



South of Scotland Competitiveness Strategy

2016-2023

April 2016

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1. Introduction

- 1.1 The South of Scotland Alliance (SoSA) is committed to raising the profile of the South of Scotland, and the positive contribution the region can make to Scotland's future prosperity. The Alliance is a partnership between Dumfries and Galloway Council, Scottish Borders Council, and Scottish Enterprise, and works to highlight the economic challenges facing the region as well as identifying and developing opportunities for growth.
- 1.2 SoSA adopted its first South of Scotland Competitiveness Strategy in 2006 and has made significant progress towards delivering its key priorities, particularly the expansion of superfast broadband access and the development of a targeted South of Scotland Rural Regional Economic Development Programme (RREDP).
- 1.3 However, the evidence base on which the original Strategy rests is now almost a decade old, and reflects neither the changing national and local policy context nor the impact of a financial crisis that was unforeseen when it was launched. Moreover, SoSA's growing reputation for delivering on major projects and strengthening relations between its constituent partners have heightened the Alliance's ambition and drive to bring transformational, long term change to the South of Scotland's economy.
- 1.4 For these reasons SoSA has developed this new Competitiveness Strategy, which sets the strategic direction for actions it will take over the next seven years to deliver transformational economic growth across the South of Scotland. The Strategy will enable the Alliance to build on its past successes and, working alongside partners and stakeholders, help ensure that the region makes a full contribution to realising all four core strands of Scotland's Economic Strategy - internationalisation; innovation; investment; and inclusive growth.

2. Why does the South of Scotland need a Competitiveness Strategy?

- 2.1 The South of Scotland has made a vital contribution to national prosperity. Its dairy, meat, and textiles industries have fed and clothed communities for generations, both at home and abroad, and continue to make an important contribution to our national economy.
- 2.2 We know however that the area could deliver so much more. The regional economy is underperforming, but the assets we have at our disposal – both in terms of people and place, and increasingly enabling infrastructure – could if fully utilised transform it into an exemplar for other rural economies across the country.
- 2.3 In developing this Competitiveness Strategy SoSA aims to support the Scottish Government's plans to deliver inclusive economic growth, enabling the South of Scotland to realise its full economic potential and empowering businesses to seize new opportunities.¹

¹ A full overview of the regional economic landscape and the wider strategic context in which this Strategy sits is available at Annex 1.

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3. Our vision

3.1 In delivering this Competitiveness Strategy, SoSA's vision is that:

'By 2023 the South of Scotland will be a thriving rural economy, transformed by a growing core of innovative, ambitious businesses ,and sustained by a renewed culture of entrepreneurship.'

4. Our priorities

4.1 SoSA is committed to realising its strategic vision by tackling the long term, structural challenges that have restricted economic growth in the South of Scotland. It has therefore agreed three highly focused priorities, each of which requires a mixture of short, medium, and long term action. These are:

- Fostering a culture of innovation;
- Inspiring enterprise and entrepreneurship; and
- Creating resilient, future-proof enabling infrastructure.

4.2 The Alliance will of course remain agile and flexible enough to respond to new opportunities, as these emerge. However, the majority of SoSA activity over the coming years will aim to deliver on these three overarching priorities, in order to deliver maximum sustainable impact.

Fostering a culture of innovation

4.3 We know businesses that have a track record of innovation are more likely to grow and to trade internationally than those that do not. Research has also shown that almost two thirds of productivity growth over the last decade resulted from innovation, and that innovative companies grow twice as fast - in both turnover and headcount - than firms that do not innovate.

4.4 Innovation can take many forms - from cutting edge R&D to new production processes or customer engagement strategies - and there are multiple products and services on offer to companies seeking to try new things. For example, over the past two years approximately 10% of SE's account managed companies in the South of Scotland have received an innovation support grant, enabling them to explore a wide range of innovative development activity. Whilst this is a relatively high level of uptake compared to other parts of Scotland, it represents too small a range of companies - spread over too wide a geographical area - to have a pronounced impact on the regional economy, or to foster a business culture in which innovative practices and informed risk taking become the norm.

4.5 We know that businesses can be reluctant innovators for many different reasons, from high costs and skills gaps to the perceived difficulty and risk involved. SoSA will tackle these issues head on by taking action to realise the long term cultural change needed to make innovation a core activity for every ambitious South of Scotland business.

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- 4.6 By working with our public and private sector partners, we will foster a culture of innovative thinking and practice across all sectors of the economy, whilst engaging particularly closely with those that have the greatest potential to deliver sustainable, high value growth. Action will focus on all parts of the innovation journey, from inspiring businesses that are not currently innovation active to delivering specialist support for established innovators with the potential to realise the most promising new ideas.

Inspiring enterprise and entrepreneurship

- 4.7 The South of Scotland is rightly proud of its industrial heritage and continues to nurture world-class companies, particularly in sectors such as textiles and food and drink. However, whilst Scotland's business base has grown by 5% since 2010, the number of firms operating from the South of Scotland has remained static.
- 4.8 We do not believe that the South of Scotland is inherently less ambitious than any other part of the country. Indeed, high levels of self employment reflect the region's strong entrepreneurial spirit. However, it is equally clear that the area needs many more successful, dynamic businesses, particularly in high value sectors, to significantly increase its GVA output and create the sustainable and well paid jobs on which long term prosperity depends.
- 4.9 We will help deliver this long term change by working with our partners in education and in the business community to inspire a new culture of entrepreneurship in the South of Scotland. We will reach out to our schools, Further Education and Higher Education providers to explore new ways of promoting and supporting a culture of enterprise amongst young people, whilst at the same time removing the barriers that can prevent nascent entrepreneurs from realising their business ambitions.
- 4.10 Equally important in the shorter term, we will take action to ensure our existing businesses have the confidence and support they need to both develop and realise ambitions for growth. Research has shown that perception - of risk, of difficulty, and of cost/benefit calculations - can have a significant impact on business ambition, as well as more objective concerns such as skills shortages.
- 4.11 We know that competent and confident leadership is essential to overcoming these barriers, and that targeted support can deliver real results. For example, 90% of participants in SE's Rural Leadership Programme considered it to have had a positive or strongly positive impact on their personal ambition and level of motivation, and 83% felt it had been effective in helping them to motivate others.
- 4.12 However, we also know that too few businesses are engaging in similar initiatives. SoSA will work with as wide a range of public and private sector partners as possible to engage the business community, promote the benefits of strong leadership, and if necessary develop new and innovative responses to business need, where this will help achieve the step change in business growth and ambition that we seek.

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Creating resilient, future-proof infrastructure

- 4.13 The South of Scotland's remote rural beauty is one of its greatest assets - one that can act both as a catalyst for and a barrier to economic growth. We know that continuing investment in infrastructure, both physical and virtual, is essential to the region's long term sustainability. SoSA will continue to seek new opportunities - working alongside local, regional, and national partners - to enhance the region's infrastructure, so that it meets current and future expectations both within the wider populace and most particularly amongst the business community.
- 4.14 However, it is equally important that we take action to fully exploit what we already have. The rollout of superfast broadband to at least 95% of premises by the end of 2017 creates new possibilities for business and enterprise. SoSA will champion these opportunities, whilst at the same time continuing to press for coverage to be extended to the 'excluded 5%'. We will also work with partners to ensure that the South of Scotland is well placed to trial emerging ultrafast technologies, ensuring that a new 'digital divide' does not open in future years that could again leave rural areas like the South of Scotland at a significant competitive disadvantage.
- 4.15 The full implementation of SoSA's transformational Rural Regional Economic Development Programme will also deliver significant new assets in the South of Scotland, particularly in the tourism and energy sectors. We will extract full value from the Programme over the coming years by completing delivery of all four core projects and by working with partners to ensure every opportunity is taken to develop complementary business activity.

5. What will success look like?

- 5.1 This Strategy is highly ambitious - deliberately so. We know that a step change is needed in the South of Scotland economy, and that only long term, sustainable yet radical action will deliver it. In implementing our plans, by 2023 SoSA will have delivered increases in:
- The % of the business base classed as active innovators.
 - The % of businesses trading internationally.
 - The % of employers engaged in leadership and workforce development.

6. Measuring progress

- 6.1 SoSA will create a series of action plans to accompany this Strategy, which will set out the specific initiatives partners will develop in the short, medium, and long term in order to achieve our aims. The Alliance will take full ownership of these plans and monitor progress closely, taking further action where needed to ensure progress is made at the pace and on the scale needed to transform the South of Scotland economy.

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Annex 1

Economic overview and strategic context

- 1.1 The South of Scotland is one of the most remote parts of lowland Scotland. The region stretches over more than 4300 square miles, but has a population density almost two thirds lower than the national average.
- 1.2 The area is home to 13,220 businesses, but has struggled economically in recent years - growth has not kept pace with the rest of the country and GVA per head actually fell between 2007 and 2013, from 72% of the national average to only 70%. Average weekly wages also slipped over the same six-year period, from 89% of the national average to 87% - in monetary terms, a gap of more than £65 per worker, per week.
- 1.3 84.5% of South of Scotland businesses are 'micros' employing fewer than 5 people, almost 5% more than the national average, and primary industry is a dominant force. The agriculture, forestry, and fishing sector accounts for 25% of economic activity, almost three times the Scotland average. However, the sector contributes only c.6% to regional GVA, suggesting that relatively low value activity predominates. Conversely, higher value occupations including professional, scientific and technical (PST), information and communication (I&C), and finance and insurance (F&I), are under-represented. These three sectors make up only 11% of activity in the area - half the Scotland average.
- 1.4 The region is home to several innovative, industry-leading businesses, but spend per head on research and development (R&D) is almost 75% less than the national average. Moreover, whilst almost two thirds of SE account managed companies trade internationally, this regional average hides significant differences between the two local authority areas - 82% of account managed firms in Scottish Borders export directly, compared to only 44% in D&G.
- 1.5 Many of the challenges reflected in these statistics are indicative of long term, structural weaknesses in the regional economy, which multiple agencies are working to address. There are for example clear complementarities between the D&G Regional Economic Strategy (2014-2020), the Scottish Borders Economic Strategy (2013-2023), and the SE Business Plan (2015-2018). All three recognise the need to foster the right conditions for businesses to compete nationally and internationally, strengthen both public and private sector leadership, and invest in key strategic assets.
- 1.6 SoSA will exploit these synergies by focusing on a small number of priority interventions where activity at the South of Scotland level can bring genuine additionality and deliver nationally-significant outcomes. In doing so it will take into account and where appropriate work closely with wider regional partnerships that are equally committed to delivering sustainable economic growth, including the Edinburgh City Deal authorities and cross-border Borderlands Initiative.