FOCUSED ON SCOTLAND'S REAL PRIORITIES

Scottish Conservative & Unionist

Grasping the Thistle

Inserting growth back into Scotland's economy strategy

August 2023

CONTENTS

FOREWORD

Since 1999, the discourse of Scottish politics has far too often focused on how we spend rather than raise money for our public services.

This has led us to a position where, according to the SNP Government's own economic forecasters, the delivery of vital devolved services is now unsustainable in the long-term.

Put bluntly, their assessment is that spending will increase faster than tax revenue as our population gets older.

So as a nation we now face a choice. Either we accept that the managed decline of our NHS, schools and roads is inevitable, or we need to start focusing on how we raise more revenue in the long term.

The SNP-Green Government, but also Labour and the Liberal Democrats, see the answer to this choice in raising taxes. However, this produces diminishing returns and damages our economy, and hence our revenue potential in the future.

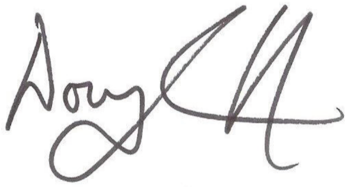
As Scotland's only centre-right party we have a very different answer to this challenge. We believe that the Scottish Government's top priority should be delivering long-term, sustained economic growth.

A strong growth rate means good well-paid jobs across our economy, it means Scottish businesses flourishing and crucially it means that we have the revenue to properly fund our essential public services.

To achieve this, we would better align the work of Scotland's two governments behind a shared economic strategy, invest in the skills of our workforce at all ages, make Scotland competitive within the UK, and maximise the potential of all our regions.

We need to build the strong foundations of Scotland's future prosperity now or else we will pass on a poorer nation to future generations.

It is time to grasp the thistle and take the bold action necessary to drive economic growth.



Douglas Ross MP MSP
Leader of the Scottish Conservative and Unionist Party

FOREWORD

The Scottish economy has many key strengths, building on our tradition as a dynamic, enterprising and entrepreneurial nation. We have world-leading businesses across a range of sectors, a highly valued university sector delivering top-class research and innovation, a skilled workforce, and all the benefits of being part of the United Kingdom single market.

But the Scottish economy could be doing much better. Since 2014, our economy has grown on average at around one-half the rate of the UK as a whole. This means that compared to other parts of the country, we are missing out on growing businesses, creating secure, well-paid jobs, and generating the tax revenues we all want to see to spend on our public services.

Governments don't create wealth; it is made by the efforts of hard-working individuals and businesses. The role of Government is to create the right environment that allows business to flourish, removing barriers to growth and providing appropriate support.

By focussing so much of their efforts on promoting independence, the SNP-Green Government at Holyrood have neglected the overriding need to create the circumstances to help deliver sustainable economic growth. Scottish Conservatives make no apology for putting the need to grow our economy front and centre of our policy offer. But this will only happen if we are prepared to take a different approach from the current Scottish administration.

In this document we set out firm proposals on how we can deliver the growth economy that Scotland needs, with a focus on six key components: competitive taxation, sensible regulation, a skilled workforce, reliable infrastructure, supporting innovation, and developing entrepreneurship.

With these policies we can ensure that Scotland once again leads the UK with a thriving economy, rather than lagging behind it.

Murdo Fraser MSP

Shadow Cabinet Secretary for Business, Economic Growth and Tourism

Scottish Conservative and Unionist Party

INTRODUCTION

The recent Fiscal Sustainability Report from the Scottish Fiscal Commission (SFC) should serve as a wake-up call for us all. It sets out, in detail, the challenges that Scotland faces for the foreseeable future if we do not deliver growth. Public spending pressures, especially in health, social care, and social security, are due to outstrip current economic growth forecasts over the next fifty years which means that radical change is required if we are to properly fund our public services.

The Scottish Conservatives are unashamedly the party on the side of workers, businesses, and growth. We also recognise that a strong and thriving Scottish economy is the prerequisite to deliver our environmental and societal goals. Given the scale of the challenges in Scotland's finances, we believe that growth must come first and that our national economic strategy should be built around that aim.

This paper sets out our plans to grasp the thistle and build a solid foundation on which to raise revenue for delivering excellent public services. **If Scotland were able to match the UK average on productivity, working patterns, employment, and entrepreneurship, this would add an additional over £15 billion to our economy, lead to 53,000 more Scottish businesses and 54,000 more Scots in work.** We believe that, with a growth-focused approach, this is more than possible and should serve as the floor rather than the limit of our ambitions.

We welcome the opportunity to engage with Scotland's business community and other interested parties to further develop our plans going forward.

KEY RECOMMENDATIONS

- **Make delivering strong, long-term growth the number one economic priority of government.** The Scottish Government should strip back the cluttered landscape of boards and agencies to a simplified structure focused on growing the economy.

- **Create a Joint Scottish Economic Board bringing together ministers from both of Scotland's governments.** This Board will develop a common strategy for Scotland's economy, with both governments having the responsibility to deliver it.

- **Introduce a 'regulation handbrake' during times of recession or stagnation.** A stable regulatory environment is one of the best ways that government can support business. A brake on new business regulation during times of weak economic performance will ensure that new regulation is only taken forward when absolutely necessary and businesses can afford it.

- **Deliver a national workforce plan with employers.** This will align the skills developed in our education system with the needs of businesses and employers both for today and in the future.

- **Drive parity of esteem and build strong partnerships between education and employment.** This includes supporting businesses to deliver as many good apprentices as they are able, and pupils offered individual pathways from school to employment.

- **Revolutionise the delivery of skills to place a major emphasis on lifelong learning.** This includes measures such as the creation of a virtual National College and individual training accounts.

- **Invest in a repopulation strategy for Scotland's regions to attract new talent.** This will look to invest in services and housing to incentivise more internal and international migration, already coming to the UK, to parts of Scotland struggling with depopulation.

- **Tackle long-term ill-health and invest in supporting home and hybrid working to reduce inactivity.** Interventions such as investing in a network of long-Covid clinics, or community working hubs, can help to remove the barriers to employment for the over 750,000 economically inactive Scots.

- **Reduce the size of devolved government.** This will reduce public sector employment, creating more capacity in Scotland's labour force for the private sector. It will also increase public resources available for other priorities.

- **Ensure Scotland is competitive within the UK.** This means reducing taxes on individuals and businesses so that there is at least parity with the rest of the country and ensuring that poor infrastructure does not hold back investment or exporting. It also means reviewing the efficacy of current tax structures.

- **Review business taxation to ensure it is fair and as straightforward as possible.** Working across the UK, business rates should be replaced by a new system that reflects the modern economy.

- **Build regional clusters of excellence to deliver Scottish exporting success.** This will see economic development funding used to back winners and build clusters, to ensure that Scotland builds international excellence in exporting a narrow range of goods and services.

- **Invest to create a culture of innovation and entrepreneurship.** This means ensuring that support and funding is available at all levels to help businesses to start up and grow and maximising the economic potential of Scotland's university and college sector.

THE SNP SCOTTISH ECONOMY

Scotland's economy, like that of the rest of the UK and the world has undergone two significant shocks in a short space of time. The Covid-19 pandemic, and subsequent global cost-of-living crisis, have had profound impacts on every aspect of our economy from supply chains to working habits. The full effects of these changes have yet to be completely understood or determined.

However, going into this crisis, the Scottish economy under the SNP was already struggling with weak growth, which saw it lag behind the rest of the UK. **Over Nicola Sturgeon's period in office GDP per head in Scotland grew at just over half the rate for the whole of the UK.** Some of these contributing factors were long-standing, such as lower productivity, fewer businesses, or an aging population. Others are more recent and include an uncompetitive tax system, weak infrastructure, an unfocused enterprise strategy, and, of course, ineffective government policies such as the proposals for a Deposit Return Scheme and the proposed alcohol advertising ban.[1]

In March 2022, the SNP Government published its central economic strategy for the next decade. The so-called "National Strategy for Economic Transformation" sets out a vision for a wellbeing economy, underpinned by three ambitions – fairer, wealthier, and greener. It also detailed five programmes of action to deliver this: Entrepreneurial People and Culture, New Market Opportunities, Productive Businesses and Regions, Skilled Workforce, and A Fairer More Equal Society. In April, Humza Yousaf's government recommitted itself to this strategy even though its chief architect, Kate Forbes, had been sacked from his government.

There are several problems with this strategy. It does not address the concerns amongst businesses about the lack of clarity within the SNP's economic agenda. Distinct regional and sectoral strategies already exist that predate the National Strategy and do not necessarily align with it. Environmental and net zero strategies, such as those relating to the circular economy, also exist outside of the strategy. Finally, the economic targets set out in the National Performance Framework remain unaffected and unlinked to the strategy. All of this suggests that, far from being the wholesale rethink of SNP economic policy, the National Strategy has been shoehorned in among existing plans and strategies. The cluttered landscape described by the Fraser of Allander Institute (FAI) in 2018 remains.

As such the strategy has failed to clear up what the SNP's primary economic objectives are. Over their time in government the SNP has moved from wanting to create an oil-financed Scottish Tiger (2013 White Paper), to austerity economics through the Sustainable Growth Commission, and now onto the development of a wellbeing economy. While the latter phrase has become largely embedded in discourse surrounding Scotland's economy, it is poorly understood by the public and business community.

This is the second main issue of the strategy is the inability to define a "wellbeing economy" beyond soundbites and communications that appeal to the Scottish business community and the wider economy. Emma Congrieve of the FAI said that the "Wellbeing economy feels like a new buzz word without much understanding of what it actually means in practice". The fact that it is four years since Nicola Sturgeon committed the Scottish Government to the delivery of a wellbeing economy, and yet ambiguity remains over what it means, is damning in of itself.[2]

Finally, the SNP strategy does not prioritise growth over other ambitions. It says that a wellbeing economy "celebrates success in terms of economic growth, environmental sustainability, quality of life and equality of opportunity and reward". Given that these terms cover several possible indicators, and that the strategy itself does not set out any preferred metrics or prioritisation, it will always be highly subjective in terms of what can be defined as successful. For example, one individual's interpretation may be that environmental progress is more important than establishing equality of opportunity.[3]

A perfect example of the lack of direction in this strategy is the £50 million National Challenge Competition for Economic Transformation. Essentially this is a prize fund that will be awarded to the project or projects "with greatest potential to transform Scotland's economy" and will also "set challenges and seek to attract the widest possible range of ideas and expertise". The competition is yet to launch. The substantial funding being committed in this competition to a wholly undefined goal, which has not yet been taken forward, is emblematic of the wider problems in the strategy.[4]

This can also be seen in the much promoted "new deal" for businesses. Not only is there little detail on what this "new deal" will consist of beyond vague promises of continuing to implement the now dated Barclay Review, but it was also announced in a document containing new deals for tenants and local government.[5]

The Scottish Fiscal Commission's Sustainability Report lays bare the challenges faced by Scotland's economy and public services. It found that over the next fifty years, while the UK population is expected to grow, Scotland's population will shrink by 400,000. Over this period, the population is also expected to age, with the proportion aged over 65 increasing from 22% to 31%.

As a result, the Commission forecast that long-term GDP growth will average 1.2% over that period, while demand for public spending will be 1.7% higher than the funding available. A key driver of this is the expected increased demand for health spending from just over a third to a whole half of the Scottish Government's budget. As such, the SFC describe the continued delivery of the same level of devolved public services as "challenging".[6]

In an attempt to maintain and expand public spending levels, the SNP Government has increased taxes in three out of seven budgets since the full devolution of income tax bands and thresholds in the Scotland Act 2016. However, tax differentiation with the rest of the UK is worth 1% of the Scottish Government's budget, while having a negative impact on Scotland's competitiveness within the UK. As tax divergence continues, this will only further our economy and revenue generation in the medium and long terms, putting pressure on the government to further hike taxes to maintain spending levels.[7]

The current SNP economic and public spending model is therefore unsustainable. We face the difficult task of either cutting spending, raising growth and revenue, or a mixture of the two. If we do not act, then the services that we all take for granted are only going to deteriorate further as they are continually asked to do more with less.

The National Strategy states that "The time for brave and bold action is now" yet the SNP through their focus on a wellbeing economy have failed to live up to that promise. We need to create the conditions for growth that will continue to fund our public services for the long-term.

OUR PLAN FOR A STRONGER SCOTTISH ECONOMY

The Scottish Conservatives believe that growth must be the fundamental aim of our economy. Strong and sustained growth means more Scots in good, well-paid, jobs. It means that wage rises, and budgets outstrip increases in inflation. With a solid economic foundation, we can tackle the other significant challenges that we face, such as improving key frontline services and the climate crisis.

However, to build an economy that delivers consistent growth we must tackle the underlying structural weaknesses which, under the SNP, have been holding back Scotland for many years. We need to take the difficult decisions now to create the prosperity of the future. If we do not do this, then Scotland risks falling behind our international competitors and the rest of the UK.

Therefore, **the plan that we present in this paper is not one of easy solutions.** It outlines a fundamental overhaul of the approach currently being delivered by the SNP and the Greens and challenges the economic structures and policy landscape that underpin this approach.

At its heart, is a realistic appraisal of Scotland's current strategic position, rather than an ideological ambition, for the future of the country.

It also aims to maximise the benefits of our place in the UK instead of planning for independence, and to make Scotland a success outside of the EU, instead of continuing alignment for a future membership application.

Furthermore, it aims to develop and make best use of the people who live here in Scotland, while attracting people to live in those parts of the country most held back by a lack of workers.

In addition, it aims to simplify the existing complex structure that supports business and economic development to ensure that poor infrastructure does not hold our country back. This includes creating a competitive tax structure that supports growth to generate public sector revenue.

Finally, it aims bring the previous four elements together behind a strategy to deliver regional excellence and innovation. This will create economic clusters, which will be the backbone of Scotland's future exporting growth, both in trading with rest of the UK but also the rest of the world.

This is an approach that rewards consistency and will require political will over several parliamentary cycles to deliver. While economic recovery and growth can be delivered in the short term through quick fixes, ensuring that it is sustained and strong over the long-term will require holistic action to tackle our structural weaknesses. That is the only way that we can ensure that Scotland's finances are secure for future generations and our public services have the resources they need.

We believe that **the approach set out in this paper can deliver a more prosperous Scotland in which everyone can be better off.**

A JOINT STRATEGY FOR GROWTH

GOVERNMENTS WORKING TOGETHER

There is a considerable sum of public money already being spent to boost Scotland's economy. Public spending on economic affairs in Scotland was £12.8 billion in 2022/23. This was worth £2,344 per person, 25% higher than the UK average.[8]

This spending is divided across both of Scotland's governments and our councils. Together, the UK Government, the Scottish Government and the 32 local authorities, have contributed £3.4 billion to Scottish Growth Deals and there has been £749 million delivered through levelling up funds. In addition, the two governments are together committed to delivering two Scottish freeports, in the Firth of Forth and the Cromarty Firth, and two investment zones in Aberdeen and Glasgow.[9] [10] [11]

However, while the aforementioned Growth Deals have been a good example of a joined-up approach across governments and their respective agency networks, this is far too often the exception rather than the rule. Scotland's two governments can often feel as though they are working at cross-purposes or duplicating each other's efforts – even where there is collaboration. From the outside it can be puzzling as to whether a Scottish business should go for exporting advice from the Department for Business and Trade or Scottish Development International, or if it should secure loans from the British Business Bank or the Scottish National Investment Bank (SNIB).

This creation of two overlapping networks also contributes to strategic indirection as well. While the Scottish Government is focused on the creation of a wellbeing economy, the UK Government has oriented its economic strategy around levelling up. Not only are there two different government economic networks but they are also pulling in different directions on their long-term aims.

Building a secure foundation for long-term growth takes time and national consensus. Constant change only adds to the confusion surrounding the economic approach and a lack of focus.

However, in Scotland, there is a confusing and costly myriad of agencies and bodies with responsibility for driving growth in Scotland, coordinated by two governments who are not often in alignment. As such, there is no one single body with overall responsibility for setting strategic economic vision.

We therefore believe that **the creation of a Joint Scottish Economy Board, composing both Scottish and UK Government ministers** should be the first step in streamlining the economic development structure. This Board would agree a joint, long-term Scottish economic strategy that both the Scottish and UK Governments would then have responsibility for delivering.

The Board would replace the multitude of existing economic boards that exist in Scotland. It would be responsible to, and funded by both governments, ensuring that there is an all-Scotland approach to our economy and that Scotland benefits fully from UK Government initiatives. It will also help to make trade with Scotland its biggest marketplace, taking 60% of its exports, as seamless as possible.[12]

However, it is not just accountability that has led to confusion. The Scottish Government's economic network was described in 2018 by the FAI as a "cluttered policy landscape". Since this critique, the clutter has only grown with the setting up of the SNIB, the National Strategy for Economic Transformation, and the New Deal for Business Group, to name but a few.[13]

At the same time old economic agencies have become more limited. New initiatives also continue alongside those already in existence. For example, the core of the Scottish National Investment Bank came from Scottish Enterprise's own Scottish Investment Bank. Similarly, the National Strategy for Economic Transformation Delivery Board continues alongside the New Deal for Business Group, while the National Performance Framework metrics remain unchanged from the introduction of the National Strategy for Economic Transformation.

This alongside the lack of vision in the National Strategy for Economic Transformation itself, mentioned previously, makes it clear that there needs to be a clarification of the Scottish Government's economic agenda. This streamlining of priorities should be complemented by a rededication to growth, as measured by GDP, and the necessary action taken to deliver that growth.

This streamlining would see **the number of boards and agencies reduced and placed within a single structure with one point of contact for businesses.** A single economic structure would see governments and agencies coming together to deliver on a shared economic goal of growth. This would not only create a unity of delivery and purpose within the Joint Scottish Economy Board but would also save millions of pounds in administration costs.

REGULATION

In addition to streamlining, there also needs to be a focus on delivering stability. A fixed regulatory regime builds confidence for businesses and investors, whereas a changing or uncertain regime weakens it. New regulation can cause difficulties in times of strong economic growth for business, yet in times of stagnation or even recession can cause them to make job losses or close down altogether. We have already seen this with the impact of Glasgow's Low Emission Zone, the proposals for a Deposit Return Scheme (DRS), and the alcohol advertising ban.

Whatever the views on the merits of these policies, they were clearly being pursued at the wrong time for Scotland's economy and damaged businesses when they could least afford it. This was recognised as LEZs in three of Scotland's cities and the DRS have been delayed, and the ban on alcohol advertising has been abandoned altogether.

However, the fact that it took so long to reach that position meant that the damage had been done already.

The FAI's business monitor found that "policy uncertainty" was the third most prominent issue raised by Scottish firms as a concern for them over the next three months. Stephen Leckie, President of the Scottish Chambers of Commerce, said in response to their Q1 Report that "One of the most consistent themes in the survey results is the high number of firms antidotally highlighting increased concern from current and or future regulatory burdens".[14]

During the Covid pandemic, new regulations were delayed on the basis of the shock that Scotland's economy faced. We believe that this approach should be taken forward as a rule. As such, it is our view that new regulations should either delayed or scrapped altogether to deliver stability during a time of economic recession or weak performance. This **business regulation handbrake** would be engaged based on negotiation with Scotland's business community to ensure that it is the right action for them.

As stated previously, we believe that driving growth should be at the forefront of our economic strategy. However, the Scottish Government continued to cling to alignment with the EU even where it is detrimental to Scottish businesses. For example, genetically modified crop technology is backed by Scottish farmers and would allow for higher crop yields – leading to more food. Yet the SNP Government is refusing to allow for their introduction because they are banned in the EU.

It is our view that Scotland that must take full advantage of the opportunities of being outside the EU now that the decision has been taken. Otherwise, Scotland risks being left behind by the rest of the UK by holding to standards that do not work for our economy or society. As such, alignment with the EU should not be an end in itself. **The interests of Scottish standards, businesses, and our economy, must come first in our regulatory framework.**

The approach set out in this section would ensure that both of Scotland's governments and its councils are working in alignment towards a shared goal of delivering long-term economic growth across our nation.

BUILDING SCOTLAND'S WORKFORCE FOR TODAY AND TOMORROW

Scotland's greatest economic asset will always be its people. **The development of our country's workforce must always be the foundation of any economic growth strategy** to deliver the resources necessary to fund our public services for the future. This is especially the case when we consider the role of income tax in the Scottish Government's budget. As such, **we need an economy-wide national workforce plan** – to better align Scotland's skills and education system with the needs of businesses and employers.

MAXIMISING OUR WORKFORCE

When looking at Scotland's workforce, we must consider it in terms of its overall size and alignment to the economic needs of our current and future economy. Firstly, Scotland's population is expected to decline over the long-term with our working age population (16-64) forecast by the SFC to fall by a sixth over the next fifty years. We already appear to have an economy with full employment, with unemployment running at a near historic low of 3.1%.[15 16]

At the same time, our economy faces workforce shortages across many sectors. The Office for National Statistic (ONS) has found that, since summer 2021, there have been over one million job vacancies across the UK. The FAI business monitor found that over half of Scottish businesses had current vacancies, with 83% saying that they found it difficult or very difficult to fill those vacancies due in large part to a lack of skills and a lack of applications. Scottish Chambers in their Q1 2023 Report found that almost half of Scottish firms experienced recruitment difficulties.[17]

It is natural, therefore, that there has been much discussion about growing our workforce. In Scotland, the SNP Government has almost exclusively focused on immigration, and the lack of it following the UK's departure from the EU, in response to these challenges.

However, migration statistics do not back up their argument. Net migration to the UK in 2022 reached a record high of 606,000.[18]

The problem with immigration does not relate to overall numbers but rather where migrants are settling in our country, compared with where we want them to settle. A now discontinued ONS study found that in the year to June 2021, 14.5% of people in the UK had been born overseas, while the comparative figure for Scotland was just 9.7%. The problem is not that migration to the UK has slowed but rather that Scotland is not attracting its share of UK migration.[19]

This problem becomes even more pronounced when breaking Scotland down into council areas. For comparison, in the Highland Council over the decade of 2010/11 to 2019/20 net migration was 6,820, in Moray it was 2,570, in Orkney 1,450, in Na h-Eileanan Siar 30, in Argyll and Bute -330 and in Shetland -500. Over the same period, net migration to Edinburgh was 50,740, and in Glasgow it was 43,090. Across Scotland the net figure was 222,100, meaning that Scotland's two largest cities attracted 42% of total net migration between them, despite having only 21% of the total population. Meanwhile the above six Highland and Island areas attracted just 5%, despite comprising 9% of Scotland's population.[20]

The is even more stark when we look purely at international migration. Over the same decade, 2010/11 to 2019/20 international migration to

Scotland was 364,600 of whom 196,890 – 54% of the total – went to Edinburgh and Glasgow. Across the six previously mentioned Highland and Island councils the figure was just 15,540, just 4%.[21]

Even with Scotland already attracting a below population share of UK migration, our remote and rural areas perform very poorly compared with our cities. It does not matter how liberal an immigration policy the UK or Scotland has, migrants clearly do not see certain parts of our country, like the Highlands and Islands, as attractive places to live and work.

The focus in our immigration debate should therefore shift away from the system and onto how we attract UK migration to Scotland and specifically to those parts of our country already struggling from depopulation. **The Scottish Government should develop a regional repopulation strategy,** looking at firstly how we retain the existing current working age population in each of Scotland's regions, and then at incentivising new migration to areas that are struggling because of depopulation.

This strategy should look to improve the services that are available in those areas, such as good housing, broadband speeds, and their connectivity to the rest of the country. It should also look at increasing job opportunities and wages in those parts of the country so that they better align with the national average. Finally, it should also look at the promotion of the opportunities in those parts of the country, both to migrants and to attract people already living in the rest of the UK.

However, immigration is not the only way that we can grow our labour force. As mentioned previously, the SNP likes to pride itself on Scotland having a lower unemployment rate than the UK as a whole. However, unemployment does not tell the full story because the ONS definition is quite tightly defined. It is termed as those individuals either "without a job, have been actively seeking work in the past four weeks and are available to start work in the next two weeks" or "out of work, have found a job and are waiting to start it in the next two weeks".[22]

By contrast, Scotland's employment rate is lower than the UK average 75.7% vs 74.2% and its economic inactivity rate is higher 20.9% vs 22.6%. This means of the Scottish workforce aged 16-64, while just 109,000 were unemployed, 779,000 were economically inactive. **If Scotland matched the UK employment rate, this would mean another 54,000 Scots in work.** Whether an individual is unemployed, or economically inactive, their impact in contributing to the economy through work is the same.[23]

Further to this, Scots work slightly less on average than UK workers. The average Scottish worker works 32.8 hours per week against 33.2 hours per week for those from the rest of the UK.[24] **Were Scotland to match the UK averages for employment and hours worked per week this would be worth an additional 2.8 million hours of work per week or, using average GVA, £6.1 billion to our economy.**[25]

If we are to encourage more people to increase their hours, or to move into work altogether, then we need to tackle the disincentives for work. **There can be no doubt that Scotland's higher tax system is a disincentive and will be a consideration for some workers in reducing their hours or taking early retirement.** This is particularly the case in the effective 54% earnings tax between the Scottish and UK higher rate thresholds, and we will consider this further in the 'competitiveness' section.

However, tax is not the only barrier to work and will have less of an impact further down the income scale. Recent research from the Resolution Foundation found two reasons for persistent working age inactivity: increased ill-health and early retirement. Recent data from the Covid-19 pandemic onwards has shown a sharp increase in the number of people in Scotland, particularly men, who are economically inactive because of ill health. Scottish rates are also higher than those in the rest of the UK.[26]

There are several healthcare interventions that should be undertaken to reduce ill-health in Scotland's population, which fall out with the scope of this paper. However, one issue that continues to be underappreciated by the SNP Government is the role of long Covid, with Scotland still not having its own network of clinics, as the Scottish Conservatives have called for.

Yet, we can make working – even if only on a part-time basis – easier for those with long-term illnesses. One way that this can be achieved is through greater home and hybrid working. The Chartered Institute of Personnel and Development (CIPD) found that 71% of workers earning less than £20,000 were not home or hybrid working, whereas 76% of those earning more than £40,000 were home or hybrid working. The shift towards, at least partial working, has overwhelmingly benefitted those in managerial or highly skilled positions rather than those in entry or unskilled positions. As such, a move towards hybrid working is less likely to be available for those returning to the labour market following a long period of inactivity.

However, CIPD also found that only 33% of employees were in roles that cannot be done from home, while a further 11% did not want to work from home at all. Another report by Flexibility Works, looking not just at where but when people work, found that of the 36% of workers that were not working flexibility, 60% would like to. They also found that 35% of employers believed that flexible working had improved employee retention.[27]

There is therefore more that can be done to encourage employers to give the option for workers in more junior positions to work at least partially from home, where they are able to do so. **Government should also look to support remote working, such as through community hubs, for those without the space or connectivity to work from home.** This could help to reduce inactivity and improve retention among those with long-term ill-health.[28]

Our social security system should also be tailored to always reward work when it is possible for an individual to so. This should include the use of taper rates to avoid cliff edges, which act as disincentives to particularly part-time employment or education.

Then there is the question of rationalisation within the public sector workforce. From 2016 to 2022, public sector employment in Scotland increased from 21.3% to 21.9% of total employment, an increase of 36,700, and above the current UK rate of 17.7%. Of this public sector employment in the reserved public sector has decreased by 800 while the devolved public sector has increased by 37,500. Outside of the NHS and local government, this growth has been driven by an increase of 10,700 in the Scottish Government civil service – an increase of 64%, far beyond the 11% increase in NHS or 8% rise in local government headcount.[29 30]

The continual increase in the size of the devolved public sector, dwarfs the fall in the reserved public sector. Given that Scotland has a finite workforce and high vacancy rate, any reduction in the public sector is likely to be to the benefit of the private sector. Yet the current Scottish Government has allowed its size to balloon at a time of increased taxes on private sector workers and financial constraints. It is in the interests of both public finances and the wider economy that the size of devolved government is reduced, rather than

increased.

A SKILLS REVOLUTION

However, we cannot just take action to increase the size of Scotland's economically active labour force. We must also ensure that we have the right skills in place for our economy. The Scottish Government's own Employer Skills Survey found that a fifth of all job vacancies in Scotland were due to skills shortages, while the Institute of Directors found that 44% of business leaders do not believe that they have a workforce with the right skills.[31]

At the other end of the spectrum, there also appears to be significant underemployment in Scotland's labour market. CIPD analysis found that 48% of recent graduates and 42% of all graduates were in jobs that did not require that level of training, above the UK rate of 36% and a higher rate than any other nation or region. They also found that over the last thirty years, the proportion of graduates in low-skilled employment has more than doubled.[32]

This matters because almost 4 in 10 underemployed graduates earned less than £20,000, against only 10% of matched graduates (those in an appropriate skills level employment). In addition, across the UK, the CIPD found that graduates from a disadvantaged background were almost twice as likely to perceive that they were overqualified as those from a more advantaged background.[33]

A consequence of this increase in low-skilled graduate employment is that the 'graduate premium', that is the additional earnings that graduates can expect to receive against those who have not gone to university has shrunk considerably. English data from the Higher Education Statistics Authority found that graduates born in 1970 had a 17% wage premium at age 26, while those born in 1990 had a premium of just 10%. For those awarded lower degree scores, the premium for the 1970 cohort was 14% against just 3% for those born in 1990. Given that the scale of graduate underemployment in Scotland is even

higher, we can expect this premium to have shrunk similarly or even further.

All of this also shows that we have reached a saturation point for certain graduates in our economy and that **a university degree is no longer a guaranteed golden ticket to career success.** However, our post-school education and skills landscape is still built around the concept that a university degree is the sole premium product. For every £1 the Scottish Government spends on skills and training, £10 is spent on supporting higher education institutes and the students who study there. Government funding per college place was also a quarter less than equivalent funding for the average university student.[34]

As such, the current structure benefits Scots from an advantaged background. The most deprived Scottish school leavers are seven times more likely to go into training, and two and a half times as likely to go to college. They are also 25% more likely to go into a job or apprenticeship, and half as likely to go to university as the least deprived school leavers.[35]

Universities do, however, play a crucial role in our economy. Yet, we need to move away from the idea that it is the only route to success. Alternatives, such as college and apprenticeships, need to be promoted at all levels so that they too can attract high quality school leavers. The funding structure for post-school study and training also needs rebalanced. Quality will only result from a parity of esteem and funding.

In particular, there is scope for improved articulation between university and college courses and apprenticeships. To that end, we welcome the publication of James Withers' "Fit for the Future" report and particularly its calls for the Scottish Government to commit to a needs-based skills model, parity of esteem and regional skills development. Its findings that the current structure lacks clarity and coherence and does not work well for far too many school leavers is an assessment we agree with, and we look forward to this report informing discussion on the future of post-16 education going forward.[36]

Our skills and education system should be much more dynamic and tied to equipping school leavers with the qualifications that local employers want and need. This should include tailoring local school curriculums and college and university courses to regional employer needs. These relationships between businesses and education providers should provide pupils from schools with as seamless as possible a transition through apprenticeships, or further and higher education, into the workplace. This would create dedicated individualised pathways from school to employment.

One way to facilitate this would be to give businesses more control over how they spend the money raised through the apprenticeship levy. The Scottish Conservatives have called for reform of the structure for funding apprenticeships to one where employers can decide how many apprenticeships they are willing to create. They would then bid for government funding to do so, and the Scottish Government would not place any limits on the number of good apprenticeship places that it is willing to fund.

Yet making changes to our post-school education and skills training will only pay off in the long-term and not fill the skills gap Scottish businesses are reporting right now. The SNP Government's own adult learning strategy found that over 300,000 Scottish adults have low or no qualifications and almost 2 million Scottish adults have low numeracy skills.[37]

More needs to be done to encourage adult learning, to ensure that Scotland's workforce is continually upskilling and reskilling in line with the demands of our economy. Tackling this skills gap will require the right incentives and support for in-work training. One suggestion we have made is for the Scottish Government to **invest in a skills account for every Scottish adult, which would give them guaranteed access to funding support for re-training and up-skilling.** The universal availability of this support would aim to create culture change and shift mindsets away from the idea that education should end in early adulthood.

We have also suggested the creation of a virtual National College to ensure that, wherever people live in the country, they have access to bite-sized education courses. This could lead to qualifications in themselves or act as entry points to further college or university study.

While we can mitigate against our declining working age population to some extent through bringing people back into work and attracting new talent, ensuring that our current and future workforce has the skills that employers need is the most important way that we can deliver sustained growth for the long-term. Delivering a skills revolution, which aligns education with the needs of our economy, should therefore be the economic priority for the Scottish Government.

A SCOTLAND COMPETITIVE WITHIN THE UK AND ABROAD

TAXATION

We will not see the full benefits from investing in Scottish skills if, following training, Scots move elsewhere to work, or businesses do not invest. Since 2017, the SNP have made Scotland the highest taxed part of the UK.

It is therefore our view that a fundamental overhaul is required in terms of how we think about taxation in Scotland and particularly the role it plays in our economy. Taxation should also be regarded as a lever which government can use to stimulate growth in our economy, in addition to its role in funding our public services.

As such, our approach to creating a tax structure that supports growth is shaped by five considerations:

- **Competitiveness:** Are our devolved taxes set at a level that is competitive both within the UK and globally? Do they encourage or discourage people and businesses to move to or from Scotland?
- **Efficiency:** Is our tax system efficient? Does it raise the most revenue possible for the least burden on individuals, families and businesses or wastage in administration?
- **Simplicity:** Is our tax system easy to understand? Do individual taxpayers understand exactly how much they are paying? Does it create higher costs to do business in Scotland?
- **Fairness:** Is our tax system fair? Does it place the burden of taxation on those most able to bear it and in a way that does not incentivise increasing earnings or trade?
- **Devolution:** Are taxes set at the appropriate local or national level?

When measured against these considerations, the current approach to taxation in Scotland is not supporting our economy sufficiently, and therefore in turn reducing funding for our public services in the medium and long term.

On competitiveness, individuals and businesses pay more in tax than their counterparts in the rest of the UK. 1.4 million workers, all those earning over £27,850, pay more in income tax. This represents 48% of all taxpayers, a proportion that has only increased as wages have risen, while tax thresholds have remained constant. This has happened across all bands, with the number of taxpayers paying the higher rate increasing by 70% from 2016/17 to 2023/24.[38]

Humza Yousaf has also said that he supports further income tax rises, a position shared with Labour, the Greens and the Liberal Democrats. Continued income tax differentiation between Scotland and the rest of the UK risks both jobs and workers leaving the country, with resulting impacts on businesses and our economy. The National Strategy for Economic Transformation targets attracting 100,000 people from the rest of the UK to move to Scotland, yet it is hard to see this being achieved while higher taxes remain in force north of the border.[39]

This is especially concerning in an economy in which home and hybrid working have become significantly more widespread. ONS data found that home and hybrid working trebled in Scotland in Q1 2022 compared with Q4 2019 – the largest increase anywhere in the country. This makes geographical proximity to a workplace less of a factor in an employee's decision on where to live, and that other factors like taxation become more important. While this effect is likely to be negligible for those on lower incomes, given that **the top 1% of earners in Scotland pay a fifth of all income tax** – lifestyle shifts by a relatively small number of people could have a major impact on Scotland's public finances and economy. What is also less quantifiable is the reverse effect on people's decision to move to Scotland and potential loss in tax revenue as a result.[40 41]

The same is also true for business taxation. In last year's budget the SNP failed to pass on business rates relief for leisure, hospitality and retail businesses for effectively the second year in a row. This means that **a comparative shop in Scotland will pay four times the tax than it would if it were based in England and Wales.** Given the effect of the pandemic and the global cost of living crisis on these businesses and on town centres, the SNP should immediately look to reinstate this relief.[42]

In addition to the practical impacts, higher tax also fuels a perception that Scotland is a less competitive part of the UK for trade and investment. This perception that the government is anti-business, can also have a damaging impact on growth.

Therefore, to ensure that Scotland's economy is not placed at a competitive disadvantage, it is our view that the **tax on individuals and businesses should be no higher in Scotland than it is anywhere else in the country.** Indeed, when finances allow, tax rates they should be lowered to send a strong message that Scotland is the most competitive part of the UK to work and do business, to attract internal migration of individuals and businesses.

On efficiency, it is clear that the current tax structure is not maximising revenue for the least possible burden. On purely administrative costs alone, the Scottish income tax system has cumulatively cost over £3 million since income tax powers were devolved.[43]

However, more significantly, the cost of higher taxes in lost growth and revenue must also be considered. As a consequence of the SNP's income tax decisions, among other structural weaknesses in the Scottish economy, earnings growth and employment increases have failed to keep pace relative to the rest of the UK. This affects through the Fiscal Framework the amount of money that the Scottish Government receives through the Block Grant. As such, we can calculate that **only 41p of every £1 paid by Scottish workers in additional income tax has gone to Scotland's public services. Furthermore, the Scottish Government is due to lose out on £7 billion of tax revenue over the next ten years because Scotland's growth rate will not match the rest of the UK.**[44]

As above, taxes should be lowered to encourage growth that at least matches the UK average. This would allow us to break the cycle of continually having to raise taxes to fund public spending because of slowing growth which further results in a slowing of growth rates.

On simplicity, the move to a five-band income tax structure has naturally increased the complexity of the system. Humza Yousaf has also stated his intention to introduce a sixth band. These changes have not only increased the tax burden on many individuals but also made the system less easily understood by individuals in general. Recent polling has suggested that almost 50% of Scots believe that the SNP's taxation policies will not deliver prosperity and adding a sixth band will only increase the public's concerns.[45]

However, for UK-wide businesses that have to develop specific Scottish systems to operate here a different tax structure can lead to increased administrative costs. This is especially the case for business rates and the Land and Buildings Transaction Tax. The Q2 business monitor report published by the FAI for 2023 has shown that 30% of businesses have cancelled or delayed investments because of the Scottish Government's taxation policy decisions.[46] As such, our tax structure should be as simple as possible and closely aligned to the structure in the rest of the UK.

On fairness, this is clearly the area which SNP use to advocate for Scottish tax differentiation, that it is more progressive. However, beyond income tax, there are substantial elements of the Scottish tax system that are outdated and therefore do not reflect our modern economy.

For example, the current system of business rates has been in place in Scotland since 1854 and is based on the nominal valuation of business properties subject to review every three years. The tax does not factor into account the number of properties operated by a single firm, turnover, or online trade.

As such, **business rates are long overdue reform.** It was disappointing that Humza Yousaf's much self-promoted business "reset" so far has amounted to little more than a commitment to continue to implement the outstanding recommendations of the Barclay Review, itself now six years old. Scottish firms need the Scottish Government to be much bolder on the future of business taxation.

That is why, the Scottish Government should undertake a widespread consultation on the future of devolved business taxation with a view toward bringing forward proposals before the next Scottish Parliament Election. This consultation should engage with the UK Government at an early point to ensure as close as possible alignment across the country. Any new business tax system should place simplicity and establishing a level playing field at the heart of its approach.

It is also the case that the current council tax system is outdated and in need of further consideration. However, the SNP's approach of increasing taxes on Bands E to H, which is around 750,000 Scottish households, without considering updating a system that has not been reviewed since its introduction more than three decades ago, is deeply unfair to more modest housing placed in higher banding. A more wholesale review of local taxation is required but this cannot be used as an excuse to increase the overall tax bill on households.

On devolution, far too many fiscal levers are held by the SNP Government and greater devolution to the Scottish Parliament has not been matched by greater devolution to local authorities in the area of taxation, among others. This has the effect of disempowering regions and an overwhelming emphasis on the central funding for local authority budgets, disincentivising them from playing an active role in local growth. Nationally set taxes and the central government grant makes up x% of local authority budgets.

Alongside a review of local taxation, the government should also consider the fiscal powers available to local authorities with a view towards increasing them.

INFRASTRUCTURE

Reducing and reforming tax will not by itself make Scotland more competitive. Scotland needs the right infrastructure, such as ports, digital connectivity, roads, and airports, for trading and doing business. Without this, businesses face higher costs and lower efficiency when moving goods around the country.

The Scottish Government needs to rethink its approach to infrastructure to make exporting as cost-effective as possible, rather than purely in terms of moving people around the country. Many of our iconic products, especially in the food and drink sector, are geographically fixed, yet the infrastructure leading to and from them is dire which affects their exporting potential.

Broadband infrastructure plays an essential role in helping businesses to develop, particularly with a larger proportion of the workforce continuing to work, at least partially, from home. However, the Scottish Government's R100 programme is not due to be finished until 2028, seven years after the originally promised completion date and only commits to providing superfast broadband (30mbps).[47]

This slow rollout is holding Scotland back and businesses and households deserve better. The Scottish Government's own Infrastructure Commission for Scotland recommended in January

2020 that they commit to delivery of a 5G capable full fibre network for the whole of Scotland by 2027. We believe that this should be a priority for infrastructure investment, to deliver a future-proofed digital network.[48]

As an island nation and a nation of islands our port and ferry infrastructure are not just essential for moving people but also for exporting goods. Last year, both of Scotland's governments worked together to set up two Scottish freeports in the firths of Forth and Cromarty. These should continue to be supported by a competitive tax regime and should also look to be expanded where appropriate. It is also the case that other ports should not be forgotten in investing to increase Scotland's exporting capacity.

A working ferry network is essential for exporting from our island communities. However, the SNP have failed to replace vessels regularly and have undermined the network with delays and cost overruns at the nationalised Ferguson yard. The Scottish Government should invest in larger vessel tranches, with more versatile cheaper designs, so as to reduce costs and build times. This will ensure that we have a more efficient and reliable service to and from the islands.

They should also look to make travel cheaper for those who live and work on the island. **We believe that discounted travel should be offered to those who live or work in island communities for ferry travel.**

Scotland's road network is also key to moving goods across our country. The Scottish Government has allowed the roads to deteriorate and has failed to provide crucial investments in our road infrastructure that would improve connectivity. The A9 should be dualled between Perth and Inverness, and the A96 between Inverness and Aberdeen.

Other key roads, such as A75 and A77, should also be upgraded to allow for the more effective movement of people and exports.

Our airports also important for exports, yet they have struggle to recover from the pandemic, with passenger numbers down by more than a quarter in 2022 from 2019. The Scottish and UK Governments should support Scotland's aviation sector and look to protect key routes, particularly from smaller airports, through Public Service Obligations.

In addition, Scotland needs to use and build its own unique brand for quality in selling goods both to the rest of the UK and the rest of the world. Key to this approach will be leveraging the Scottish diaspora both as a market in of itself but also as a way to penetrate international markets across the world. This model has been used very successfully by our Irish neighbours.[49]

However, successful exporting abroad is often underpinned by support at home. The devolved public sector alone spends £14.5 billion on buying goods and services. The more this spend can be used to support the Scottish economy, such as through schools and hospitals buying local food. **A 'Scotland First' procurement policy** would also see the blacklisting of companies that fail to pay small and medium businesses on time.[50]

Scotland's future prosperity is contingent upon us having the tax structure for being competitive within the UK, while putting the infrastructure in place to be competitive globally.

REGIONS OF INNOVATION AND EXCELLENCE

DRIVING LOCAL GROWTH

The final strand of our economic programme relates to creating regions of excellence through clustering. Economic clusters are when businesses of the same industry or complementary industries are based together in the same local area.

As the UK has become a global trading nation, that brings with it a range of opportunities for Scotland to become a world leader in exporting products and expertise to the rest of the world. However, this requires us to produce fewer, more high-quality products, rather than spreading ourselves too thin by trying to do too much. Scotland will never be able to compete with economies like China on production quantity and should not seek to do so. We must be ruthless in picking winners and using development funding and clustering is part of this approach.

The Organisation for Economic Co-operation and Development (OECD) define clustering as “the tendency of vertically and/ or horizontally integrated firms in related lines of business to concentrate geographically”. Clustering has numerous economic benefits. The proximity and concentration of these businesses to each other leads to competition and cooperation that can result in a high level of innovation. They also lead to the development of a highly skilled workforce and close relationships between businesses and education providers. Natural economic clusters already exist in many parts of Scotland, such as financial services in Edinburgh, the energy sector in Aberdeen, videogaming in Dundee and life sciences in Glasgow.[51]

One of the most important benefits of clustering, is the opportunity to create good jobs in Scotland’s regions and therefore increase productivity and wages. Scottish productivity (output per hour) was 95.3% of UK productivity in 2021, a gap that has increased since the start of the Covid pandemic. **If Scottish productivity matched that of the UK as a whole this would be worth £9.2 billion to our economy.**[52] [53]

However, this masks variation across Scotland. While Clackmannanshire (128.0%) and Edinburgh (115.1%) have substantially higher rates of productivity than the UK and Scottish averages, others such as East Ayrshire (76.4%), Na h-Eileanan Siar (75.9%) and Inverclyde (71.0%). The worst performing areas of Scotland have productivity rates comparable to Guyana and Malaysia.[54] [55]

This is essential for boosting wages in left behind communities and regions. People living in East Renfrewshire have a median wage of £24.91 per hour, and in East Dunbartonshire of £22.63 per hour. This is against £15.65 per hour in Moray, and just £15.43 in Dumfries and Galloway. As such, people in Scotland’s poorest local authority areas earn on average 38% less than those in the most affluent area. This shows the potential prize that we could achieve with a successful regional clustering programme.[56]

Scotland’s regions have already formed natural associations through the Regional Economic Partnerships, which have evolved from the Growth Deals Programme. However, the strategies underpinning these partners vary substantially in terms of focus and business sector involvement. They also vary substantially in terms of dedicated enterprise support, with Highlands and Islands Enterprise and South of Scotland Enterprise covering their respective regions, yet Scottish Enterprise covers the rest of the country.[57] [58]

At a strategic level, while the SNP Government in its Innovation Strategy recognises the importance of clustering to Scotland's economic future, the structure put in place to support this ambition is overcomplicated and unfocused. Again, it sees clustering as fitting in with its existing strategies and policies rather than as a central aim of government support for the Scottish economy.[59]

Our clustering strategy needs to be led by businesses and local partners within each region and it should be the job of government to support and develop existing partnerships rather than replace them. These regional partnerships should coordinate the activities of businesses, councils, economic agencies, and education providers to focus and support the clustering strategy, including through workforce development as mentioned previously in this paper. These partnerships would work with the UK Government to relentlessly market their regions as being centres for excellence.

Investing to support the development of sector specific clusters in every region of Scotland, would deliver good jobs in every part of our country. It would create a focused Scottish economy, that is able to seize the opportunities that come from new international trade deals by exporting quality goods and services.

A CULTURE OF INNOVATION & ENTREPRENEURSHIP

Building a successful clustering strategy that will drive local growth and increase wages is only possible if we put a renewed focus on innovation and entrepreneurship. Scotland will rarely be able to compete with large economies for scale and so we need to constantly be innovating and be at the forefront of emerging techniques and technologies.

In this regard, Scotland already has a significant advantage in having a well-developed and successful university and college research sector, which attracts more than its fair share of research and development spending. In the Scottish Government's budget for 2023-24 over £2 billion was allocated to the Scottish Funding Council to support this sector. Our universities and colleges have also benefited in recent years from also £400 million worth of support from UK Research and Innovation (UKRI).[60] This has led to excellent developments within Scotland's higher education sector. The Edinburgh Futures Institute at the University of Edinburgh, for example, has been jointly funded by the UK and Scottish Government's, and the Edinburgh and South East Scotland City Region Deal. The University of Aberdeen has also recently been recognised by UKRI for its work on creating sustainable green initiatives for Scotland's future economy.

To further develop this, government needs to lead the way in increasing funding available for innovation. While the SNP have set a target for increasing Business Enterprise Research and Development (BERD) expenditure, following the pandemic and methodology changes this target is in need of a refresh. We have previously proposed that the Scottish Government should seek to increase R&D expenditure to 2.4% of GDP by 2026, similar to the same target adopted by the UK Government.

However, research and innovation cannot just be funded for its own sake, it needs to be incentivised towards clear tangible benefits for our economy. That is why the Scottish Government needs to set up dedicated funding streams towards a range of incentives geared towards the use of research to create new businesses. These should be flexible and imaginative but could include dedicated grant funding towards spin-outs, business fellowships to allow researchers to focus on their new business ventures and funding for the commercialisation of Intellectual Property.

Then there is the need to build a culture of entrepreneurship. The latest statistics show that there were 174,000 Scottish businesses. This works out at a rate of one business for every 32 people. The comparative figure for the UK as a whole was one business for every 24 people. This shortfall exists across all business sizes. If Scotland matched the UK's business population levels, then there would be more than 53,000 additional Scottish businesses.

Therefore, as a nation we need to be much more supportive of the creation of start-ups and up-scaling of businesses. Recent research by the University of Strathclyde has shown that Scots continue to lack confidence to set-up their own business. Furthermore, in 2022 the nascent entrepreneurship rate and the new business owner-manager rate was an average of 8.8% in Scotland compared to a UK average of 11%.[61] One way in which this can be achieved is in more closely aligning Business Gateway Services with regional and national economic agencies and strategies and by ensuring that they are properly funded to act as one-stop shops for enterprise advice and support.

Another angle is in the lack of women entrepreneurs. Only 21% of small business owners are women. If the number of women entrepreneurs matched the number of men, then this would equate to a 5.3% growth in the size of the Scottish economy.[62] As such it is essential in promoting an entrepreneurial culture that the role of women is featured prominently.

Scotland's business demography currently lacks substantially in small and medium enterprises (SMEs) and this situation has been worsened by the Covid-19 pandemic. SMEs currently account for 56% of total private sector employment with retail, accommodation, and food services making up most of the sector.[63] Many of these businesses have struggled to rebound since the pandemic, with access to cash and financial support being a key reason why many Scottish SMEs are frequently closed or sold off. Scottish Enterprise should ensure that there are funding streams available for businesses seeking to upscale to medium sized or already at this stage.

Building a culture that encourages innovation and entrepreneurship is essential for delivering growth of the future. By investing more resources today, we can create the businesses and growth sectors of tomorrow.

CONCLUSION

This paper is intended to kickstart a debate on how we best create growth in our economy. The approach we have set out focuses on streamlining our economic strategy to make best use of public money. It also argues for a whole population and economy approach to workforce planning to maximise the development of the skills that current and future employers need. Additionally, it calls for a more competitive economic environment that invests in key infrastructure, lowers taxes on individuals and businesses, and widens the tax base. Finally, it calls for a regional clustering approach to drive up wages in left behind areas and build an exporting economy.

However, we do not pretend to have all the answers, and this is just the start of the discussion. We would welcome further engagement with business and other interested parties as we shape our economic policy going forward. Rising public spending pressures and a stagnating economy are challenges we all face, and we all have a stake in solving.

ENDNOTES

1. SG, GDP first quarterly estimate 2023 Q1 (January to March), 31 May 2023: https://www.gov.scot/publications/first-estimate-of-gdp-2023-q1/
2. Holyrood, 26 April 2023:https://www.holyrood.com/inside-politics/view,the-wellbeing-economy-can-it-really-work
3. SG, Scotland's National Strategy for Economic Transformation, March 2022, p. 13: https://www.gov.scot/binaries/content/documents/govscot/publications/strategy-plan/2022/03/scotlands-national-strategy-economic-transformation/documents/delivering-economic-prosperity/delivering-economic-prosperity/govscot%3Adocument/delivering-economic-prosperity.pdf
4. SG, Scotland's National Strategy for Economic Transformation, March 2022, p. 21: https://www.gov.scot/binaries/content/documents/govscot/publications/strategy-plan/2022/03/scotlands-national-strategy-economic-transformation/documents/delivering-economic-prosperity/delivering-economic-prosperity/govscot%3Adocument/delivering-economic-prosperity.pdf; Scottish Conservative FOI, response received 19 June 2023.
5. SG, New Leadership – A fresh start, April 2023, p. 10: https://www.gov.scot/binaries/content/documents/govscot/publications/strategy-plan/2023/04/equality-opportunity-community-new-leadership-fresh-start/documents/equality-opportunity-community-new-leadership-fresh-start/equality-opportunity-community-new-leadership-fresh-start/govscot%3Adocument/equality-opportunity-community-new-leadership-fresh-start.pdf
6. SFC, Fiscal Sustainability Report – March 2023, p. 3-7: https://www.fiscalcommission.scot/publications/fiscal-sustainability-report-march-2023/
7. SFC, Scotland's Economic and Fiscal Forecasts, June 2023, p. 60: https://www.fiscalcommission.scot/publications/scotlands-economic-and-fiscal-forecasts-may-2023/
8. SG, Government Expenditure & Revenue Scotland (GERS) 2022-23, 24 August 2022, Table 3.1, 3.5: https://www.gov.scot/binaries/content/documents/govscot/publications/statistics/2023/08/government-expenditure-revenue-scotland-2022-23/documents/government-expenditure-revenue-scotland-2022-23/government-expenditure-revenue-scotland-2022-23/govscot%3Adocument/government-expenditure-revenue-scotland-2022-23.pdf
9. OSSS Press Release, 30 December 2022: https://www.gov.uk/government/news/levelling-up-reaches-new-heights-in-scotland
10. SPICe, Levelling Up: the view from Scotland 30 January 2023: https://spice-spotlight.scot/2023/01/30/levelling-up-the-view-from-scotland/#:~:text=In%20Round%202%2C%20the%20value,up%20to%20%C2%A350%20million.
11. DLUHC Press Release, 30 June 2023: https://www.gov.uk/government/news/new-uk-investment-zones-announced-to-grow-the-economy-in-scotland
12. SG, Export Statistics Scotland 2019, 21 October 2021: https://www.gov.scot/publications/export-statistics-scotland-2019/
13. FAI, The economic policy landscape in Scotland, 28 March 2018: https://fraserofallander.org/economic-policy-landscape-scotland/
14. FAI, Business Monitor Report, Q1 2023: https://fraserofallander.org/wp-content/uploads/2023/05/Fraser-of-Allander-Q1-2023-Business-Monitor-09-05-2023.pdf.
15. ONS, Labour Market Statistics, 15 August 2023: https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/timeseries/ycnn/lms
16. SFC, Fiscal Sustainability Report – March 2023, Supplementary figures: https://www.fiscalcommission.scot/publications/fiscal-sustainability-report-march-2023/
17. ONS, Vacancies and jobs in the UK: June 2023, 13 June 2023: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/june2023
18. ONS, Long-term internal migration, 25 May 2023: https://bit.ly/3EvOCWx
19. ONS, Population by country of birth and nationality, 25 September 2021: https://bit.ly/3qNuziW
20. National Records of Scotland Population Estimates Time Series Data, 13 July 2022: https://www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/population/population-estimates/mid-year-population-estimates/population-estimates-time-series-data
21. NRS, Local Area Migration, 11 August 2022: https://www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/migration/migration-statistics/local-area-migration
22. ONS, Labour Market Statistic, 16 June 2020: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/methodologies/aguidetolabourmarketstatistics#unemployment
23. ONS, Labour Market in the Regions of the UK, 15 August 2023: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/regionallabourmarket/august2023; NOMIS, Labour Market Profile – Scotland, 21 August 2023: https://www.nomisweb.co.uk/reports/lmp/gor/2013265931/report.aspx
24. ONS, Earnings and hours worked in the UK by region, 22 October 22: https://www.ons.gov.uk/employmentandlabourmarket/

peopleinwork/earningsandworkinghours/datasets/regionbyindustry2digitsicashetable5
25. ONS Dataset Output per hour worked UK, 26 April 2023: https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/datasets/outputperhourworkeduk
26. FAI, Economic inactivity and ill health in Scotland, 14 March, https://fraserofallander.org/economic-inactivity-and-ill-health-in-scotland/
27. Flexibility Works, Flex for Life Report 2023: https://www.flexibilityworks.org/flexible-working-research/flex-for-life-report-2023/
28. CIPD, Working Lives in Scotland Report 2023: https://www.cipd.org/globalassets/media/knowledge/knowledge-hub/reports/2023-pdfs/2023-working-lives-scotland-report-8407.pdf
29. SG, Public Sector Employment in Scotland Statistics for 4th Quarter 2022, 14 March 2023, Data tables: https://www.gov.scot/publications/public-sector-employment-scotland-statistics-4th-quarter-2022/documents/
30. ONS, Public sector employment as % of total employment, 13 June 2023: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/publicsectorpersonnel/timeseries/db36/pse
31. SG, Scottish Employer Skills Survey 2020: https://www.gov.scot/binaries/content/documents/govscot/publications/statistics/2021/05/scottish-employer-skills-survey-2020-2/documents/scottish-employer-skills-survey-2020/scottish-employer-skills-survey-2020/govscot%3Adocument/scottish-employer-skills-survey-2020.pdf; https://www.iod.com/locations/scotland/news/iod-scotland-survey-smes-have-low-confidence-in-finding-solution-to-skills-gap/
32. CIPD, Impact of Graduate Overqualification in Scotland, 8 November 2022: https://www.cipd.org/uk/knowledge/reports/graduate-overqualification-scotland/
33. CIPD, What is the Scale and Impact of Graduate Overqualification in the UK, November 2022: https://www.cipd.org/contentassets/3b163ee99bd746f5abe87e5dcd49fd6d/graduate-overqualification-uk_tcm18-112169.pdf, https://www.cipd.org/contentassets/f4749c0095144eb99046ff964b8b0895/graduate-overqualification-scotland_tcm18-112271.pdf
34. Colleges Scotland, Our Colleges, 21 August 2023: https://collegesscotland.ac.uk/35-colleges-scotland/member-colleges/facts-and-figures
35. SG, Summary Statistics for Attainment and Initial Leaver Destination, 28 February 2023: https://www.gov.scot/binaries/content/documents/govscot/publications/statistics/2023/02/summary-statistics-attainment-initial-leaver-destinations-no-5-2023-edition/documents/summary-statistics-attainment-initial-leaver-destinations-no-5-2023-edition/summary-statistics-attainment-initial-leaver-destinations-no-5-2023-edition/govscot%3Adocument/summary-statistics-attainment-initial-leaver-destinations-no-5-2023-edition.pdf
36. SG, Fit for the Future, May 2023: https://www.gov.scot/binaries/content/documents/govscot/publications/independent-report/2023/06/fit-future-developing-post-school-learning-system-fuel-economic-transformation/documents/fit-future-developing-post-school-learning-system-fuel-economic-transformation-skills-delivery-landscape-review-final-report/fit-future-developing-post-school-learning-system-fuel-economic-transformation-skills-delivery-landscape-review-final-report/govscot%3Adocument/fit-future-developing-post-school-learning-system-fuel-economic-transformation-skills-delivery-landscape-review-final-report.pdf
37. SG, Adult learning strategy, 10 May 2022: https://www.gov.scot/publications/adult-learning-strategy-scotland-2022-27/documents/
38. SG, Scotland's Economic and Fiscal Forecasts – May 2023: https://www.fiscalcommission.scot/publications/scotlands-economic-and-fiscal-forecasts-may-2023/
39. SG, National Strategy for Economic Transformation, 1 March 2022: https://www.gov.scot/publications/scotlands-national-strategy-economic-transformation/
40. ONS, Homeworking in the UK, 11 July 2022: https://bit.ly/3qKWeRs
41. Scottish Fiscal Commission, Scotland's Economic and Fiscal Forecasts Tax Supplementary Figures, 25 May 2023, https://www.fiscalcommission.scot/publications/scotlands-economic-and-fiscal-forecasts-may-2023/.
42. The Herald, 20 May 2023: https://www.heraldscotland.com/politics/23534082.scottish-retailer-hits-huge-tax-difference-england/
43. National Audit Office, Administration of Scottish Income Tax, 12 January 2023: https://www.nao.org.uk/wp-content/uploads/2023/01/Administration-of-Scottish-income-tax-2021-22.pdf
44. Scottish Fiscal Commission, 28 March 2023: https://www.fiscalcommission.scot/publication-categories/fiscal-sustainability/
45. Survation, 10 May 2023: https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fcdn.survation.com%2Fwp-content%2Fuploads%2F2023%2F05%2F22112648%2FTrue-North-Tables-May-22-2023.xlsx&wdOrigin=BROWSELINK
46. FAI, Scottish Business Monitor, 2023 Q2, https://fraserofallander.org/wp-content/uploads/2023/08/4942371721-Fraser-of-Allander-SBM-Q2-2023._003indd.pdf
47. SG, Delivering R100: https://www.gov.scot/news/delivering-r100/
48. ICS, Phase 1: Key findings report: https://infrastructurecommission.scot/storage/281/Phase1_FullReport.pdf
49. Global Scot, 21 August 2023: https://www.globalscot.com/home
50. SG, Public sector procurement: https://www.gov.scot/policies/public-sector-procurement/
51. OECD, CEI Report on Clusters, 21 August 2023: https://www.oecd.org/cfe/leed/17942708.pdf
52. ONS, Annual regional labour productivity, 20 June 2023: https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/datasets/annualregionallabourproductivity

53. SG, GDP Quarterly National Accounts: 2022 Quarter 4 (October to December), 26 April 2023, other national accounts summary tables: https://www.gov.scot/publications/gdp-quarterly-national-accounts-2022-q4/#:~:text=In%20the%20latest%20quarter%20there,similar%20to%20pre%2Dpandemic%20levels
54. ONS, Subregional productivity: labour productivity indices by local authority district, 20 June 2023: https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/datasets/annualregionallabourproductivity; https://bit.ly/3EcRbMU
55. UN Data, Gross Value Added by Kind of Economic Activity at current prices, 14 June 2023: http://data.un.org/Data.aspx?d=SNAAMA&f=grID:201;currID:NCU;pcFlag:0
56. SPICe, Earnings in Scotland 2022: https://sp-bpr-en-prod-cdnep.azureedge.net/published/2023/2/27/e0888682-8f9a-46f0-9448-5a588c583f58/SB%2023-08.pdf.
57. SG, National Strategy for Economic Transformation, Evidence from Regional Economic Partnerships, March 2022: https://www.gov.scot/binaries/content/documents/govscot/publications/research-and-analysis/2022/03/scotland-national-strategy-economic-transformation-evidence-regional-economic-partnerships/documents/scotland-national-strategy-economic-transformation-evidence-regional-economic-partnerships/scotland-national-strategy-economic-transformation-evidence-regional-economic-partnerships/govscot%3Adocument/scotland-national-strategy-economic-transformation-evidence-regional-economic-partnerships.pdf
58. South of Scotland Regional Economic Partnership, 21 August 2023: https://sosrep.dumgal.gov.uk/
59. SG, Scotland's National Innovation Strategy, May 2023, p. 10: https://www.gov.scot/binaries/content/documents/govscot/publications/strategy-plan/2023/06/scotlands-national-innovation-strategy/documents/scotlands-national-innovation-strategy/scotlands-national-innovation-strategy/govscot%3Adocument/scotlands-national-innovation-strategy.pdf
60. SG, Budget 2022-23, https://www.gov.scot/binaries/content/documents/govscot/publications/corporate-report/2022/12/scottish-budget-2023-24/documents/scottish-budget-2023-24/scottish-budget-2023-24/govscot%3Adocument/scottish-budget-2023-24.pdf; UKRI, Geographical Distribution of UKRI Spend in 2019-20 and 2020-21, https://public.tableau.com/app/profile/uk.research.and.innovation.ukri./viz/GeographicalDistributionofUKRISpendin2019-20and2020-21/UKRISpend
61. University of Strathclyde, 3 July 2023: https://www.strath.ac.uk/whystrathclyde/news/2023/scotslackconfidenceinlaunchingownbusinessasstart-upratelagsonukaverage/.
62. Business Gateway, Women in Business: https://www.bgateway.com/resources/women-in-business#:~:text=Women%27s%20enterprise%20can%20be%20difficult,to%20start%20businesses%20as%20women.
63. SPICe Spotlight , 8 June 2021: https://spice-spotlight.scot/2021/06/08/guest-blog-the-impact-of-covid-19-on-scottish-smes-liquidity-and-access-to-finance/; 21 July 2022: https://spice-spotlight.scot/2022/07/21/hospitality-in-scotland-impact-of-the-pandemic-and-the-cost-of-living-crisis/

Promoted by the Scottish Conservative & Unionist Party, 67 Northumberland Street, Edinburgh, EH3 6JG.