

the government economic strategy

WEALTHIER & FAIRER

SMARTER

HEALTHIER

SAFER & STRONGER

GREENER

the government economic strategy

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FOREWORD



The Purpose of the Government I lead is to create a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth.

Sustainable economic growth is the one central Purpose to which all else in government is directed and contributes. Our Strategic Objectives – to make Scotland wealthier and fairer; smarter; healthier; safer and stronger; and greener – are all predicated on our efforts to bring more economic success to our country.

This Government Economic Strategy sets out how we will achieve such success through an entirely fresh approach.

Scotland has real strength in the most vital factor for modern economies – the human capital offered by our greatest asset, Scotland's people. We need to build on this strength and, importantly, make more of it in broadening Scotland's comparative advantage in the global economy.

This is the focus for the Strategy: the alignment of investment in learning and skills with other key priorities; a supportive business environment; investment in infrastructure and place; effective government; and greater equity, in pursuit of greater comparative advantage. For the first time, too, this is a Strategy with challenging national targets to take us towards improved economic and population growth.

For over 30 years, Scotland has suffered because our economy has been locked into a low growth cycle. Successive economic strategies, and successive governments, have tried and failed to lift Scotland's economic performance to where it should be – and, while other small independent countries around us have flourished, Scotland has lagged behind.

A low growth economy is a concern for each and every one of us, because it will dramatically affect the way we will live in the future. It affects our job opportunities, our incomes and the aspirations of our young people.

While we believe that independence is the best guarantee of all for Scottish success over the long term, we also believe that we can achieve much more with the levers that we have.

By making better use of these levers, Scotland can rediscover much more of a competitive edge. It can become an attractive and more tax-friendly business environment, with efficient transport and communications as well as a skilled and able workforce.

This will drive up economic growth – and economic growth will, in turn, create a virtuous cycle with multiple positive effects: more opportunities for high quality employment; more successful new companies; and more of our brightest and best working in, and returning to, Scotland.

Scotland has not always been a low growth economy. One hundred years ago, Scotland was an economic giant which left the rest of the world in its shadow. Today, we have everything it takes to be a Celtic Lion economy, matching, and then overtaking, the Irish Tiger.

With this Strategy, and with the collective will of the Scottish people, there is no reason why we cannot aspire to be the best once again.

A handwritten signature in black ink, which appears to read 'Alex Salmond'.

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



EXECUTIVE SUMMARY

“Scotland has real strength in the most vital factor for modern economies – the human capital offered by our greatest asset, Scotland’s people. We need to build on this strength and, importantly, make more of it in broadening Scotland’s comparative advantage in the global economy.”

First Minister

This Government Economic Strategy sets out how we will support businesses and individuals and how, together, we can deliver the following Purpose:

to focus the Government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth.

By sustainable economic growth we mean building a dynamic and growing economy that will provide prosperity and opportunities for all, while ensuring that future generations can enjoy a better quality of life too.

This Strategy will be given momentum by the challenging targets that we have set to track progress in boosting Scotland’s growth, productivity, population and participation, and in delivering on the desired characteristics of growth – solidarity, cohesion and sustainability.

Over the last thirty years, Scotland’s annual average GDP growth was well below that of comparable small European countries and significantly below the UK average. We are now setting a new level of ambition and a sharper aspiration for the future. Our immediate growth target is to raise Scotland’s GDP growth rate to the UK level by 2011.

STRATEGIC PRIORITIES

In order to deliver increasing sustainable economic growth, the Strategy identifies five Strategic Priorities that are internationally recognised to be critical to economic growth.

Learning, Skills and Well-being. The key strategic approaches which we will pursue in relation to this Strategic Priority include:

- A focus on giving every child a strong start in life;
- A focus on school education enabling all our young people to succeed and gain the skills they will require as individuals and to contribute to the wider economy;
- A supply of education and skills which is responsive to, and aligned with, actions to boost demand;
- An approach to health and well-being that ensures all Scots enjoy the right level of physical and mental health to give them the opportunity to maximise their potential; and
- The creation of the conditions for talented people to live, work and remain in Scotland.

Supportive Business Environment. The key strategic approaches which we will pursue in relation to this Strategic Priority include:

- Responsive and focused enterprise support to increase the number of highly successful, competitive businesses;
- Targeted support to business in the pursuit of opportunities outside of Scotland and the development of internationally competitive firms;
- A broader approach to business innovation in Scotland that moves beyond viewing innovation as the domain of science and technology alone;
- A clear focus on strengthening the link between Scotland's research base and business innovation and addressing low levels of business R&D;
- A particular policy focus on a number of key sectors with high growth potential and the capacity to boost productivity; and
- A competitive tax regime which incentivises business growth and attracts mobile factors of production.

Infrastructure Development and Place. The key strategic approaches which we will pursue in relation to this Strategic Priority include:

- To focus investment on making connections across and with Scotland better, improving reliability and journey times, seeking to maximise the opportunities for employment, business, leisure and tourism;
- To provide sustainable, integrated and cost-effective public transport alternatives to the car, connecting people, places and work across Scotland; and
- A planning and development regime which is joined up, and combines greater certainty and speed of decision making within a framework geared towards achieving good quality sustainable places and sustainable economic growth.

Effective Government. The key strategic approaches which we will pursue in relation to this Strategic Priority include:

- More effective government with a clear focus on achieving higher levels of sustainable economic growth through the delivery of the Government's Purpose and Strategic Objectives; and
- Streamlining the Scottish Government's direct dealings with business, including better regulation and more efficient procurement practices.

Equity. The key strategic approaches which we will pursue in relation to this Strategic Priority include:

- To provide the opportunities – and incentives – for all to contribute to Scotland's sustainable economic growth;
- To accord greater priority to achieving more balanced growth across Scotland, to give all across Scotland the chance to succeed; and
- To promote economic growth and environmental quality and responsibility as mutually advancing.

IMPLEMENTATION

The implementation of the Strategy will be driven across the public sector and supported by the new arrangements within the Scottish Government to provide a clear focus on the delivery of the Purpose. Financial and other resources will be aligned to ensure that policy development and spending programmes are sharply focused on the delivery of the Purpose

The Government will be held to account through assessing achievement of the measurable economic targets set out in this Strategy.



A. THE PURPOSE OF THE NEW GOVERNMENT AND THE NEED FOR THE GOVERNMENT ECONOMIC STRATEGY

A.1 A NEW SENSE OF PURPOSE

Our Purpose as Scotland's Government is to increase sustainable economic growth. Higher sustainable economic growth is the key which can unlock Scotland's full potential and create benefits for all our people. Our future prosperity as a nation depends on everyone playing their part – as workers, consumers, volunteers and business people. We, as government, have a role too in the way we invest in Scotland's people and places and in tackling unnecessary obstacles to growth.

This Government Economic Strategy sets out how we will support businesses and individuals and how, together, we can deliver the following Purpose:

to focus the Government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth.

By sustainable economic growth we mean building a dynamic and growing economy that will provide prosperity and opportunities for all, while ensuring that future generations can enjoy a better quality of life too.

The benefits from delivering the Purpose of increasing sustainable economic growth will be shared by all Scotland's people, helping to:

- generate greater and more widely shared employment;
- create more highly skilled and better paid jobs;
- provide better quality goods and services and additional choices and opportunities for Scotland's people;
- stimulate higher government revenues, supporting better quality public services;
- foster a self-sustaining and ambitious climate of entrepreneurial advance;
- encourage economic activity and investment across Scotland, thereby sharing the benefits of growth;
- bring a culture of confidence and personal empowerment to Scotland; and
- secure a high quality environment today and a sustainable legacy for future generations.

This section sets out:

- what makes this Strategy distinctive;
- the different elements of the Strategy and how these fit together; and
- the macroeconomic and microeconomic levers available to deliver the Purpose.

A.2 A DISTINCTIVE STRATEGY FOR SCOTLAND

This Strategy represents a fresh approach for Scotland:

- it is the first to focus central government and the wider public sector on one Purpose – increasing sustainable economic growth;
- it is the overarching Strategy that sets the direction for Scotland’s public sector – the Scottish Government, local government, the enterprise networks and other key agencies – to work collaboratively with the private, academic and third sectors, in pursuit of increasing sustainable economic growth;
- it presents a new target framework, which represents a higher level of ambition and sharper aspirations for the future;
- it has been informed by the new Council of Economic Advisers – a group of leading international economists and business people which has been established to directly advise the Scottish Government on how to increase sustainable economic growth; and
- it draws on the lessons and approaches of the successful small independent economies of Norway, Finland, Iceland, Ireland and Denmark – henceforth referred to as the Arc of Prosperity countries – which are similar to Scotland in scale and geographically close.

A.3 THE STRATEGIC APPROACH FOR DELIVERING INCREASING SUSTAINABLE GROWTH

The Strategic approach consists of:

- the overall Purpose;
- five Strategic Objectives – embedded within which are five Strategic Priorities that are internationally recognised as being critical to sustainable economic growth; and
- national targets – which include specific benchmarks for economic growth and *golden rules* for ensuring that growth is shared and sustainable.

Figure A1 illustrates how all these elements interact with each other and fit together.

Figure A1: The Strategic Approach



THE PURPOSE

The starting point is the Purpose – to increase sustainable economic growth – to which all else in government is directed and contributes. The Purpose will provide a clear focus for all our work over the term of this Parliament. Financial and other resources will be aligned to ensure that policy development and spending programmes are sharply focused on the delivery of the Purpose and, specifically, on delivering the challenging and ambitious targets that we are setting for Scotland.

STRATEGIC OBJECTIVES

Delivery of the Purpose requires the development of a country that engenders individual and collective success. This is encapsulated in a set of five **Strategic Objectives** (set out below) which map a Scotland that is wealthier and fairer, smarter, healthier, safer and stronger, and greener.

WEALTHIER & FAIRER – Enable businesses and people to increase their wealth and more people to share fairly in that wealth.

SMARTER – Expand opportunities for Scots to succeed from nurture through to life long learning ensuring higher and more widely shared achievements.

HEALTHIER – Help people to sustain and improve their health, especially in disadvantaged communities, ensuring better, local and faster access to health care.

SAFER & STRONGER – Help local communities to flourish, becoming stronger, safer places to live, offering improved opportunities and a better quality of life.

GREENER – Improve Scotland's natural and built environment and the sustainable use and enjoyment of it.

The five Strategic Objectives have been used to facilitate and add momentum to the realignment of both central government and the wider public sector. Through the alignment of our Government with these Strategic Objectives – each focused on the delivery of the Purpose – we will increase the prosperity of Scotland.

We will not merely seek to align policy and resources. Better alignment will be combined with a far greater emphasis on the effectiveness of our policy and spend, and on achieving a real difference for the people and businesses of Scotland, in both the short and longer term.

The call to action for all arms of the public sector to support increasing sustainable growth is not an invitation for a proliferation of initiatives, however well intentioned. To maintain focus and maximise the leverage of the public sector, the Government Economic Strategy will require a clear rationale to be established before specific economic interventions are considered. Without addressing significant market failures or legitimate equity concerns, government action risks crowding out private sector activity or creating new sources of inefficiency or inequity. In deciding which course of action to take, a range of options – financial incentives, regulation, direct provision, better information and doing nothing – need to be appraised on the basis of sound analysis and evidence.

This Strategy identifies the need to balance economic growth and the important social, regional and inter-generational equity objectives of the Government. Growth needs to provide more choices and opportunities for all of Scotland's people. Unlocking the potential and sharing the fruits of growth across communities and regions is crucial to the healthy development of society. It is equally critical to achieving the economic growth targets themselves. Similarly, protecting and enhancing Scotland's biodiversity and landscape for future generations is integral to our thinking. Again, the environment can be an important source of growth.

The Strategic Objectives, therefore, play a key role in focusing all the activity of Government, and, indeed the public sector in its widest sense, on increasing sustainable economic growth:

- by making Scotland **wealthier and fairer** we will generate wider opportunities for work, increase our competitiveness and make Scotland a more attractive place to live, work and invest;
- by making Scotland **smarter**, we will lay the foundations for the future growth and well-being of our children, increase skill levels and better channel the outputs of our universities and colleges into sustainable wealth creation;
- by making Scotland **healthier** through more anticipatory, timely and effective services and encouraging healthier lifestyles, we will increase the productivity of Scotland's workforce, reduce absenteeism, improve public sector efficiency and increase participation by reducing the numbers of workers on Incapacity Benefit;
- by making our communities **safer and stronger**, we will increase the attractiveness of Scotland as a place to live and work, attract talented migrants and high quality businesses, reduce out-migration and secure the productive engagement in proactive activity of an even higher proportion of the population; and
- by making Scotland **greener**, we will improve the natural and built environment, valued by those living and working in Scotland and underpinning many of our businesses and key sectors.

It is no coincidence that, as well as benefiting from higher incomes, countries within the Arc of Prosperity also perform relatively well in terms of inequality, crime, waste management and life expectancy (See Figure A2 below).

Figure A2: Relative National Performance: Scotland, the Arc of Prosperity and UK¹

	Healthier	Fairer	Wealthier	Smarter	Safer	Greener
	Life Expectancy (years)	Income Inequality (Gini Co-efficient)	GDP per capita (\$)	Educational Attainment (PISA scores)	Offences per 100,000 population (total)	Municipal Waste Recycled (%)
Scotland	76.8	0.30	30,816	518	9,639	23
Norway	79.9	0.28	43,200	493	-	52
Finland	78.8	0.26	31,400	545	10,343	31
Iceland	81.0	0.25	35,800	501	6,018	22
Ireland	78.2	0.32	39,200	508	2,634	40
Denmark	77.6	0.24	34,400	494	9,013	41
UK	78.8	0.34	32,100	511	11,241	27

There will always be the potential for tension between the five Strategic Objectives, and, equally, there will always be scope for significant complementary gains. While sustainable economic growth is core to the Purpose, we will resolve any tensions to the benefit of Scotland and, indeed, the experience across the Arc of Prosperity demonstrates that this is eminently possible. A wealthier Scotland can and should be greener, fairer, healthier, stronger, safer and smarter, too.

¹ **Source:** Life Expectancy: Office for National Statistics and OECD. Income inequality: Eurostat and Scottish Government. GDP per capita: OECD and Scottish Government. PISA scores: OECD and Scottish Government. Offences: European Sourcebook of Crime and Criminal Justice Statistics. Municipal Waste Recycled: Eurostat and SEPA

Notes: Life Expectancy: Figures are for life expectancy at birth in 2004. Income Inequality: Figures are for 2005 (latest data). Income inequality is measured by the Gini coefficient. It represents an overall measure of the cumulative income share against the share of households in the population. The lower the value of the Gini coefficient (which varies between 0 and 1), the more equally household income is distributed. GDP per capita: Figures are for 2005 and Scotland's does not include the UK Continental Shelf. Purchasing power parity is used to adjust for price differentials between countries. PISA (Programme for International Student Assessment) scores: Scores for 2003 (latest data). PISA data aim to measure how far students approaching the end of compulsory education have acquired some of the knowledge and skills essential for full participation in the knowledge society. PISA surveys focus on particular subject areas including reading, maths and science. Scores are averaged across these subjects. Offences: Figures are for 2003 (latest data); UK figure is for England and Wales only. Municipal Waste Recycled and Composted: Figures are % of total municipal waste for 2005 (latest data).

STRATEGIC PRIORITIES

In order to deliver sustainable economic growth, we must give priority to the specific channels through which growth is most effectively driven. As illustrated in Figure A1 the Strategy identifies five Strategic Priorities. These are internationally recognised to be critical to economic growth:

- Learning, Skills and Well-being;
- Supportive Business Environment;
- Infrastructure Development and Place;
- Effective Government; and
- Equity.

Each of these priorities is critical to the delivery of our Purpose and will be embedded in the approach to each of the Strategic Objectives.

Further details on the priorities, and how they will contribute to delivering the Purpose, are set out in Section C.

TARGETS

Our Economic Strategy will be given momentum by the challenging targets that we have set. These will take two forms:

- clear aspirational targets that set the direction and ambition; and
- shorter-term targets against which we can judge our progress and the sharpness of the strategic approach.

The targets are presented in Section B. We will monitor these rigorously and we will be judged by the progress that we make towards them. They will provide the evidence to judge whether the Government is making a real and measurable difference to the lives of the people of Scotland.

A.4 THE ROLE OF GOVERNMENT: THE MACROECONOMIC AND MICROECONOMIC LEVERS

In an increasingly competitive and interdependent global economy, knowledge plays a critical role for those economies seeking to grow and develop more rapidly. Government at all levels still has a key role to play, with a particular focus on the human capital that generates and uses knowledge. We have powerful levers at our disposal. By creating a fertile business environment, rewarding success and investing in its people and places, Scotland can increase its comparative advantage on the world stage. The Irish experience demonstrates how the opportunity of globalisation can be realised by delivering accelerated rates of growth through developing, attracting and retaining mobile capital and labour.

Ireland's recent history

Ireland's recent history of rising prosperity and exceptional growth has been achieved through identifying and maintaining a long-term commitment to a small number of key strategic priorities that gave the country a competitive advantage:

- significant and sustained investment in education;
- low levels of corporate tax, stemming from fiscal consolidation during the late 1980s and supporting an aggressive approach to attracting inward investment;
- large-scale and much needed sustainable infrastructure and housing investment; and
- strong social partnership and a joined-up approach to developing and implementing strategy.

This has created a virtuous circle of growth and immigration, replacing a history of decline and emigration.

Although it is a challenge for Scotland to achieve the levels of success and prosperity enjoyed by comparable independent nations in Europe, it is a realistic challenge and one for which Scotland is well equipped. The Arc of Prosperity countries have demonstrated what can be achieved through a combination of well-directed and effective government and a highly responsive and dynamic private sector.

However, without greater autonomy over the levers of the economy, generating a step-change in Scotland's growth path is made more difficult:

- devolution of responsibility for *economic and fiscal policy* would allow a Scottish Government to tailor a tax environment suited to attracting investment to Scotland and funding public services appropriate to the needs of the Scottish people;
- by taking responsibility for *oil and gas reserves* in Scotland and Scottish waters these could be supported to optimise long-term production and give Scottish people a say in how this massive resource could be re-invested to bequeath a legacy for future Scots;
- a Scottish *competition* authority could more fully consider Scotland's interests. Greater consumer sovereignty in Scotland would stimulate more dynamic competition, innovation and growth;
- further devolution of *employment policy* would improve accountability and provide greater coherence between economic and employment policy, allowing the balance between workers rights, the level of minimum wage and the need for a flexible workforce to reflect Scottish labour market conditions; and
- greater Scottish representation in *Europe* would allow particular Scottish circumstances to be addressed in the negotiation, transposition and enforcement of regulation.

The Government has recently launched the White Paper, *Choosing Scotland's Future*, which sets out the ground for a national conversation on independence and other constitutional possibilities. The Government Economic Strategy focuses on how the Government's Purpose will be achieved through the existing powers of the Parliament. However, because of the extent to which a broader set of economic levers would accelerate sustainable growth, the Economic Strategy must form a key part of the National Conversation. In the meantime, with the existing levers at our disposal, we will continue to work with the UK Government and European institutions, to co-ordinate activities in support of higher sustainable growth.

We are clear that, as in every economy in the world, microeconomic measures have a fundamental role to play in determining the underlying drivers of growth. While we do not have responsibility for all the microeconomic levers, we do have responsibility for some critical ones. The Government's approach to utilising these to the full is set out in Section C.

The remainder of this document focuses on three different elements of the Strategy:

- the economic challenge that we face – this is our starting point and includes a diagnosis of Scotland's performance in terms of growth, fairness and sustainability;
- the targets that we are setting ourselves; and
- the Strategic Priorities and how we will secure our ambitions.

Section B explores the first two of these, and in Section C, we set out the five Strategic Priorities that will help us achieve sustainable economic growth. We have identified these priorities in collaboration with many individuals and groups across Scotland, building on conversations with the academic and business communities and with a wide range of public sector interests.

B

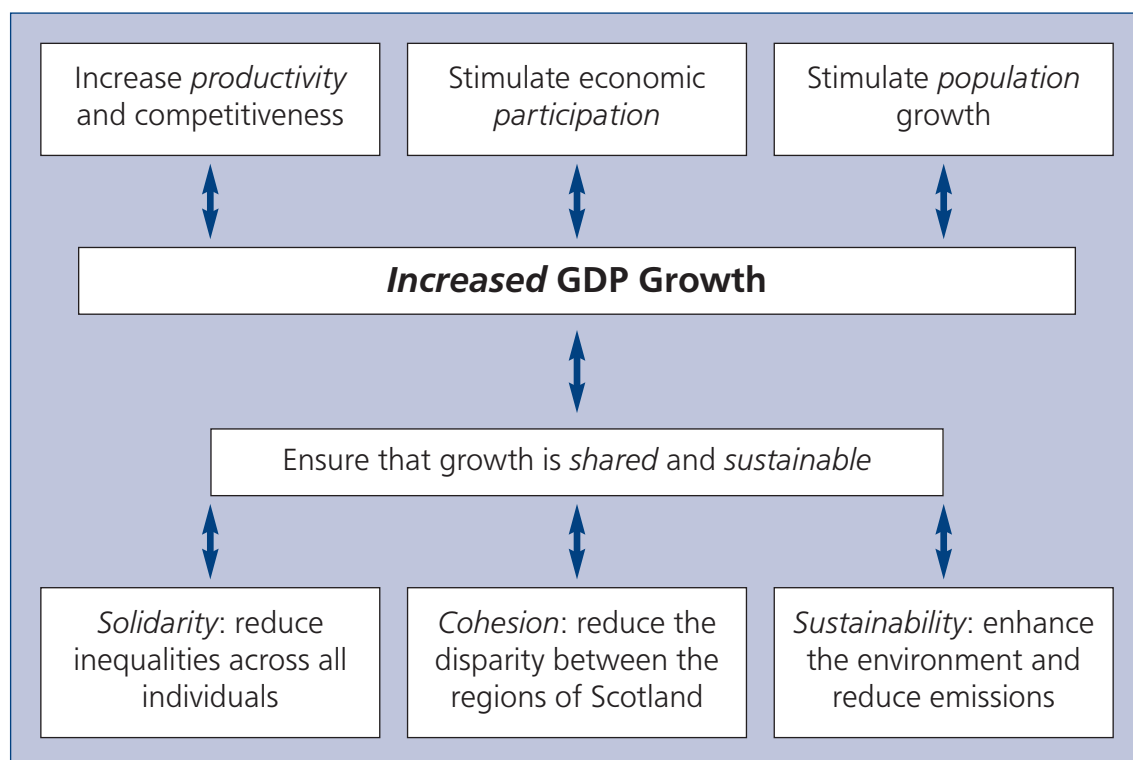
B. WHAT IS THE CHALLENGE THAT WE FACE?

This section sets out the scale of the challenge faced in putting Scotland on a higher sustainable growth path and the targets that have been set to help meet the challenge.

Figure B1 highlights the key components of increased growth – increased productivity, participation and population. For each of these components, this section outlines Scotland’s performance, the gap between our performance and the performance of other economies and the target that will help drive improvement.

Figure B1 also identifies this Government’s desired characteristics of growth – solidarity, cohesion and sustainability. For each of these characteristics, this section outlines the challenge Scotland faces, performance relative to other economies and the target that will help drive improvement.

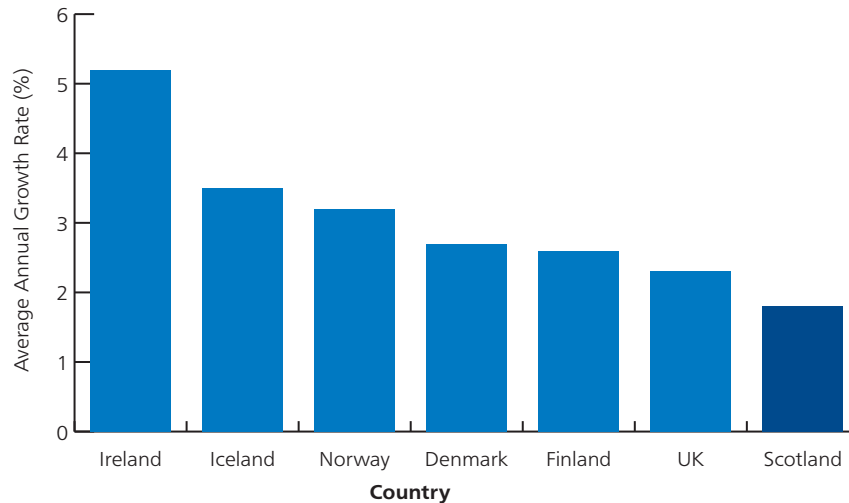
Figure B1



B.1 GROWTH

Scotland’s economic growth has underperformed relative to both the UK, and other small European countries, in recent decades. Over the last thirty years (1975 to 2005), Scotland’s annual average growth in Gross Domestic Product (GDP) was 1.8 per cent, well below that of comparable small European countries, and significantly below the UK average of 2.3 per cent. Scotland’s growth has lagged that of the UK, in nine out of the past ten years. Growth in Ireland has been three times higher over the same period and, in Norway, nearly twice as high as in Scotland.

Figure B2: Scotland's long-term GDP growth performance (1975-2005)



Source: Eurostat, OECD, Scottish Government

Decades of relatively poor performance have led to missed opportunities for Scotland compared to neighbouring countries. We now clearly lag behind small independent EU countries in terms of GDP per capita, wages, living standards and public services.

Our growth targets. We are now setting a new level of ambition and a sharper aspiration for the future. We are establishing a growth target to which we will aspire over the medium to long-term and a more immediate target for the life of this Parliament.

Our aspiration. Over the long-term with access to a full set of economic and fiscal levers, a Scottish Government would be in a better position to achieve a step change in economic performance and match the levels of growth attained by small comparator European countries. Consistent with this belief, the new Government is setting a long-term growth target:

- **to match the GDP growth rate of the small independent EU countries by 2017.**

Our immediate target. As Scotland's historical performance shows, achievement of this target will require considerable improvement in Scotland's economic performance. We have therefore set an immediate target:

- **to raise Scotland's GDP growth rate to the UK level by 2011.**

Diagnosing Scotland's poor economic growth performance. In the long-term, there are three means by which the sustainable rate of economic growth in Scotland can be accelerated and by which per capita incomes will be raised:

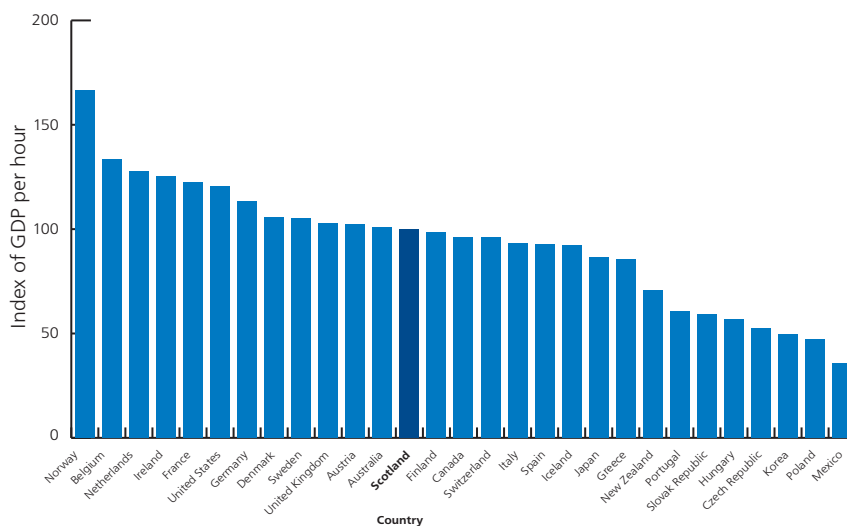
- increasing the level of labour **productivity and competitiveness**;
- increasing the **participation** rate and so the number of people actually working; and
- increasing Scotland's **population** and the supply of potential workers.

These effects can be mutually reinforcing. By making Scotland a more prosperous place to live and work, for example, we are more likely to attract highly skilled people to contribute to, and share in, that prosperity; higher wages make work a more attractive proposition increasing participation in the workforce; and higher economic growth can increase the attractiveness of Scotland in a world where mobile businesses look to invest in successful places with a critical mass of knowledge, skills and connectivity.

B.2 PRODUCTIVITY

If Scotland is to become a more attractive destination for investment, offer higher wages and increase exports, it will need to improve its productivity and international competitiveness. Labour productivity (as measured by GDP per hour worked) provides an effective, internationally recognised and comparable measure of competitiveness. Scotland outperforms a number of our competitors, including Canada, Switzerland and Japan. However, the UK's labour productivity is 2.8 per cent higher than in Scotland and productivity is significantly higher in, for example, the US (20.5 per cent higher), France (22.2 per cent) and, among the Arc of Prosperity, in Ireland (25.5 per cent) and Norway (66.6 per cent).

Figure B3: GDP per hour worked (Index: Scotland =100) 2005



Source: Organisation for Economic Co-operation and Development (OECD) (2007), Office for National Statistics (2007)

Low labour productivity translates into low wages and poor living standards: profitable businesses will pay workers no more than they produce. Consistent with poor productivity performance, average gross weekly earnings in Scotland are 3.3 per cent lower than the UK average, although this is mainly due to the relatively high levels of earnings in London and the South East².

² Source: Annual Survey of Hours and Earnings 2007, ONS.

Our productivity target. Increased competitiveness will be at the heart of a faster growing Scotland. At present, we sit in the lower half of the second quartile of the OECD economies in terms of productivity as measured by GDP per hour worked.

The Government has, therefore, set a long-term target:

- **to rank in the top quartile for productivity amongst our key trading partners in the OECD by 2017.**

Diagnosing Scotland's poor productivity performance. There is compelling international evidence that higher levels of investment, skills, innovation and enterprise can generate improvements in productivity.

Investment. Whilst evidence is limited as to the effects of investment in physical capital on Scotland's labour productivity performance, research³ exploring why UK productivity lags behind that of the United States, France and Germany, identified that different levels of investment in physical capital stock accounted for the largest proportion of the productivity gap. It accounted for 51 per cent of the gap with the United States, 80 per cent of the gap with France and 81 per cent of the gap with Germany. How resources are used also has a considerable impact on productivity performance – this is often due to differences in management practices, production processes, and the role of complementary investments and innovations. In particular, evidence suggests that part of the productivity gap between the UK and the US is due to differences in how information and communication technology (ICT) investment has been utilised, as opposed to differences in the actual levels of investment in ICT⁴. There are also emerging opportunities for productivity improvements to be achieved through better resource efficiency, including greater energy efficiency and improved waste management.

Skill levels. Scotland's people are our greatest asset and this is borne out by Scotland's relatively strong performance in international benchmarking exercises on skills and qualification levels. Many indicators show that Scotland's labour quality is within the top tier of comparator countries⁵. However, we can do even better. In particular, we must address the considerable proportion of the Scottish population aged 25-64 which has not reached at least an upper secondary education (31 per cent). On this measure, Scotland outperforms a number of the Arc of Prosperity countries, although lags behind Norway, Denmark and Finland⁶. Scotland also faces the challenge of providing more choices and more chances for young people. In 2003, Scotland had the third highest proportion of young people outside of education, employment and training among OECD economies⁷.

3 O'Mahoney, M., and de Boer, W., (2002), *Britain's relative productivity performance: Has anything changed?* National Institute Economic Review.

4 Basu, Fernlad, Oulton, and Srinivasan (2003), *The Case of the Missing Productivity Growth: Or, Does information technology explain why productivity accelerated in the United States but not the United Kingdom?*, Federal Reserve Bank of Chicago.

5 Futureskills Scotland, (2005), *International Comparisons of Skills and Labour Market Performance*.

6 Source: OECD and Labour Force Survey 2004.

7 Scottish Executive (2006) *More Choices, More Chances*.

Our strong performance on skills and qualifications does not feed through effectively enough to productivity. It is essential that we empower our current and future workforce to use their skills creatively and innovatively in our economy. This can be achieved by focusing on a range of higher level core skills such as enterprise and controlled risk taking, collaborative skills, conceptual and creative thinking skills and research skills. This can make a decisive difference in driving productivity growth and transforming how our businesses operate. This is a key challenge to our schools, colleges, universities and employers. Recent research,⁸ for example, has highlighted that despite rising skill levels over the past twenty years, there has not been an accompanying rise in the level of influence which employees report they can exercise over their jobs. This is in contrast to the reported findings of similar surveys in Germany, Sweden⁹ and Finland¹⁰.

Research & Development and Innovation. Scotland's total gross expenditure on Research and Development (R&D) as a proportion of GDP is slightly lower than the UK rate and considerably below levels prevailing in Finland and Denmark¹¹. The rate of patents filed¹² in Scotland is also low relative to other parts of the UK – in 2004, 2.1 patents were filed per 10,000 population in Scotland, compared to the UK average of 3.1. While the rate of expenditure on R&D in Higher Education is in the top quartile of OECD economies and government R&D spend is above the average EU 25 and OECD rates, business expenditure on R&D in Scotland is less than half the UK rate. Scotland's business R&D statistics, however, do not take into account all of the innovative activity undertaken in the Financial Services sector. Moreover, R&D statistics provide only a partial view of Scotland's performance on innovation as the focus is on 'technical R&D' rather than a wider concept of innovative activity that would include process and service design innovation. Scotland ranks in the second quartile of EU members in the Community Innovation Survey¹³, which reported that the majority of Scottish firms (56 per cent) were engaged in some form of innovation activity during 2002-2004, broadly in line with the UK average.

Enterprise. Scotland's enterprise performance can also be improved. In 2005, the rate of VAT registrations in Scotland was well below the UK average. The Global Entrepreneurship Monitor's (GEM) Total Early-Stage Entrepreneurial Activity (TEA) Index¹⁴ allows for international comparisons of entrepreneurial activity. In 2006, TEA in Scotland was 4.2 per cent of the working age population. This is below the rates found in the Arc of Prosperity countries. Norway and Iceland had particularly high rates at 9.1 per cent and 11.3 per cent, respectively.

8 Felstead, A., Gallie, D., Green, F. and Zhou, Y. (2007) *Skills at work 1986-2006 Oxford/Cardiff*: SKOPE/ESRC.

9 Gallie, D. (2007) 'Task discretion and job quality', in Gallie, D (ed.) *Employment Regimes and the Quality of Work*, Oxford: Oxford University Press. Results quoted in Felstead, Gallie, Green and Zhou.

10 Lehto, A –M, and Sutela, H. (1999) *Efficient, More Efficient, Exhausted*, Helsinki: Statistics Finland. Results quoted in Felstead, Gallie, Green and Zhou.

11 Source: OECD Main Science & Technology Indicators and ONS.

12 Source: UK Patent Office 2005; Note: Scottish based companies may choose to file patents outside of the UK. They would not be included in these figures.

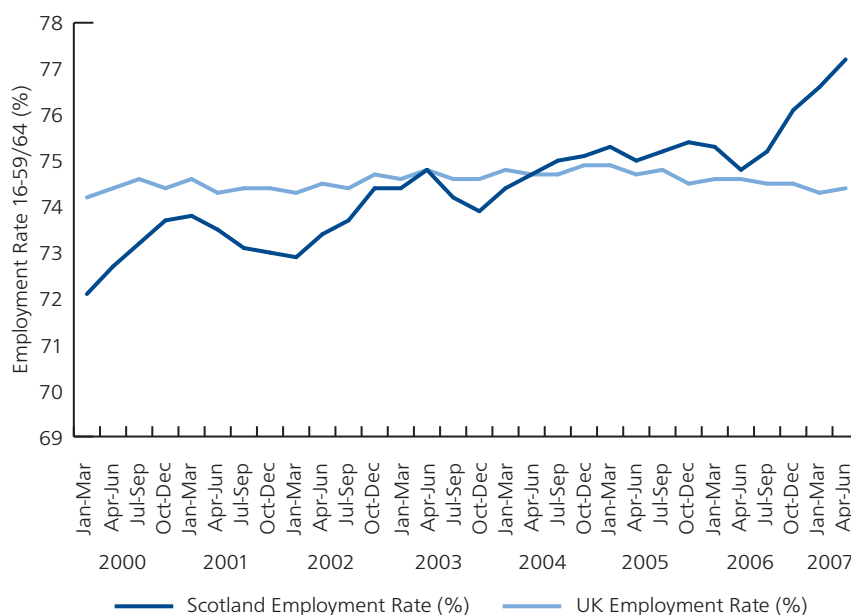
13 Source: Community Innovation Survey 2002-2004, ONS, Eurostat. The CIS measures companies that have undertaken product or process innovation during the period of the survey (2002-2004).

14 The TEA Index identifies the proportion of working age adults who are either setting up or have been running a business for less than 42 months – therefore providing a broad measure of early stage entrepreneurial activity.

B.3 PARTICIPATION

Scotland's labour market is currently strong compared to its historic position, with an employment rate of 77.2 per cent and an International Labour Organisation (ILO) unemployment rate of 4.5 per cent¹⁵. In relation to both these indicators, Scotland outperforms the UK average. However, Scotland continues to lag behind the strong regional economies in the South of England. For example, the South East has an employment rate of 78.6 per cent and an unemployment rate of 4.2 per cent.

Figure B4: Scotland's employment rate versus UK employment rate, 2000-2007



Source: Office for National Statistics

Scotland's employment rate is around 8 percentage points higher than the EU27 average and recent improvements suggest a healthy trend¹⁶. Scotland's participation record is mid-range among the Arc of Prosperity countries. While there are statistical issues around comparability, Denmark's employment rate is currently 6 percentage points higher than Scotland's, and Norway's more than 4 percentage points higher.¹⁷

Over 600,000 people in Scotland are classified as economically inactive, with 285,000 people of working age – 9 per cent of the working age population – on Incapacity Benefit in 2006¹⁸. Almost 30 per cent of those who are economically inactive report that they want to work¹⁹. It is vital that there are more employment opportunities in Scotland and there are more opportunities in particular for our young people to get good jobs and rewarding careers.

Our participation target:

- **to maintain our position on labour market participation as the top performing country in the UK and close the gap with the top 5 OECD economies by 2017.**

¹⁵ Source: ONS, March-May 2007, employment rate is the proportion of working age (16-59/64) population in employment, unemployment rate is the proportion of the 16+ population unemployed.

¹⁶ Source: Labour Force Survey, Jan-March 2007.

¹⁷ Source: Eurostat and Labour Force Survey, Spring 2006.

¹⁸ Source: Department for Work and Pensions and GRO Scotland, 2006.

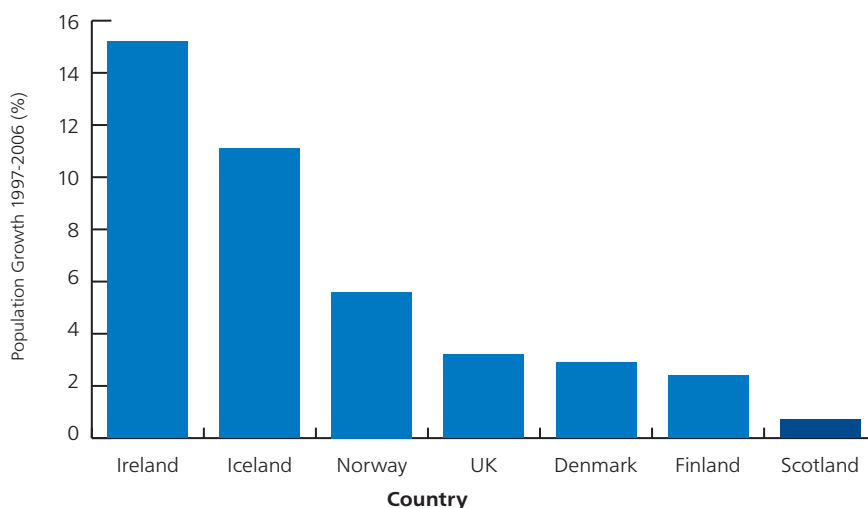
¹⁹ Source: Annual Population Survey, 2006.

B.4 POPULATION

Population growth is not an end in itself. It is a key contributor to, and consequence of, a more vibrant society and a more dynamic economy. From the 1950s to the mid 1990s, Scotland's demographic trends reflected its economic performance, resulting in substantial net out-migration. Scotland's population stands today at just over 5 million people, and population growth has lagged significantly behind the UK over the last ten years. Indeed, despite benefiting in the last few years from the substantial influx of people from Central and Eastern Europe, Scotland's population grew by less than 1 per cent over this period²⁰.

This contrasts with the Arc of Prosperity countries, where, for example, between 1997 and 2006, Ireland and Iceland witnessed population growth of roughly 15 per cent and 11 per cent, respectively.

Figure B5: Population growth, 1997-2006, Scotland, the Arc of Prosperity and UK



Source: Eurostat, General Register Office for Scotland

Looking ahead, consistent with most European countries, Scotland is projected to experience a significant demographic shift, leading to an increase in average age, with only the over 60 age group projected to grow over the period to 2031. This highlights the importance of increasing healthy life expectancy in Scotland. Without increasing labour participation among older people or attracting more people of working age to Scotland, adverse economic impacts are likely. Among the Arc of Prosperity countries, Ireland stands out with population growth of over 20 per cent projected for the period to 2031²¹.

Our population target. Previous approaches have acknowledged that Scotland's demographic challenge must be addressed. It is clear that Scotland requires a more ambitious target for population growth. Therefore, our target for Scotland is:

- **to match average European (EU-15) population growth over the period from 2007 to 2017, supported by increased healthy life expectancy in Scotland over this period.**

²⁰ Source: GRO Scotland, 2006.

²¹ Projected Population of Scotland (2006-based), (2007) GRO Scotland.

B.5 SOLIDARITY, COHESION AND SUSTAINABILITY

Solidarity: improving social equity. The Arc of Prosperity countries are both wealthier per person and have lower levels of income inequality than the UK. The recent experience of our neighbours shows that Scotland will do better when more people in Scotland do better.

In 2005-06, around 14 per cent of income in Scotland was held by the bottom three income deciles, and around 52 per cent was held by the top three income deciles. Over the period 2000-01 to 2005-06, the share of income accounted for by the bottom three deciles has remained relatively unchanged. As a group, the bottom three income deciles capture the people in Scotland who are living in relative poverty.²² There is, therefore, a continuing problem of the persisting level of inequality.

Our solidarity target: Previous approaches have adopted a wide range of targets aimed at increasing opportunities for the vulnerable and disadvantaged. However, there has not been an explicit target to reduce disparities between richest and poorest. In order for Scotland to be fairer, increases in wealth must reach those on the lowest incomes.

Therefore, our target will be:

- **to increase overall income and the proportion of income earned by the three lowest income deciles as a group by 2017.**

Cohesion: improving regional equity. As well as high levels of inequality in Scotland between income deciles, there are serious inequalities between the performance of our regions. The proportion of people claiming unemployment benefit ranges from 0.8 per cent in Aberdeenshire to 5.3 per cent in Glasgow²³.

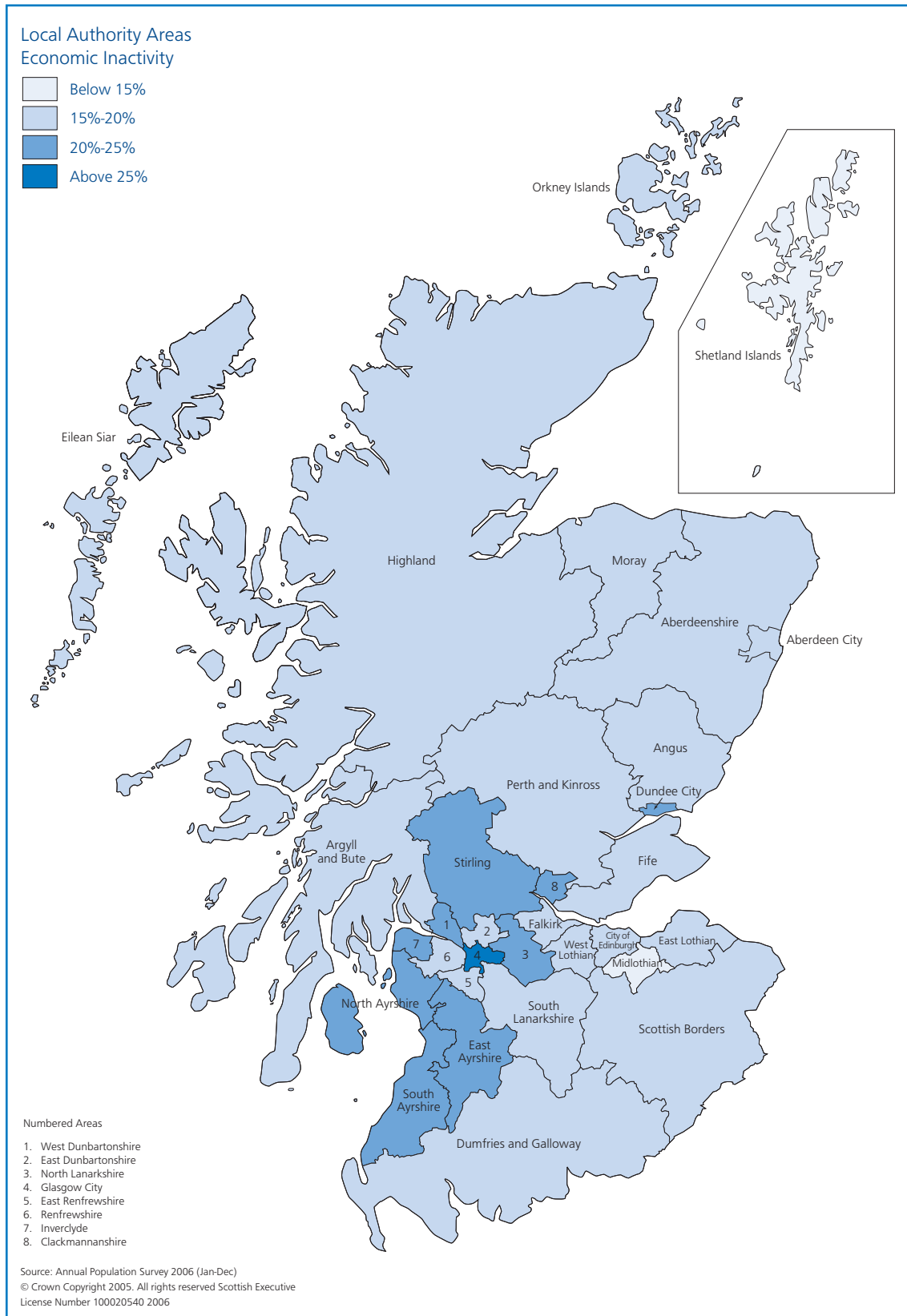
Economic inactivity rates (the proportion of the working-age population who are neither in employment nor looking for employment) vary even more dramatically across Scotland. Persistent pockets of multiple deprivation remain. In Scotland's most deprived communities (accounting for 15 per cent of the population), 35 per cent of the working-age population were economically inactive in 2006. At the higher spatial level of local authorities, economic inactivity rates vary from less than 15 per cent in Midlothian to 20 per cent or above in much of west central, central Scotland and Dundee, peaking at nearly 30 per cent in Glasgow²⁴.

²² Source: Household Below Average Income dataset 2000/01 to 2005/06.

²³ Source: ONS Claimant Count, September 2007.

²⁴ Source: Department for Work and Pensions and GRO Scotland, 2006.

Figure B6: Economic Inactivity Rate by local authority area, Scotland, 2006



Source: Scottish Government

As at the national level, the number of people on Incapacity Benefit is a key factor in determining economic inactivity in local authority areas. Again, the degree of regional inequality is reflected in the gap between the three local authority areas with the lowest and highest percentage of their working age population on Incapacity Benefit:

- Lowest: Orkney (5.1 per cent), Aberdeenshire (5.2 per cent) and Shetland (5.2 per cent);
- Highest: North Lanarkshire (12.7 per cent), Inverclyde (12.8 per cent) and Glasgow (14.4 per cent).

Earnings also vary significantly across Scotland's local authority areas, with more remote rural areas suffering lower wages than average. The lowest waged local authority area in 2006, the Scottish Borders, registered median gross weekly earnings 30 per cent below those in East Dunbartonshire, the highest waged local authority area²⁵.

Our cohesion target:

- ***to narrow the gap in participation between Scotland's best and worst performing regions by 2017.***

Sustainability: improving intergenerational equity. The challenge is to improve Scotland's environment today and for future generations, while significantly reducing Scotland's negative impact on the global environment. The global imperative to address climate change demands a focus on harmful emissions. Scotland outperforms many of the Arc of Prosperity countries in both the level of net greenhouse gas emissions and in rate of reduction since 1990. While Scotland's greenhouse gas emissions fell faster between 1990 and 2005 than in most other EU15 countries, in 2005, Scotland still emitted more greenhouse gases per person than the EU15 average. These are, moreover, only the emissions we produce, not all the emissions resulting from the goods we consume (many of which are produced elsewhere). One way of measuring this is our ecological footprint, an estimate of the land and sea area needed to provide all the energy, water, transport, food and materials that we consume. The average Scot has an ecological footprint of 5.4 global hectares, significantly higher than the global average. If everyone on Earth lived the same way, it is estimated that three planets would be needed to sustain us²⁶.

Our sustainability targets:

The Scottish Government intends to consult on a proposed Scottish Climate Change Bill²⁷ which will set the ambitious target:

- ***to reduce emissions by 80 per cent by 2050.***

In addition to this statutory target, to ensure the Government's short-term growth target is met sustainably, we will set an accompanying target:

- ***to reduce emissions over the period to 2011.***

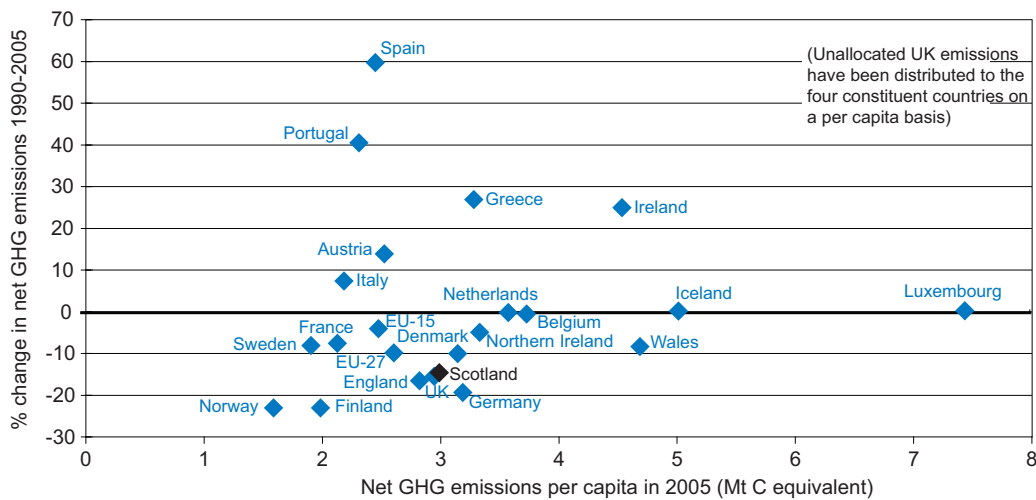
²⁵ Source: Annual Survey of Hours and Earnings, 2006.

²⁶ Stockholm Environment Institute (2007) *Towards a Low Footprint Scotland*, Scotland's Global Footprint Project.

²⁷ Note: The exact basis of both targets, including whether they will be based on a basket of greenhouse gases or CO₂ emissions alone, will be decided after the public consultation on the proposals for the Bill.

We are determined to improve and meet our ambitious sustainability targets. Meeting these targets while increasing economic growth will be a major challenge. However, there are growth opportunities from improving the environment and moving towards a low carbon economy. For example, Scotland has a comparative advantage in alternative energy technologies, and, with 25 per cent of Europe’s wind potential and vast renewable reserves, Scotland can be an international leader in this critical sector.

Figure B7: Greenhouse Gas Emissions per capita (2005) and change (1990-2005)



Sources: National Atmospheric Admissions Inventory (UK); European Environment Agency; UNFCCC National Inventory Submissions; Eurostat.

Sustainable Economic Growth in New Zealand

Countries around the world are wrestling with how to break the link between economic growth and environmental impact. Securing sustainable economic growth needs new thinking and new approaches.

New Zealand, like Scotland, is a nation that trades on the high quality of its environment, particularly in key sectors such as food, tourism and the creative industries. It recognises that its international competitiveness will be detrimentally affected by increasing global sensitivity to environmental costs, unless it embeds a sustainable approach to the economy.

The Government aims to make New Zealand the first truly sustainable nation. A programme is in place to secure a carbon neutral public sector, with six major departments and agencies committed to being carbon neutral by 2012. Their goal for electricity generation is that 90 per cent of generation will come from renewables by 2025. For transport, the target is to cut emissions per head by 50 per cent by 2040 and to be one of the first countries to widely introduce electric vehicles.

C

C. STRATEGIC PRIORITIES

In order to deliver our Purpose of accelerating sustainable economic growth and fulfil the targets set out in Section B, we must give priority to the specific channels through which growth is most effectively driven.

The Economic Strategy therefore identifies five Strategic Priorities that are internationally recognised to be critical to economic growth:

- Learning, Skills and Well-being;
- Supportive Business Environment;
- Infrastructure Development and Place;
- Effective Government; and
- Equity.

Each of these priorities is critical to the delivery of our Purpose and will be reflected in the approach to each of the Strategic Objectives to deliver a Wealthier & Fairer, Smarter, Healthier, Safer & Stronger and Greener Scotland.

Our policies and resources must be aligned towards the Strategic Objectives with a clear focus on achieving the Purpose, with the five Strategic Priorities at the centre of that thinking. We must also follow a joined-up approach across all the Strategic Objectives in order to maximise their impact and effectiveness, since each priority contributes to several – if not each – of the Strategic Objectives. It is only by working together – across government and across the public, private and third sectors – that we can achieve our Purpose.

The new Government sees the whole of the public sector having a critical role to play in contributing to the five priorities and achieving the key targets in view of their centrality in delivering the Purpose and Strategic Objectives. The co-ordination and stimulation of those contributions from all arms of the public sector will be essential to the success of the Government Economic Strategy.

C.1 LEARNING, SKILLS AND WELL-BEING

HOW WILL IT CONTRIBUTE TO DELIVERING THE GOVERNMENT'S PURPOSE?

Our people are our greatest economic asset. A skilled and educated workforce is essential to building our comparative advantage and to the delivery of sustainable economic growth²⁸. Investment by all individuals and by the state in early years, school, further and higher education has a proven impact on the employability and productivity of individuals and, in turn, business growth. Learning and skill development in work is also key to developing a more adaptable economy.

There is increasing evidence around the return on investment from early years intervention²⁹. On top of benefits to the individual, Scotland's Scandinavian neighbours offer lessons about the potential positive impact of high quality, affordable and widely available early years provision on labour market participation and population³⁰.

28 HM Treasury (2006) *Productivity in the UK: Progress and New Evidence*.

29 Heckman, J. and Masterov, D. (2005) *Skills Policies for Scotland*, Allander Series.

30 OECD, (2006), *Starting Strong II: Early Childhood Education and Care*.

We perform well, relative to other countries, on the skills and qualifications of our workforce³¹. However, this has not translated into enhanced economic performance. A key message from *Skills for Scotland*³² is that high levels of skills and qualifications must be matched by greater utilisation of skills to boost productivity and growth. It is also clear that a more fulfilled and purposeful workforce will also be a more productive workforce. Action to improve health inequalities, including mental health,³³ will reduce absenteeism and increase economic participation, particularly where a joined up approach is in place to help people into work.

Creating the conditions for growth will enhance Scotland's attractiveness and boost immigration³⁴. Bringing talented people to Scotland, and providing the opportunities for talented people to stay will increase the pool of skills readily available to employers and make Scotland a more attractive location for investors³⁵.

This priority delivers through all the Strategic Objectives.

The importance of learning and skills as a fundamental driver of growth is firmly established as a critical element in the creation of a knowledge-based economy that is responsive and adaptable to rapid global change and the establishment of a **wealthier** Scotland. A **smarter** Scotland needs young people who are ready to contribute effectively in the community and the world of work and go on to develop their skills through lifelong learning. Further, it needs improved skill levels across the entire population and a better match of supply and demand.

In addition, this priority is an integral part of securing the objective of a **stronger and safer** Scotland and also a **fairer** Scotland, in which individuals are empowered through improved and different approaches to learning and experience to find worthwhile employment and to contribute positively. In so doing, the costs of weaker and less safe communities will be reduced as the social and economic costs of fragile communities and chaotic family life are reduced. In a **safer** Scotland, education and development services for troubled and troublesome young people will help them become productive members of society, participating in the mainstream economy.

Equally, there is little doubt that learning, skills and well-being play a key role in securing the objective of a **healthier** Scotland, both in building up the understanding and knowledge necessary for individuals and communities to develop healthier lifestyles and a better quality of life, and in benefiting from advances in medical care and science. Equally, health and well-being are critical to people's ability to engage effectively in education and training and to increase their participation in the labour market. A **greener** Scotland provides the environments and opportunities for people to increase their mental and physical fitness.

Box C1 sets out key strategic approaches and policies which we will pursue in addressing this priority:

31 Futureskills Scotland (2005) *International Comparisons of Skills and Labour Market Performance*.

32 Scottish Government (2007), *Skills for Scotland: A Lifelong Skills Strategy*.

33 Scottish Association of Mental Health (2006) *What's It Worth? The Social and Economic Costs of Mental Health Problems in Scotland*.

34 Weale, M. and Riley, R. (2006), *Immigration and its Effects*, *National Institute Economic Review*.

35 Futureskills Scotland (2006), *Skills in a Global Economy*.

BOX C1: LEARNING, SKILLS AND WELL-BEING – KEY STRATEGIC APPROACHES AND POLICIES

A focus on giving every child a strong start in life. The foundations for future success are laid in the early years of a child's life and through their compulsory schooling. The positive outcomes that we seek for our people in later life will be built on these foundations.

A focus on school education enabling all our young people to succeed and gain the skills they will require as individuals and to contribute to the wider economy. This includes actions to:

- help parents and carers provide a nurturing and stimulating home environment, including help for parents with any literacy and numeracy issues of their own so that they can in turn help their children;
- join up the education experience for children, managing more effectively the transitions from pre-school to school and onto further and higher education or work;
- ensure that we equip young people with good literacy and numeracy skills – giving them the confidence and ability to continue to learn and develop other skills whether they choose to enter work or continue with their formal education;
- take forward the *Curriculum for Excellence*, enabling all children and young people to develop as successful learners, confident individuals, responsible citizens and effective contributors, helping young people develop and appreciate the importance of the essential skills and capacities so critical to work and later life;
- improve the quality of teaching through consolidating the major improvements made to initial teacher education and the probation year, promoting the chartered teaching scheme, investing in continuous professional development, and encouraging the development of leadership skills at every level; and
- stimulate the future generation of entrepreneurs in Scotland through building the ambition, creativity and enterprise awareness of our school children.

Ensure the supply of education and skills is responsive to, and aligned with, actions to boost demand. This includes actions taken forward as part of our skills strategy, *Skills for Scotland*, to:

- focus on working with employers and employees to increase the effective utilisation and demand for skills;
- ensure that our national training programmes meet the needs of individuals and employers;
- ensure flexible provision which is responsive to the needs of individuals, employers and the wider economy;
- ensure a funding system for Further and Higher Education through the Scottish Funding Council that is responsive to the needs of individuals, employers and the wider economy; and
- bring together the public agencies involved in delivering information, advice and guidance services and skills provision in the new skills body to build improvements around the needs of individuals.

Remove any barriers that stand in the way of all individuals participating in learning, skills development and realising their potential in the workforce. This will include actions to:

- make a clear commitment to young people about the routes to education, employment and training which are on offer and the support they can expect;
- facilitate local design and delivery of learning for those furthest away from the labour market;
- reduce financial barriers to people across Scotland accessing higher education, legislating to abolish the Graduate Endowment fee and progressing wider plans to tackle student and graduate debt; and
- promote the provision of high quality, accessible, affordable, flexible childcare, in order to enable parents to access training and employment opportunities.

An approach to health and well-being to ensure everyone enjoys the level of physical and mental health that gives all Scots the opportunity to maximise their potential. Working in harmony with this Government Economic Strategy, our Action Plan for Health and Well-being will:

- help people back to work, with more effective joint working between employment and health services;
- increase the focus on addressing health inequalities, with greater targeting of resources on services and environments that support disadvantaged people and communities; and
- improve the life chances of those at risk by investing in early intervention and prevention to give children the best possible start, building on the current school meals pilot.

Create the conditions for talented people to live, work and remain in Scotland. This will include actions to:

- ensure a joined-up approach to promoting Scotland, bringing together economic opportunities with key quality of life issues such as housing, transport and childcare and the importance of culture and sport, to increase our ability to retain and attract skilled workers;
- pursue population growth that matches the European average; and
- ensure Scottish circumstances are actively considered in UK decision making on migration policy, including determination of shortage occupations. In the longer term, we will seek greater responsibility over migration policy, allowing the introduction of a Scottish green card.

C.2 SUPPORTIVE BUSINESS ENVIRONMENT

HOW WILL IT CONTRIBUTE TO DELIVERING THE GOVERNMENT'S PURPOSE?

Scotland's businesses are the primary driver of sustainable economic growth. Our national competitiveness depends critically on the competitiveness of our individual businesses. Scotland benefits from being home to a range of highly successful businesses across a number of economic sectors. As well as providing employment and earnings, they form the key element of Scotland's competitive business environment – as demanding customers, effective suppliers and competitive rivals. It is this competitive business environment, for many at an international level, that can boost productivity by stimulating investment, innovation and the greater development and utilization of skills. Increasing the size, competitive strength, productivity and ambition of Scotland's business base is a major challenge – and opportunity – which will underpin the demand for high quality skills, infrastructure and services. The challenge for government is to create the best possible environment for competitive businesses, entrepreneurship and innovation to flourish.

This priority will be delivered through all Strategic Objectives, particularly Wealthier and Fairer, Smarter and Greener.

As a key priority for growth, a supportive business environment, through responsive and focused support and a competitive tax regime, will be central to a **wealthier** and **fairer** Scotland. Scotland should be seen as a place to do business, both at home and abroad, with key companies and sectors seen as market leaders. Through a **smarter** Scotland, we can fully utilise our world class universities and promote knowledge transfer and innovation. This is a critical source of future comparative advantage for Scotland. Effective and modern legal and criminal justice systems, underpinning a **safer** and **stronger** Scotland, provide an essential sound basis for conducting business and securing growth.

Many of Scotland's sectoral opportunities and its wider business competitiveness rest on the delivery of a **greener** Scotland. Scotland has significant potential in renewable energy and can build on current good practice to take an international lead in building sustainable food and tourism industries. A **greener** Scotland will also open up opportunities for businesses to extract value from what would otherwise be thrown away.

BUSINESS SUPPORT, INNOVATION AND R&D

Enhancing the quality and focus of support for business and innovation will have a direct impact on business competitiveness and growth. Responsive, accessible business support services will allow all areas of Scotland to contribute to and benefit from a shared approach to economic growth. This support needs to stimulate demand for investment, innovation and skills in pursuit of higher productivity and increased competitiveness.

Innovation – developing new processes, products and markets, often through incremental change – is vital across all sectors. Increasing the level of research & development (R&D) activity and knowledge transfer between the research community and industry are key drivers of innovative activity, particularly in science and technology related sectors, helping to boost productivity and sustainable growth³⁶.

³⁶ Baumol, W.J. (2005) *Four Sources of Innovation and the Stimulation of Growth in the Scottish Economy*, Allander Series

The enterprise networks will now be focused on supporting investment and innovation by companies and sectors which have growth potential and are of national or regional significance. They will therefore have a key role to play in delivering this objective, along with local authorities which will assume responsibility for supporting local businesses serving local markets.

KEY SECTORS

Securing faster, more sustainable growth will require increased performance across the economy. Some sectors and firms offer the opportunity to strengthen Scotland's areas of international comparative advantage, through achieving critical mass and boosting productivity. Sectors have the potential to make a significant contribution to increasing Scotland's growth where:

- Scotland has distinctive capabilities and businesses with the potential to be internationally successful in areas of global demand;
- they currently account for a significant part of the Scottish economy and reflect the contribution of all areas of Scotland; and
- government intervention can make a significant difference to future success by facilitating or accelerating development in areas where the market alone cannot deliver the best outcome.

This will allow us to build on and expand established areas of comparative advantage such as financial services and energy. Scotland's oil and gas industry demonstrates how we can continue to prosper, with a cluster of supply-chain companies developed at peak periods of production now evolving into a critical mass of high-value, internationally-orientated activities. Our approach will vary between industries according to their strength on each of the criteria and we will continue to support enterprises from across Scotland in other sectors where our actions can overcome well-defined weaknesses in markets, and where businesses can make a significant impact on the Scottish economy. The strategy should not be to pick individual companies as winners – the market does that. Rather, the job of government should be to facilitate and accelerate the growth sectors and to provide the necessary environment to make sure that it happens in Scotland³⁷.

Again, support for Scotland's priority industries will be an important focus of activity for both Scottish Enterprise and Highlands & Islands Enterprise. They will also work closely with VisitScotland to support the tourism sector.

TAXATION

Evidence from other countries demonstrates the importance of taxation on the business environment³⁸. The experience of Ireland and Finland demonstrates that in the right circumstances lower business taxation can deliver economic growth alongside increased tax revenue³⁹. We currently have limited ability to affect national taxation, with much greater scope to adjust local taxation to support our objectives.

Box C2 sets out the key strategic approaches and policies which we will pursue in addressing this priority.

37 Turner, A. (2005), *Reflections on the Allander Series*, Allander Series

38 Bradley, J. (2005), *Committing to Growth*, Allander Series

39 Walsh, B. (2006), *Taxation and Foreign Direct Investment in Ireland*

BOX C2: SUPPORTIVE BUSINESS ENVIRONMENT – KEY STRATEGIC APPROACHES AND POLICIES

Business Support

Responsive and focused enterprise support, working in partnership with others in the public, private and third sectors to increase the number of highly successful, competitive businesses, and their access to skills, finance and business infrastructure. This will include actions to:

- ensure responsive, accessible and joined-up business development services, through the de-cluttering and refocusing of public sector business support in Scotland, allowing the enterprise agencies to focus more strategically on maximising their impact on Scotland’s sustainable growth, while local government focuses on local business support and regeneration;
- address gaps in access to capital that are constraining Scottish businesses from reaching their full potential, while helping to build capacity in the investment community to remove barriers to investment;
- provide a continued supply of the skilled people and ideas that business needs from our colleges and universities; and
- work with businesses to stimulate improvement in work practices and productivity, ensuring Scotland’s skills are fully utilised.

Targeted support to business in the pursuit of opportunities outside of Scotland and the development of internationally competitive firms. This will include actions to:

- work in partnership with businesses with potential to be significant international players to identify development requirements;
- support a range of product and tradable service exports and international partnership opportunities; and
- support foreign direct investment, where it has a positive impact on the Scottish economy.

Innovation and R&D

A broader approach to business innovation in Scotland that moves beyond viewing innovation as the domain of science and technology alone and recognises the importance of working with customers, suppliers and competitors to stimulate innovation. This will include actions to:

- influence the creation of the most appropriate fiscal and taxation regime to stimulate innovation and R&D; and
- remove barriers to innovation and incentivise activity, including the promotion of best practice.

A clear focus on strengthening the link between Scotland’s research base and business innovation and addressing low levels of business R&D. This will include actions to:

- recognise, reflect and promote the key role of Scotland’s universities and colleges as world-class assets in further developing our science base, other key sectors and the wider economy;
- provide clear incentives through the Scottish Funding Council and other agencies to encourage colleges, universities and business to engage collaboratively in the exchange of knowledge and expertise to drive greater innovation in the economy;

- develop a new science strategy for Scotland, outlining how science will underpin Scotland's success as a nation through developing knowledge exchange between academia and business, increasing the flow of overseas investment into Scotland's R&D base and developing the science base;
- utilise the potential of mechanisms such as Intermediary Technology Institutes to increase the connections between Scotland's scientific strengths and global market opportunities, while ensuring the involvement of Scottish-based firms; and
- create an annual Saltire Prize, promoting, incentivising and providing funding to the leading areas of innovation in Scotland. The first award will focus on renewable energy.

Key Sectors

A particular policy focus on a number of key sectors with high-growth potential and the capacity to boost productivity, through enhanced support across the Strategic Priorities, including the regulatory and fiscal environment:

To expand Scotland's areas of international comparative advantage, we will give particular attention to building a critical mass of activity in the following key sectors, with government helping to create the right environment for their competitiveness and growth:

- Creative Industries (including digital content and technologies);
- Energy (with a particular focus on renewables);
- Financial and Business Services;
- Food and Drink (including agriculture & fisheries);
- Life Sciences (including biotechnology and translational medicine); and
- Tourism

along with the technologies that contribute to the development of these key sectors.

We will also seek to take advantage of the opportunities presented by Scotland's strengths and opportunities in public sector dominated industries, including:

- Education and Healthcare.

Taxation

A competitive tax regime which incentivises business growth and attracts mobile factors of production. This will include actions to:

- introduce a Small Business Bonus Scheme, removing many small businesses from the business rate burden, while reducing it for others;
- ensure that the business poundage rate in Scotland will not rise above the English rate during the lifetime of the Parliament; and
- make the case for Scotland to have fuller, and eventually full, responsibility for tax raising and public spending, utilising this to make Scotland the lowest taxed part of the UK, dropping corporation tax significantly below the UK level.

C.3 INFRASTRUCTURE DEVELOPMENT AND PLACE

HOW WILL IT CONTRIBUTE TO DELIVERING THE GOVERNMENT'S PURPOSE?

The strength and quality of our cities, towns and rural areas is a huge asset. Harnessing the opportunities that our geography provides, through investment in our physical and electronic infrastructure and Scotland's planning, development and funding framework, is a critical role for government. We aim to make these factors enablers – rather than inhibitors – of sustainable growth.

This strategic priority will be critical to the delivery of all Strategic Objectives, particularly Wealthier and Fairer, Safer and Stronger and Greener.

Enhancing Scotland's transport services and infrastructure are key to supporting business and employment opportunities in pursuit of a **wealthier** and **fairer** Scotland. Achieving change in travel patterns and mode is one of the greatest challenges in securing sustainable economic growth and is integral to securing a **greener** Scotland. Connectivity also plays a key role in building **safer** and **stronger** communities. Safer and stronger communities are fundamental to the attractiveness of Scotland as a place to live and work. An effective justice system contributes to reduced anti-social behaviour and fear of crime, and our efforts to tackle discrimination and intolerance help to make life safer and to increase Scotland's attractiveness.

Our new approach to planning needs to balance the aspirations for a **wealthier, fairer** and **greener** Scotland. Above all, vibrant, connected communities and businesses with good access to markets and services are key elements of a successful and dynamic economy. In a **greener** Scotland our natural, historic and built environment are a source of a great deal of Scotland's wealth. Successful development of Scotland's places and connectivity depends on the quality and accessibility of the facilities and environments that deliver a **healthier** and **smarter** Scotland. In a **healthier** Scotland, healthier environments can enable healthier lifestyles, contributing to the productivity of the labour force.

TRANSPORT

An efficient transport system is one of the key enablers for enhancing productivity and delivering faster, more sustainable growth⁴⁰. Enhancing transport infrastructure and services can open up new markets, increase access to employment and help to build a critical mass of businesses that drive up competitiveness and deliver growth⁴¹.

40 Department for Transport, (2006), *Transport: Wider Economic Benefits and Impacts on GDP*

41 Department for Transport, (2004), *The Importance of Transport in Business Location Decisions*

PLANNING AND PLACE

Achieving our Purpose in government requires a planning framework that both protects the quality of Scotland's natural and built environment as an asset for sustainable economic growth and enables the development of growth-enhancing activities across Scotland, including rural areas.

Scotland's cities are particularly important as centres of growth and prosperity. In addition to having more economic activity (see Figure C.1), cities are also generally more productive, sharing access to business services, skilled labour pools and knowledge networks⁴². For Scotland's cities to realise their full potential, they need to better reach out to, and benefit from, the workforce and other assets in urban and rural areas in and around them. This includes improving connections between Scotland's cities to offer an attractive combined proposition for mobile investment and skilled labour. Delivering connectivity that allows businesses to benefit from the increased choice and opportunities has a real impact on reducing their costs and increasing their competitiveness⁴³.

To this end, an effective housing market, including a good supply of affordable housing is key. By ensuring that the housing and planning systems are responsive to demand, we will improve affordability, particularly for first-time buyers, and increase effective labour supply in growing areas.

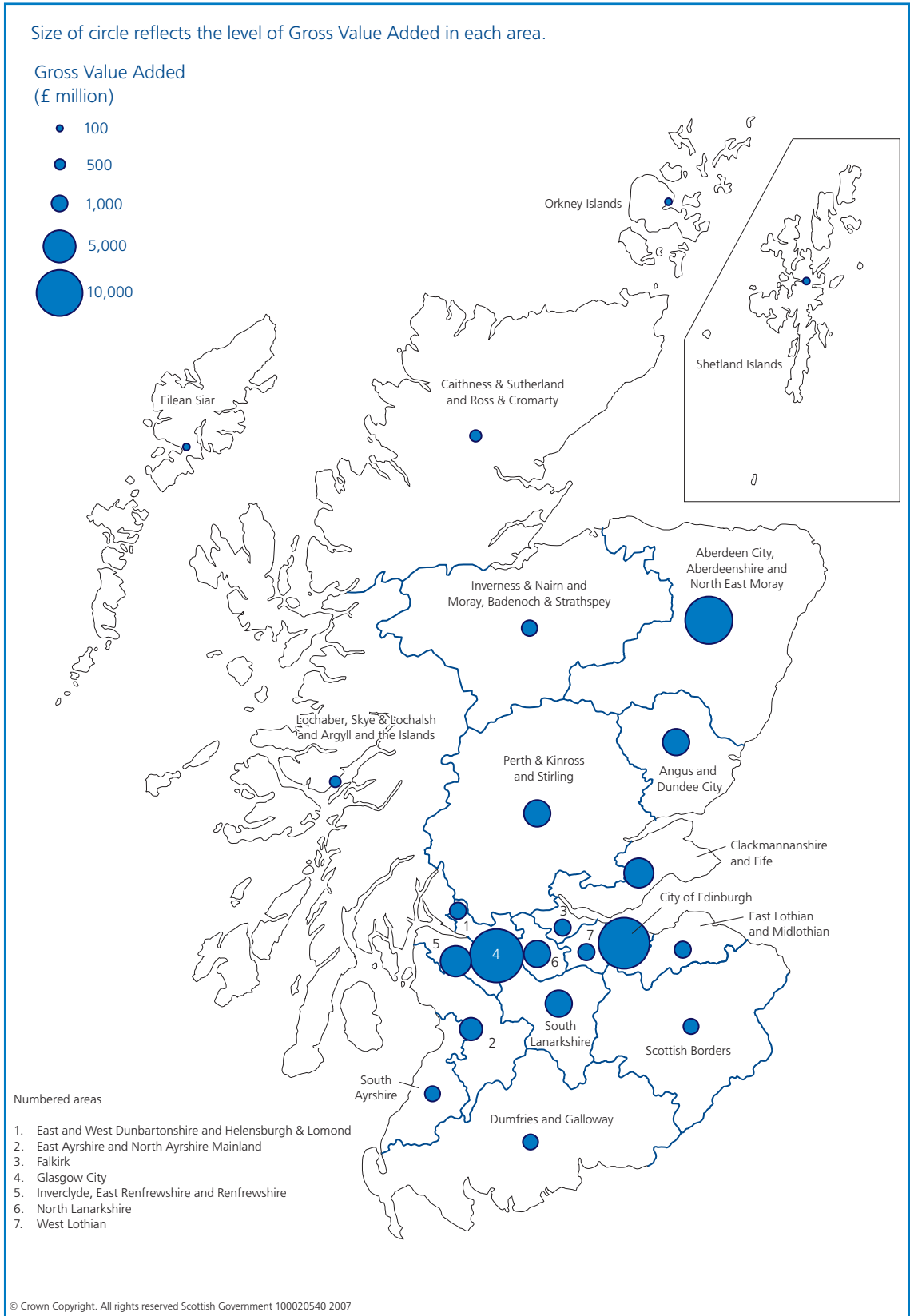
Effective regeneration, by linking opportunities with need, will increase participation and help realise the potential of our places. Scottish Enterprise will continue to deliver economic development projects of regional or national significance while local regeneration activity will be the responsibility of local authorities in lowland Scotland. Highlands and Islands Enterprise will, however, continue to have responsibility for local regeneration as it is a necessary element of its remits to strengthen communities.

Box C3 sets out key strategic approaches and policies which we will pursue in addressing this priority.

⁴² Scottish Executive, (2003), *Review of Scotland's Cities – The Analysis*

⁴³ Rice, P., and Venables, A.J., (2004), *Spatial Determinants of Productivity: Analysis for the Regions of Great Britain*, CEP Discussion Paper No 642

Figure C1: Gross Value Added by area, 2004



Source: Scottish Government, Office for National Statistics

BOX C3: INFRASTRUCTURE DEVELOPMENT AND PLACE – KEY STRATEGIC APPROACHES AND POLICIES

Transport

To focus investment on making connections across and with Scotland better, improving reliability and journey times, seeking to maximise the opportunities for employment, business, leisure and tourism. This includes actions to:

- clearly identify projects of economic significance and enhance the alignment of decisions to Strategic Objectives; and
- complete and implement the strategic review of investment in Scotland's transport infrastructure and services, geared to delivering real benefits to businesses and communities while ensuring value for money.

To provide sustainable, integrated and cost effective public transport alternatives to the private car, connecting people, places and work, across Scotland.

Planning and Place

A planning and development regime which is joined up, and combines greater certainty and speed of decision making within a framework geared towards achieving good quality sustainable places and sustainable economic growth. This will include actions to:

- publish a second National Planning Framework, focused on sustainable growth, setting out how improvements in national infrastructure will support that growth, more effectively aligning planning and development priorities across the public sector to lever greater private sector investment, including the critical importance of National Developments;
- implement a more streamlined approach to planning across urban and rural Scotland, including Strategic Development Plans to help create well-planned critical mass around and across Scotland's major city regions, and Development Plans in other areas, both of which will provide greater certainty and speed of decision-making;
- facilitate greater collaboration between Edinburgh and Glasgow and their surrounding areas to develop a city region with the scale and quality of assets (including quality of built and natural environment) that can compete with leading cities globally for mobile people, business and investment, with delivery bodies working across conventional boundaries;
- through the Housing Supply Task Force, bring key delivery agents together in order to deliver a more responsive housing system and more affordable, well designed, energy efficient housing to meet the growing demands of increasing numbers of households in both urban and rural Scotland; and
- seek to deliver better value arrangements for the financing of public infrastructure investment, through the Scottish Futures Trust.

C.4 EFFECTIVE GOVERNMENT

HOW WILL IT CONTRIBUTE TO DELIVERING THE GOVERNMENT'S PURPOSE?

The public sector itself accounts for over 20 per cent of Scotland's economic output⁴⁴. Recent research indicates that there are only two EU15 economies where government expenditure accounts for a higher percentage of GDP than in Scotland⁴⁵. The public sector is Scotland's largest consumer and dominates two of Scotland's largest industries – education and healthcare. The efficiency and effectiveness of the public sector, therefore, has a major direct impact on the performance of the Scottish economy. The success of this Strategy depends on effective implementation by a customer-focused and responsive public sector across all five Strategic Objectives. Each of the Strategic Objectives has a significant contribution to make to delivering more effective government.

A key part of delivering a **wealthier** Scotland is to ensure the Government supports, while not displacing, business. We can do this through more effective use of public sector procurement and through creating a regulatory climate that balances the costs of regulation with the need to ensure a **safer, fairer, healthier** and **greener** Scotland⁴⁶.

Creation of a **healthier** and **smarter** Scotland largely depends on direct public sector provision, emphasising the importance of more effective organisation and delivery in the NHS and across education. Elsewhere, there remain significant opportunities for efficiencies through organisational de-cluttering, including, for example: a single environment and rural service for businesses in pursuit of a **greener** and **wealthier** Scotland; and reform of performance management in criminal justice and policing in pursuit of a **safer** Scotland.

As a small country, Scotland's public sector can utilise more effectively its potential advantages of speed in decision-making, nimbleness and co-ordination. In short, become a more enterprising Government. We have moved to streamline our activities and focus efforts on achievement of the five Strategic Objectives. Learning from the experience of Virginia – considered among the best managed states in the US – we are developing new management and monitoring arrangements to improve accountability, create incentives and drive progress, in parallel with simplifying the public-sector delivery landscape and joining up activities.

Virginia's Performance and Benchmarking System

The 'Virginia Model' ensures the strategic goals of government drive prioritisation and delivery. Seven long-term strategic goals, and related indicators, which were agreed in an intensive process involving stakeholders, are at the core of strategic planning and communications tool designed to drive significant change in leadership behaviours and service delivery culture.

The framework has been used to link the agencies contributing to the state's performance into delivery of the strategic goals. Relationships previously focused on funding and management processes are now driven by results and outcomes.

Box C4 sets out key strategic approaches and policies which we will pursue in addressing this priority.

⁴⁴ Source: Scottish Government and ONS (2004).

⁴⁵ Scottish Parliament (2006), *Economic Impact of the Scottish Budget*.

⁴⁶ OECD, (2004), *Understanding Economic Growth*.

BOX C4: EFFECTIVE GOVERNMENT – KEY STRATEGIC APPROACHES AND POLICIES

More effective government with a clear focus on achieving higher levels of sustainable economic growth through the delivery of the Purpose and five Strategic Objectives. This will include actions to:

- build on the new more focused structure of the Scottish Government by reducing duplication, bureaucracy and overlap across the public sector in pursuit of greater efficiency, effectiveness and, importantly, speed of delivery. We will deliver annual efficiency savings which will release significant resources for key priorities to support economic growth;
- ensure that government intervention does not crowd out private sector activity or reduce incentives for growth in the private sector;
- ensure that the public sector provision of key services is responsive to the needs of business;
- utilise the expertise of the Council of Economic Advisers and the National Economic Forum to guide the Government's effective pursuit of faster, more sustainable economic growth; and
- ensure Scotland's interests are heard in London and Brussels.

Streamlining the Scottish Government's direct dealings with business, including better regulation and more efficient procurement practices. This will include actions to:

- re-invigorate the Regulatory Review Group to address the streamlining of regulation, reducing unnecessary burdens on business, while ensuring appropriate regulations impact effectively on fairness, safety and sustainability. An early step will be to create a single environment and rural service for businesses;
- use public procurement to maximum effect so that the public sector makes better use of its purchasing power to help deliver sustainable economic growth;
- accelerate take-up of e-Procurement Scotland to make selling to the public sector easier and to increase access to government contracts for businesses of all sizes; and
- involve business more effectively across the work, and in the direction, of government activities to build consensus on our economic future.

C.5 EQUITY

HOW WILL IT CONTRIBUTE TO DELIVERING THE GOVERNMENT'S PURPOSE?

Delivering sustainable growth with opportunities for all is at the heart of the Government's Purpose. Our three "golden rules" of growth – solidarity, cohesion and sustainability – reflect the intrinsic importance of social equity, regional balance and respect for the environment among Scotland's diverse people. However, as well as being a desirable outcome and characteristic of growth, addressing social, regional and inter-generational equity is also a key driver of economic growth.

This Strategic Priority will be critical to the delivery of all Strategic Objectives. Creating the conditions for growth and cohesion, together with enhancing our environment are critical to our growth and prosperity.

Delivering **safer** and **stronger** communities and equality of opportunity for all groups underpins the creation of a **wealthier** and **fairer** Scotland. Changes to local taxation will promote a **fairer** Scotland.

In a **smarter** and **healthier** Scotland, improving the life chances for children, young people and families at risk and sustaining and improving the health of people in disadvantaged communities will allow them to realise their economic potential. In a **safer and stronger** Scotland, reducing crime and re-offending will improve life chances of offenders, their families and communities, increasing their capacity to participate fully in the economy. Education and training of offenders, along with drug and alcohol treatment and mental health interventions, will enhance their employability. In a **greener** Scotland, creating economic opportunities associated with Scotland's environment will help rural households to achieve greater wealth while enhancing and protecting the environment for future generations.

In pursuit of a **fairer** Scotland, the drive towards becoming a Fair Trade Nation supports the solidarity, cohesion and sustainability targets, and extends our responsibility beyond Scotland, to play an active role in supporting trade justice across the globe.

Effective alignment of services and investment from across the Strategic Objectives – e.g. transport, healthcare, education, justice, economic development – will be crucial in delivering greater regional cohesion across urban and rural Scotland. Harnessing the pursuit of a **wealthier** Scotland in areas such as transport, planning, business resource efficiency and renewable energy is at the core of delivering a **greener** Scotland.

SOLIDARITY: SOCIAL EQUITY

The experience of Scotland's neighbours in the Arc of Prosperity demonstrates the successful combination of low levels of income inequality and high levels of economic growth. Nearly a million people in Scotland remain in relative low-income households. Increasing social equity in Scotland has the potential to reconnect large numbers of people in disadvantaged groups and communities to the mainstream economy, fulfilling their potential, increasing participation and growth and building stronger and safer communities.

COHESION: REGIONAL EQUITY

Sustainable growth and prosperity need to be shared across Scotland. At present, differences in income, participation and growth across Scotland act as a drag on our economic performance and potential. Increased participation and enhanced quality of employment across our cities, towns and rural areas will enhance our performance and deliver a more inclusive Scotland so that, no matter where people live, opportunities are open to them.

SUSTAINABILITY: INTER-GENERATIONAL EQUITY

The quality of Scotland's environment and natural heritage is a key asset and a source of comparative advantage. Protecting and enhancing Scotland's biodiversity and landscape for future generations is central to both our current and future competitiveness.

Pursuing an environmentally sustainable model of economic growth is not one which need constrain economic growth; rather, it offers opportunities for growth enhancement, particularly in Scotland. Innovating to address resource efficiency and waste reduction across the business base increases both competitiveness and sustainability. Across both private and public sector, further development of our research strengths in environmental science and technologies will contribute to a greener Scotland and increase our impact on environmental sustainability globally.

Our research base also points to sectoral opportunities to boost both growth and sustainability. Support to ensure our renewable energy sector's development as a world leader will be key to driving a more environmentally sustainable Scotland. Pressure to reduce 'food miles' opens up significant opportunities for Scotland's food production, processing and distribution industry, while Scotland is building its profile in the eco-tourism market.

Box C5 sets out key strategic approaches and policies which we will pursue in addressing this priority.

BOX C5: EQUITY – KEY STRATEGIC APPROACHES AND POLICIES

Solidarity: Social Equity

To provide the opportunities – and incentives – for all to contribute to Scotland’s sustainable economic growth. This will include actions to:

- ensure access to public services, including business support and transport, is enhanced across Scotland and that equity of provision is a central consideration in decision making;
- freeze Council Tax in preparation for replacing it with a fairer Local Income Tax, which will mean the vast majority of households will pay less;
- focus the Government’s policy across our Strategic Objectives on reducing inequality in Scotland and influence the UK Government to ensure welfare reform addresses Scotland’s social equity issues;
- legislate to abolish the Graduate Endowment fee and progress wider plans to ensure that access to higher education is based on the ability to succeed rather than the ability to pay;
- support social enterprise, as part of investment in an enterprising third sector, ensuring the provision of start-up assistance and encouraging efforts to provide supported employment as an early step for those furthest from the labour market;
- ensure that support is provided to improve the life chances of those most at risk;
- ensure that young people who need more choices and more chances have access to these;
- provide high quality, reliable childcare that can give those furthest from employment confidence to take initial steps towards employability; and
- make the case for Scotland to have fuller, and eventually full, responsibility for personal taxation and benefits, to allow the development of an approach to equity and boosting economic activity that fits with Scottish circumstances.

Cohesion: Regional Equity

To accord greater priority to achieving more balanced growth across Scotland, to give all across Scotland the chance to succeed. This will include actions to:

- implement single outcome agreements to target the transformation of areas of lowest economic activity, with a focus on Scotland’s urban regeneration priorities;
- ensure a more strategic approach to the growth of Scotland’s, cities, towns and rural areas across transport, planning, housing and economic development;
- build on the fuller utilisation of electronic connectivity;
- ensure the most remote areas of Scotland can contribute to, and benefit from, economic growth; and
- implement the Scotland Rural Development Programme (currently under consideration by the European Commission) to develop the rural business base, communities and environment.

Sustainability: Inter-generational Equity

To promote economic growth and environmental quality and responsibility as mutually advancing. This will include actions to:

- ensure Scotland's planning framework and strategic transport investment drive an approach to economic growth that allows Scotland to improve the quality of the environment and to meet our ambitious emission reduction targets;
- mainstream resource efficiency and waste management as part of our business support activities;
- build on the launch of the Saltire Prize and addressing connection charges for renewable energy, by prioritising the development of the renewable energy sector alongside addressing the opportunities emanating from the global environmental challenge in other industries such as food and tourism; and
- ensure the regulatory environment supports the growth of Scotland's renewable energy sector and lead the development of the North Sea grid to allow Scotland's renewable resources to supply markets across Europe.

Each part of the Strategy covers a range of target groups of individuals, businesses and other organisations. To ensure that the equalities implications of each policy area on its relevant audience are fully considered, an equality impact assessment will be undertaken. This will be conducted across six strands (race, disability, gender, sexual orientation, age and religion/faith) and monitored thereafter to make sure that they are appropriate, to mitigate against any potential negative impact and to ensure that our policies are as robust and effective as they can be for as many people as possible.

4

D. IMPLEMENTING THE STRATEGY

D.1 RESOURCING

Growing the economy is at the heart of the Scottish Government's Purpose. The imperative of generating increased and sustainable economic growth has, therefore, driven the difficult task of prioritisation within the Strategic Spending Review process. The final decision on Scottish budget allocation will reflect the centrality of sustainable economic growth to our Purpose.

D.2 IMPLEMENTATION

The implementation of the Strategy will be driven across the public sector and supported by the new arrangements within the Scottish Government to provide a clear focus on delivery of the Purpose. Cabinet is supported by a new Strategic Board, comprising the Permanent Secretary and five Directors General, each of whom has responsibility for delivering the Government's Purpose through the Strategic Objectives. Delivery is supported by a Programme Board for each Strategic Objective. This will deliver the Purpose through:

- a wealthier and fairer Scotland,
- a smarter Scotland,
- a healthier Scotland,
- a safer and stronger Scotland,
- a greener Scotland.

The Strategy will help us to secure the maximum contribution to achieving sustainable growth across the public sector in Scotland and at all levels of government.

The Strategy will be used to:

- direct the activities of key bodies such as Scottish Enterprise, Highlands and Islands Enterprise, Visit Scotland, Transport Scotland, Scottish Funding Council, Skills Development Scotland Ltd⁴⁷ and Scottish Water;
- direct the development of the outcome agreement approach with local authorities that will enable local government to contribute effectively to the country's sustainable economic growth; and
- direct our discussions with the UK Government and the EU in areas which will influence the achievement of sustainable economic growth in Scotland.

The Strategy will only be effective in delivering the Purpose if it impacts on and influences the activities of Scotland's businesses and people. We have engaged widely in the development of the Strategy and have tried to achieve a clarity of message that will allow us to engage effectively in its implementation. The effectiveness of the policies set out here and of their implementation will be critical to the Strategy's success. The Strategy sets out a range of opportunities, of which we can only take advantage if incentives are in place to encourage individuals, businesses and others to take up these opportunities.

⁴⁷ Skills Development Scotland Ltd will be the formal title of the new skills body, which will be established as a Non-Departmental Public Body.

D.3 CHALLENGING, MONITORING AND REVIEW

The Strategy must evolve as economic conditions and the responsibilities of the Scottish Government change. This evolution will be heavily influenced by the reviewing of progress from outside of government and by the development of evidence which is brought to bear. To secure this external review we:

- have established the Council of Economic Advisers, which has been highly influential in shaping this Strategy, to advise on how best to achieve increasing sustainable economic growth; and
- are in the process of establishing the National Economic Forum, which will involve key players from across Scotland in building consensus around the collective contributions to achieving increasing sustainable growth.

These bodies will hold the Government to account through assessing achievement of the measurable economic targets set out in this Strategy. The targets are summarised in Box D1 below.

BOX D1: STRATEGIC TARGETS

By 2011:

To raise the GDP growth rate to the UK level;

To reduce emissions over the period to 2011.

In the longer term:

To match the GDP growth rate of the small independent EU countries by 2017;

To rank in the top quartile for productivity amongst our key trading partners in the OECD by 2017;

To maintain our position on labour market participation as the top performing country in the UK and close the gap with the top 5 OECD economies by 2017;

To match average European (EU15) population growth over the period from 2007 to 2017, supported by increased healthy life expectancy in Scotland over this period;

To increase overall income and the proportion of income earned by the three lowest income deciles as a group by 2017;

To narrow the gap in participation between Scotland's best and worst performing regions by 2017;

To reduce emissions by 80 per cent by 2050⁴⁸.

We will formally and regularly report on the progress that we are making in relation to these targets. This is the first time the Scottish Government has set measurable, time-bound economic targets, which will be central to gauging progress towards our Strategic Objectives *and towards creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth.*

⁴⁸ Note: The exact basis of both emissions targets, including whether they will be based on a basket of greenhouse gases or CO₂ emissions alone, will be decided after the public consultation on the proposals for the Bill.

