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Your ref

Our ref AB/JMAC

Dear Karl

Scotland's City Leaders response to Scottish Government's Enterprise and Skills Review

In June 2016 we, the leaders of Scotland's seven cities, published the "Empowering City Government" report¹ setting out our clear commitment to working together to achieve long term economic growth that will empower our people to flourish and for local investment to build sustainable economic futures for succeeding generations.

Our cities are the key drivers of national economic growth contributing more than half of Scotland's GVA and over 60% of employment. However, our cities face significant challenges if they are to remain globally competitive when compared with their English and international counterparts who currently have access to a greater range of devolved fiscal and non-fiscal levers (National Audit Office, 2015)².

Key to addressing these challenges is the need for a well-functioning and responsive enterprise and

¹ Empowering City Government, Seven Scottish Cities, June 2016

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² National Audit Office (2015) Devolving Responsibilities to Cities in England: Wave 1 City Deals, Report by the Comptroller and Auditor General, available at <https://www.nao.org.uk/wp-content/uploads/2015/07/Devolving-responsibilities-to-cities-in-England-Wave-One-City-Deals.pdf>

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skills network that meets the needs of businesses and individuals. Current enterprise and skills networks are too distant from the user, complicated to navigate, not well enough integrated with the needs of local economies and overly focused on a sector approach, resulting in small iterative economic improvement. Scotland's cities welcome the opportunity this review presents to create new ways of working that will enable Scotland's city regions to compete, innovate and support inclusive and transformational economic growth outcomes, in line with the Government's economic vision for Scotland.

It is the collective view of Scotland's cities that the current cluttered, complex and often siloed landscape that exists in Scotland for delivery of economic development requires radical change if we are to achieve the ambitions for a step change in inclusive economic growth. A new partnership is needed which empowers local government to use their knowledge and understanding of their regional economies to ensure the activity of national agencies maximises the full potential of a wider range of businesses and that benefits of our economic success reach a wider demographic of society. This is supported by growing evidence that decentralised systems of government are associated with higher national economic growth (ESPON & EIUA, 2012).³

Our primary ask of the Scottish Government is that a principle of subsidiarity should be applied to economic development in Scotland. This would see a presumption established whereby powers to support the delivery of Scotland's Economic Strategy are devolved to the city region level where decisions can maximise the opportunities for investment and business growth, unless there is a clear reason to retain powers nationally. Where responsibility is retained nationally, cities and their regions should have a recognised role in shaping policy and delivery. The detail supporting these principle asks is set out in Appendix 1. Specific asks include:-

- Clear alignment of enterprise and skills with emerging city region geographies. Aligning enterprise and skills strategy development, business engagement and service delivery, such as export assistance, at a regional level will deliver significant benefits to Scotland's economy, enabling significantly greater inclusion than hitherto has been the case.
- Skills Development Scotland's functions should be delivered on a regional basis, along with the emerging city regions of Scotland. By disbanding or reorganising the function regionally, with staff and budget being allocated to the region, there will be a far higher success rate in

³ ESPON & EIUA (2012) *Second Tier Cities in Europe: In An Age of Austerity Why Invest Beyond the Capitals?*, available at http://www.ljmu.ac.uk/EIUA/EIUA_Docs/Second_Tier_Cities.pdf

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tackling poor destinations for our young people, creating effective employability programmes relevant to regional skills gaps, employers and demographics.

- Clear strategic regional alignment between Scottish Funding Council funding of Further Education and the needs of citizens and employers in regional economies. Simplifying the funding streams and structure to improve flexibility and improve understanding of city and city region needs.
- Scottish Enterprise should significantly reduce in size to focus on product development and inward investment marketing through SDI. Transferring core business support and budgets to the city regions would enable a more seamless service, a decluttering of the business support landscape and a more holistic approach, which can directly support Scotland's Economic Strategy. A regional delivery model, rather than a purely sector approach will lead to a more inclusive and more creative enterprise culture.
- Support for innovation must be enhanced by defining the national agencies' remit as one which supports a small cohort of the highest performing companies, supported by regional innovation teams, which are embedded in local innovation ecosystems, providing low intensity support to a broader range of companies.
- Transport is not a focal point of this review however; it has a place in the context of economic growth. Therefore, Cities wish to reiterate a desire to a shared approach to improving connectivity and infrastructure which is essential for business growth.

With greater devolved powers and influence cities will deliver a step change in the way economic growth is delivered in Scotland, with all seven cities committed to working together, with both UK and Scottish Government including:

- A higher number of Scottish companies selling outside of the UK, through stimulation of an international mindset from early years skills development programmes that focus on confidence and sales, not simply technical or geographic know how and a regional approach which will not be exclusive by sector or scale.
- A more effective, output focused and connected skills investment plan for each city region which will be founded in community and employer demand. A plan which is shared and developed with all stakeholders such as schools, further/higher education establishments, employers and communities to ensure opportunities at all levels are understood and accessible to everyone.
- A higher success rate in employability outcomes will be delivered to alleviate poverty and inequality. Closer collaboration between national agencies, local stakeholders and

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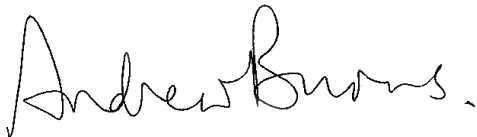
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communities will create a higher number of opportunities for all of our people, through regional delivery, rather than a sector driven agenda. Entrepreneurship and innovation at all levels and the development of the 3rd sector will be a priority to create jobs in equal measure with businesses in key sectors.

- A decluttered economic development landscape where individuals, communities and businesses understand where to get the right support at the right time to accelerate success. This will create the environment for a higher business start-up rate, survival rate and attraction of foreign direct investment, where overseas businesses can be confident that their establishment in Scotland will be made seamlessly.

Scotland's seven city leaders commend this approach and look forward to early discussions with the Scottish Government.

Yours sincerely



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Appendix 1

The primary agencies influencing the support provided to businesses from the public sector at a city and city region level are Scottish Enterprise and Highlands & Islands Enterprise (“SE” and “HIE”). At a city level, it has been noted that the strength of relationships and alignment between cities and enterprise agencies varies across the country. The relationship between Inverness and HIE is particularly strong as evidenced through the recent Inverness & Highland City Region Deal and as demonstrated recently by the study undertaken by Dr Varna, Prof Adams and Prof Docherty at the University of Glasgow⁴.

At a UK level, the establishment and empowerment of Local Enterprise Partnerships through the Local Growth Fund and their direct involvement in City and Devolution Deals has created a more coherent and localised support network for businesses and enterprise in England. The focus on specialisms and regional economic strategies developed in collaboration between central government, local government, enterprise agencies and business has created a strong platform for growth. The emerging strong economic performance of English cities in comparison to Scottish counterparts combined with the improvements in FDI numbers in English regions points to evidence of these interventions potentially beginning to make positive impacts. The 127% increase in FDI across the Northern Powerhouse in 2 years is a clear signal of a rebalancing effect in England⁵.

The view of Scotland’s cities is that the economic development strategies of various Government agencies including SE, HIE, Scottish Development International (SDI), UK Trade and Investment (UKTI), and non-government agencies such as the Scottish Council for Development and Industry (SCDI), Chambers of Commerce, universities and colleges – presents an often cluttered landscape. This can be counter-productive due to competing and often conflicting priorities, too much silo thinking when creating funding opportunities and often without a consideration for impact (SCKC, 2016, Inclusive Prosperity in Scotland’s Cities Report).

Scotland’s cities have reviewed each of the four priorities of Scotland’s Economic Strategy and have collectively identified the following challenges and opportunities to achieving our ambitions for transformational inclusive growth:

Investment:

⁴ Varna, G; Docherty, I and Adams, D Local Development Networks and the development of Inverness, under review, Environment and Planning

⁵ Empowering City Government, Seven Scottish Cities, June 2016, p21.

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- Problematic and artificial gate between Scottish Enterprise/HIE and Business Gateway should be removed, so that all innovation support is provided by Business Gateway. Current situation is overly complex and excludes a high percentage of companies with potential.
- Regional Skills Investment Plans are not currently aligned with the aspirations in the City Deals.
- Business Engagement on skills is not targeted or deep enough via Skills Development Scotland. At a regional level, there is a considerable lack of demand assessment with employers who are likely to be the job creators of the future.
- Over the last 10 years, investment in infrastructure by SE and HIE has fallen dramatically, due to a change in economic development focus. By comparison, investment by the cities has increased and is likely to continue in a more extensive way as a result of the City Deals, which are predicated on public private partnership. In recognition of the developing City Deals, city regions should lead on the investment in infrastructure. This addresses the current fragmentation of funding around infrastructure around public sector and private sector players.

Innovation:

- The network of support for innovation in Scotland is complex and fragmented, with multiple organisations involved in delivery, each with their own priorities, ethos and focus.
- The current system has a number of strengths and weaknesses – strength in the sense that in terms of identifying potential, there is a Business Gateway in each of the 32 Local Authority areas and those with greatest potential are likely to be able to access some funding from somewhere.
- Significant weaknesses lie in the confusing landscape for companies, with a lack of clarity of the remits of each which has also led to duplication of effort. Too many different funds, with weak guidance on suitability and the administration of so many funds is a drain on public resources, levels of funding are too low for start-ups and there is too much focus on those companies who look like they are likely to succeed anyway.
- Scotland is recognised within Europe as a strong innovator but not a leading one; in terms of innovation in 2012, 43% of firms in Scotland were ‘innovation active’ making Scotland 17th out of 21 OECD countries (Scottish Enterprise, 2012).
- The Scottish cities recommend the review consider the approach taken by top performing innovation economies including Sweden, Switzerland, South Korea and Finland. These examples suggest a wide range of factors influence innovation including factors which are

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largely out with the control of policy makers such as culture. Interventions recognised by these governments include promoting the acquisition of skills; providing a safety net for entrepreneurs; putting in place a sophisticated telecommunications network; facilitating collaboration between business and academia; and making significant levels of funding available for start-ups. In these economies, large companies play a key role in nurturing the growth of start-ups.

- It is suggested that there may be scope to consolidate and refine the system of support for innovation in Scotland by splitting activity between the enterprise agencies at a national level and a series of “Regional Innovation Teams” at the local level to ensure maximum impact for the business by simplifying the landscape and preventing duplication of limited resources within the public sector. This includes that:
 - i. At a national level, enterprise agencies would refocus on a smaller, refined client pool comprising Scotland’s largest companies and innovative small and medium-sized companies with genuine potential to grow to be large companies in a short timeframe. The agencies would offer intensive support including substantial financial packages. The enterprise agencies would work primarily with Innovate UK, the UK Research Councils and national bodies such as NESTA to assemble sophisticated, specialised packages of support for clients. The focus would be on providing high intensity support to a small number of businesses.
 - ii. At a regional level, the creation of “Regional Innovation Teams” bringing together staff and resources from enterprise networks, Higher Education institutions and other key stakeholders that would serve as vehicles to promote and support innovation locally. It is anticipated that these teams would engage with a much wider range of businesses than the national function. The client base would be a broad church encompassing such businesses as established mid-sized and large businesses with modest growth potential but scope to improve productivity via the application of innovation; early-stage start-ups and entrepreneurs offering innovative products and services; and university spin-outs and start-ups. The teams would be embedded within their local innovation ecosystems, building close working relationships with the primary players and using a multitude of platforms to engage with clients who would not typically be expected to seek out support. The focus would be on providing relatively low intensity support to a large volume of businesses.
 - iii. The regional innovation hubs could be built around pre-existing clusters of innovation activity, including the existing Innovation Centres created by the Scottish Funding Council. For example, in the Edinburgh city region, it is anticipated that hubs could be formed around the BioQuarter and Inverness campus. Consolidating innovation

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activity around the primary sources of new intellectual property could yield significant benefits in terms of knowledge exchange, technology transfer, access to specialist skills and industry-academia collaboration, as well as capitalising on the substantial capital investment programmes of the higher education sector. It is anticipated that the innovation hubs could emerge as international calibre loci of research into themes such as human medicine, animal bioscience, and low carbon. Biggar Economics has calculated that just six innovation hubs could add close to £2 billion to Scotland's economy annually by 2035.

Internationalisation:

- Scotland is over reliant on too few companies, who export the majority of goods and services – with neither value nor volume increasing significantly enough to improve the structure of the economy.
- Evaluation has demonstrated that support by way of small grants to companies has little or no impact in their willingness or ability to export, however, this remains the focus of the support from SDI to the greatest number of companies.
- Strategic advice is not offered to companies in a broad context, to convert those SMEs who may not have considered exporting to look at it for the first time. Those receiving strategic support are mostly those who have already decided to export, therefore, increasing the number of exporters in the economy is not affected.
- There is no coherent link to the skills agenda, either by sector or more generically. Confidence and sales ability are two areas which will have a significant impact on entrepreneurship in its broadest sense and an international mind-set is something to embed early in life. Local authorities have the remit for education and it is at this stage more could be done to stimulate companies to be born international.
- The current approach with a focus on key sectors and even subsectors therein is exclusive and does not allow for support to a broader company base with ambitions for international trade. The UK Commission for Employment and Skills report from 2011 shows that UK cities suffer in terms of sectoral and spatial imbalances that can restrict growth and also make them less resilient to the increased shocks and uncertainties of an increasingly globalised society (UK Commission for Employment and Skills, 2011). It is imperative that there is a step change and this will require a broader reach of support to encourage international working. Local authorities through Business Gateway are best placed to take on this remit.
- For many years, Scotland has successfully attracted more FDI projects outside London than anywhere else in the UK. More recently, Scotland has been losing ground to the cities of the

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Northern Powerhouse who are able to respond to investors more flexibly due to access to a range of devolved powers at a regional level (UK Trade & Investment, 2016). To enable Scottish cities to continue to attract and retain inward investors more than ever before Scotland's cities need to have the tools to provide a flexible menu of support and incentives at a regional level that plays to its knowledge, skills, business and research base. This will be particularly important in a post Brexit UK where it will be those levers rather than the lure of RSA (which will cease to exist) or a purely sector focus on targeting FDI that will ensure Scotland can continue to compete for investment from overseas.

- Too much emphasis on sector and not enough on place, will see Scotland continue to decline in its ability to attract FDI. Evidence shows that people make choices on where to go, not at a country level any longer but at a city level, attracted by a high quality of place and a high quality of life (Florida, 2005; 2011). Nationally, there remains a place for macro Scotland marketing in the shape of SDI but the project development and deeper sales role should be at a city region level, where the power, incentives and mechanisms such as planning authority will ensure projects are won.
- Cities can use their international relationships and networks to build strong economic partnership to mitigate the potential economic impact of Brexit e.g. Aberdeen's links with global energy capitals and international business.

Inclusive Growth:

- The main enterprise agencies are neither strategically nor operationally aligned with this priority as their main objective is to support companies and sectors who can achieve significant and disproportionate growth. In many cases, these sectors do not provide the opportunities required for those in local labour markets, particularly those individuals who either require employability or skills support.
- There has been little evidence to suggest that Scottish Enterprise has adapted their strategic priorities to help deliver inclusive growth. Although the Scottish Enterprise Business Plan highlights the pillars of Scotland's Economic Strategy, there is no clear detail whatsoever on how they will amend their support to improve the quality of jobs in Scotland, link better with employability programmes or tackle issues such as low pay or gender inequality. Conversely, local authorities and increasingly city-regions, are continuing to deliver support to companies more closely aligned with local labour markets through in-house business support, Business Gateway or local enterprise organisations such as Jobs and Business Glasgow. Initiatives such as the Working Matters or In-Work Progression Pilot funded through the Glasgow City Deal are clear examples of how inclusive growth can be supported, but these are being delivered

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at a city-region level. HIE's wider community remit has enabled them to support inclusive growth.

- SDS as a national agency is problematic as is evidenced by the regional skills assessments which are weak, desk based exercises and demonstrate little understanding of the local labour market. This has made it difficult to shape and deliver services locally and has resulted in duplication of effort. However SDS's work to develop the Highlands and Islands Regional SIP illustrates what can be achieved when SDS works well with local regional partners to identify skills gaps and ways of addressing them
- There is a complicated relationship between the Scottish Funding Council (SFC), Further Education Regional Boards, Skills Development Scotland and local authorities/community planning partners combined with a lack of alignment between the national funding structure and the needs of both citizens and employers in regional economies.

The overall impact of the current complex approach outlined above is as follows:

- Scotland's cities currently lack the powers and levers to work effectively with the key stakeholders discussed above to create the optimal conditions for enterprise at a city and city region level. Scotland's cities recognise that the business community will drive economic growth and that their role as civic leaders is to set the optimal conditions for enterprise, innovation and entrepreneurship to thrive. At present, cities feel increasingly detached and unable to fulfil that role both at a policy level and constrained by their inability to offer incentives through setting local taxes and levies.
- The cities recognise that national agencies play a specialised and important role in certain areas, for example international profile and that cities taking on these tasks would be inefficient and counterproductive. However, the status quo is overly complex.
- There is a lack of strategic coherence across the four priorities of Scotland's Economic Strategy. This is exacerbated by national agencies seeking to deliver activity based on national targets at a local level. This results in a duplication of financial input and effort, leading to less than optimal outcomes in terms of economic performance across Scotland. To address this attributed, transformational and measurable performance indicators are required at a regional level which contribute to the national outcomes and have a clear fit with the needs and aspirations of local economies.

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- There is a lack of strategic engagement to allow cities to influence and shape the development of national agencies' corporate plans.

Scotland's cities hold a unique role as the drivers of economic growth and therefore cities desire a more pivotal role in coordinating and driving policy to set the conditions for business, enterprise and entrepreneurs. Cities can bring much needed leadership and coherence across this agenda.

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