (1-9 employees), 13% went to small businesses (10-49 employees), and 28% went to medium-sized businesses (50 to 249 employees)
- Around 55% was with suppliers with a postcode in Scotland, where the postcode is known,
- Around 50% was with suppliers of all sizes with a postcode in Scotland, where size **and** postcode is known) - 59% of this was with SMEs.

Public procurement is one of the principal means by which a government can assist its SME sector. So we can readily see from the above data that around half of the amount spent was with SMEs.

However, it then transpires that while the new procurement regulations introduced on 18 April 2016 made it mandatory for all Scottish public sector organisations to use PCS to advertise all regulated procurements (£50,000 and over for goods and services; £2 million and over for works) and their

subsequent awards, the HubCos, which are now a main public procurement arm in Scotland, are neither required nor expected to advertise their contracts on PCS, because they are not public bodies to which the public procurement regulations apply, but institutionalised private-public partnerships awarded after European-wide competition. Thus, the data available on the Public Procurement website is now far from complete.

D. Sharing of Information among Government Departments and NPDs. A study of business support suggests that the different bodies involved in substantial support to SMEs in Scotland do not connect as much as is necessary and do not provide the information required to carry out any assessment on

- The statistical basis of their policy decisions, once they have received their overall policy direction from the Scottish Government.
- The statistical basis of their monitoring of their policies.
- The statistical basis of the evaluation of their policies.

These bodies include the Enterprise bodies: (Scottish Enterprise and Highlands and Islands Enterprise), Skills Development Scotland, and the Hub initiative. Further, it is difficult to see how the needs of SMEs in particular sectors such as tourism, agriculture and fishing are being considered from the availability of published statistics. For example, Scottish Enterprise have had no contact with the Hubs on business support “we've not done any specific work with Scottish Futures Trust on their Hub building work/opportunities”.

The Scottish Futures Trust rebuffed an article in the Herald which questioned performance. This was reported by Simon Bain as follows:

“Scotland's £1 billion infrastructure quangos have rebuffed complaints about their transparency and the exclusion of Scotland's SME sector from a growing proportion of public sector investment opportunities. The five 'hubcos' building schools and health centres around Scotland have awarded 77 per cent of their £1bn contract value to SMEs, according to the Scottish Futures Trust.”²

Research done by the Cuthberts shows clearly that it is not possible to gain hard line data to justify the SFT statement. The data, published by the individual Hubs in their Annual Performance Reports for 2015/16, would indeed suggest that SMEs are benefitting from Hub existence in the public procurement supply chain. However, it is not clear from the published information exactly how each of the hubs was collecting the information, (whether by sample and if so how the sample was taken), and defining and calculating the measure it was using. Accordingly, all of the hubs were asked for more detail on what was meant by the percentage of contracts awarded.

Three hubs responded, noting that they were not covered by Freedom of Information and did not have the resources to answer. Two did not reply. Two answered with almost identical words: “*Unfortunately, as a small business we are unable to allocate the necessary resources that would be required to process such a request for information. Hub South East Scotland is a private*

² http://www.heraldscotland.com/business_hq/13175502.display/

limited company and as such, we are not subject to the Freedom of Information (Scotland) Act 2002. A third stated that they considered our request for information "will put an untimely strain on the company resources whilst they are committed elsewhere."

This failure to get information prompted a further request as follows: "some of the questions must surely be able to be answered within minutes. For example, the paper/ electronic trail must be available on the calculation of the 85% of contracts awarded to SMEs" This did receive a reply: "The number you mention (85%) relates to the overall cumulative average derived from figures achieved on completed projects since 2010 which represent the subcontracted work packages awarded to Scottish SMEs as a percentage of the work undertaken on each project." In addition, "the figures are calculated in accordance with Hub South East's KPIs and the method statements contained within the Territory Partnering Agreement."

One is left wondering what is a work package? One is no further forward. But it is in this way that we are prevented from finding out how public procurement works in Scotland and whether it is actually achieving any of the known positive effects that it could be having on local business, local employment, local training, local research and development and local innovation.

Transport

The following gives cause for concern.

As regards Scotland's transport infrastructure, how it assists goods getting to market is naturally important

a) Ports: Forth Ports Limited is one of the largest port operators in the United Kingdom. It was a publicly owned company until 1991 and had responsibility for the provision of pilotage within the Firth of Forth. In July 1991, the Ports Act was given Royal Assent. This provided that any trust port could, with the consent of the Secretary of State, become a private limited company. The Forth Ports Authority moved into the private sector in 1992. In 2011, the company was acquired by a private equity investment fund managed by Arcus Infrastructure Partners in June 2011.

As a result, information on a vital piece of infrastructure is difficult to obtain.

b) With regard to the Queensferry Crossing, the Scottish Government claimed:

"At its peak the Chambers of Commerce estimate that the FRC will deliver economic benefits worth around £6bn to Scotland's economy."

It seemed reasonable first to check up on the £6 billion figure, so contact with the Chambers of Commerce was called for. Here is the reply:

"Many thanks for your email. I've been digging back a few years and have come up with a briefing we published in 2010, along with an analysis we produced at that time. Both of these documents are attached. The briefing is talking about a cost of over £1 billion if the existing bridge had been closed for a year. I don't recall who drew up the costings at the time. I haven't been able to find a record of us talking about a £6 billion benefit to the economy but this could be in respect of the avoidance of multiple years of closure."

Some search of what information is available shows that it is difficult to view any proper assessment of the benefit of the new crossing to the economy, and if it has been done, what the benefit is to local SMEs, Scottish construction companies, Scottish engineering companies, and in general, Scottish suppliers. In identifying the benefits and costs of a school, hospital, etc, governments need to look not only at the benefits to the final customer but to the surrounding economy and society as a whole.

The body that answered a Freedom of Information request on the Queensferry Crossing was Transport Scotland, (and it took long enough to find where to send the request). Of the £790m cost quoted for the principal contract, £123m went to Scottish subcontractors and £127m went to Scottish supply orders. Of the remaining approximately £400m of other (non-Principal) contracts, Transport Scotland did not hold the information. So, all we know, at present is that 19% of the £1.325 billion went to firms registered in Scotland. There will have been more from the related projects, but we are not privy to the information. There will have been Scottish employees working on the projects obtained by non-Scottish companies but we have no information. Further, to be registered as a company in Scotland can easily mean using a legal company's office in the New Town in Scotland with the lawyer being the Company Secretary and all other interests being outside Scotland. Statistics on the benefits of large public sector projects to Scotland are very difficult to obtain, yet public procurement is regarded as one of the main tools that a government can use to revitalise an economy.³

Local Authorities and the Economy

The following is a classic example of the scant consideration given to the public interest is considered in determining whether information on public procurement projects should be released under Freedom of Information requests. In June 2016, an application was made to Edinburgh Council for the contract on Edinburgh schools. The reply was a refusal notice: "...on balance the Council has concluded that in all the circumstances, the public interest in making the information available is outweighed by the commercial and confidentiality considerations which weigh in favour of non-disclosure."⁴ In other words, the public interest in the detail of the financial arrangements, which could have played a part in the collapse of the wall in one of the schools and, as it turned out the poor workmanship in the PFI project, was of less importance than commercial and confidentiality considerations.

It was already many years since the contract was signed. The date of financial close was October 2001. In fact, the request was within months of the final date when the contract under FoI would have to be provided (October 2016). And according to Public Procurement at the Scottish Government, the lag date of 15 years was regarded just as the final stop and not expected to be the date that public bodies held to.

³ A Report Demonstrating the Methodology for Including Targeted Recruitment and Training Clauses in Public Sector Contracts by Richard MacFarlane and Mark Cook, Anthony Collins Solicitors, <http://www.gov.scot/Publications/2008/02/13140629/0>
And also https://ec.europa.eu/environment/ecoap/news/benefits-public-procurement-innovation-including-sustainability-and-environment-sector_en

⁴ Reply letter from Edinburgh Council to M Cuthbert

Tourism

Tourism is one of the Scottish Government's key growth industries. According to the Annual Business Inquiry 2007, Office of National Statistics, as quoted by the Scottish Government, tourism-related industries in Scotland generated over £4 billion in gross value added (GVA) for the Scottish economy in 2007, 4.4% of the total Scottish GVA. The time series data on the growth sectors suggests that the figure in current prices for 2016 is around £3.6 billion, and that 43% of the businesses in this sector have less than 5 employees.

On tourism, in its recommendations, an earlier Committee on Economy, Energy and Tourism wrote "We recommend that the situation is kept under review and that Visit Scotland provide the Committee with yearly statements on the progress being made towards meeting the target and, should this look less likely, supply us with details of what steps it plans to take to address any shortfall in progress."

The Scottish Government response (there was no separate Visit Scotland response) was that it did not accept the "yearly statements" recommendation. The Committee noted that it "itself has tended to follow up on progress towards the tourism growth target as part of its annual scrutiny of the draft budget, but for several reasons the information sought and received from Visit Scotland is not consistent."

The Committee also recommended "that the Scottish Government carries out a feasibility study on what would be involved in establishing a Scottish-based, centralised source of information and statistical collection which would assist in better understanding trends in the tourism sector and, in particular, could be a tool for monitoring progress towards the targets for growth".

The Scottish Government also rejected this recommendation.

Visit Scotland promote Sustainable Tourism. They note "According to our latest research over 94% of quality assured tourism businesses in Scotland have already implemented sustainability actions with most focusing on:

- Promotion of natural and cultural heritage
- Energy efficiency
- Waste management"

The first of these is interesting. There is no information collected on a wide variety of facilities which are important to tourists, not only in the countryside but in the cities.

This begs the question, on what has their statistic been based, what goals have been set for the promotion of natural and cultural heritage, what input is being made by Visit Scotland, what collaboration is being made with Transport Scotland, Local Authorities, and large landowners to assist the implementation of their strategy, what monitoring is being carried out and how can one find the results of that monitoring, and in general, what evaluation of their policies have been carried out.

Importantly, there is little information given concerning the results of Visit Scotland working with Transport Scotland, with Ports Authorities, with local authorities, or with landowners to improve the tourists' experience.

Trade

(In addition to the response already given), Scotland carries out a separate Global Connections Survey to improve knowledge of export patterns and trends from Scotland. However, the Government has apparently no powers to get firms to respond to the Survey. As a result the actual response rate is extremely poor. In addition, it is quite possible that it is the same group of companies that respond year after year thus affecting confidence in the stated trends in the data.

Further, in some sectors the response rate was very low, for example in financial and insurance activities it was 15%.

The Scottish Government is unable to provide information on import statistics.

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