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Advisory Group on Economic Recovery
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Dear Benny

We welcome the opportunity to contribute to the work of the Advisory Group on Economic Recovery. COVID-19 has had a significant impact on us all. Together we will have the big ideas to tackle the impact and to lead us to the better recovery we all want to see. Now more than ever is the time to be bold and do things differently, core values for us in South of Scotland Enterprise (SOSE).

My letter focuses on supporting recovery for the rural economy, briefly capturing our key ideas, with further detail in the annexes that follow, including an overview of our economic context. We should be very happy to provide more context as your work progresses.

Maximising the green energy opportunities

The climate emergency and the 2045 net zero date set us challenging targets and require a team Scotland Scotland approach to ensure we create a competitive efficient energy sector with first class infrastructure that can power our future industrial ambitions, export energy to neighbours and set up long term sustainable jobs in a world leading supply chain. At the same time there must be a Just Transition for communities and businesses ensuring everyone can charge their car and afford to heat their homes. We need to examine all types of renewables to ensure we meet the net zero target. However, as an example, we set out in **Annex A** how co-ordinated action now to deliver infrastructure and project planning in offshore and onshore wind will ensure we can capitalise on the massive opportunity ahead of us. It also ensures that rural communities benefit from: an improved distribution system that will meet their future needs; the opportunity to invest in local projects; and employment opportunities for skilled jobs with the ability to gain those skills locally.

Restoring our collective confidence

COVID-19 has taken its toll across all our communities and shaken our confidence. Scotland has a powerful brand that resonates across the world. We need the biggest marketing campaign we have ever put in place to bring people back to Scotland, from tourists, to international businesses and inward investors. We need to give the message that Scotland is a safe place to visit and do business, so they can have faith in the companies they already have in Scotland and bring new ones to us. A national campaign needs to be supported by strong regional campaigns celebrating each part of Scotland. The South of Scotland is uniquely placed with proximity to the English and Irish markets. It has a long tradition of being attractive to domestic tourists. As well as an external focus we need to look internally to ensure that communities feel safe to welcome visitors again. This is an opportunity to build the capability and leadership skills in our communities. **Annex B** provides more detail for this and the following areas.

Unlocking opportunity through investing in our infrastructure

Rural communities need the right infrastructure to enable them to thrive and contribute fully to Scotland's inclusive growth. That requires us to look differently at what we understand rural infrastructure to be and how we invest in it. We need to facilitate investment in business models that enable aggregation of facilities essential to the rural economy but where they can be owned locally. We have seen a huge increase in buying

locally, with farmers keen to sell directly and consumers concerned about provenance and food-miles, but this requires the right local infrastructure (small abattoirs and packing and distribution facilities) if we are to derive real economic benefit. We need to establish a fund to support co-operatives and other partnerships build new and bigger capacity to supply local and other markets.

This does not replace the need for investment in more traditional infrastructure and we need regions to be virtually and physically well-connected, with investment in road and rail.

Across the South, there are properties that are empty or unfit for current use. Focusing on restoring that stock could create economic opportunity for a range of SMEs, generating local employment, as well as contributing to net carbon targets and reducing fuel poverty. This includes the stock owned by housing associations, where there is an immediate opportunity to retrofit renewable heating systems and insulation. There is the potential to establish a fund to support the repurposing of a range of assets, to attract those to looking for space and a safe place to live and do business. This is an opportunity to tackle rural depopulation, promoting areas of rural Scotland.

Delivering digitally

Government investment in digital infrastructure remains vital to rural Scotland and R100 is delivering broadband to our communities. But our experience of the crisis has demonstrated the challenge of slow broadband speeds, with remote meetings not easy and home-learning challenging. Looking ahead, we expect the demand for faster and more reliable connectivity to increase as the different ways of working continue, with businesses continuing to look to on-line models and e-commerce as well as many new technologies in agriculture are dependent on better connectivity. Good mobile connectivity is also essential and we need to accelerate investment in 4G and 5G. We would like to see investment in infrastructure continue at pace. In parallel, we need to ensure that people have the knowledge and skills to make best use of the technology.

Creating opportunities for young people

We have long faced the challenge of our young people leaving the region and not seeing opportunities to come back. COVID-19 risks intensifying our experience reducing opportunities further but with the right interventions we can turn that around. We have invested in the learning and skills digital network bringing learning to people. This has stood us in good stead to respond to current circumstances and we can go further.

If, as we expect, unemployment increases and there is greater pressure on jobs, we need more learning opportunities to help our young people to develop skills required and to shield them from immediate unemployment. Businesses need to be supported to create apprenticeships, which pre-COVID-19 were already limited. The apprenticeship process needs to be easier for businesses and receptive to a model that allows businesses to share apprentices. We need to highlight in schools and elsewhere the opportunities across the more traditional sectors in our economy, including farming, forestry, textiles, construction and care, demonstrating the diversity of opportunity and the career progression that is possible.

Ensuring regulation does not stifle opportunity

We recognise the complexity of the regulatory environment and the Scottish Government's commitment to better regulation. However, there is more that could be done to address regulation that is preventing sustainable economic opportunities. Businesses regularly highlight frustration with regulation developed to address past issues which is no longer relevant. Rural land owners are unable to build houses on their land to house family, workers or those wanting to live in the countryside but enabling them to do so appropriately would bring huge benefits to more remote communities and economies. If we are to have the successful and growing economy we want for the South of Scotland then we need places for employees of all types to stay, and not just in our larger settlements but also in our small communities as well. Different ways of working begin to open up opportunities for people to live in rural communities, while working remotely, which will

also grow and create new demand for services which has been seen in other parts of the UK and elsewhere in the world as people move out of cities.

Much can be learned from the approach taken to regulation in the forestry sector where a review of the regulation associated with approving forest creation projects has streamlined the process, leading to faster decision making, saving money, time and increasing confidence for investors as well as more trees being planted.

In conclusion

We have seen a growing divide between urban and rural Scotland and we need to act now to break down those barriers, to recognise that rural Scotland has our own identity and sense of purpose, and to value the contribution we can make to the overall well-being of Scotland. National approaches do not serve the whole of Scotland well and a separate recovery plan for rural Scotland is important.

Delivering sustainable and inclusive economic growth, in its broadest sense, requires us all to work together, behind a clear purpose, ignoring organisational boundaries. As SOSE, we are working closely with the two local authorities to deliver the best outcome for the South of Scotland, that team approach is more essential than ever.

Making the impact we need to have will be challenging. We need to make sure we know when we are having that impact. This reinforces the need for a measurement framework that moves away from traditional economic measures to measuring what matters to us all. We need to look at new indicators, that capture well-being. We are looking at those indicators for SOSE, but to make a real difference, we need all agencies to align to achieving sustainable inclusive growth and well-being.

I look forward to seeing the next stages of your work and would be happy to discuss our ideas further.



Professor Russel Griggs OBE
Chair, South of Scotland Enterprise

MAXIMISING GREEN ENERGY OPPORTUNITIES

CONTEXT

The climate emergency and 2045 net zero target sets a challenging set of targets and requires a team Scotland approach to ensure we create a very competitive efficient energy sector with first class infrastructure that can power our future industrial ambitions, export energy to neighbours and set up long term sustainable jobs in a world leading supply chain. At the same time there must be a Just Transition for communities and businesses in the South of Scotland ensuring everyone can charge their car and get cheap energy for heating their homes. Both these objectives support and help drive each other forward. SOSE wish to define where the region it serves can play a major role in meeting Government targets proactively, identifying what it can deliver, and the role for local and national players in doing so.

OFFSHORE WIND

Scotland has a stated target of 8-10 GW of offshore wind by 2030, while setting up the infrastructure planning and project pipeline to deliver 10-20 GW of additional floating wind by 2040/45 (assuming prices can follow those of fixed bottom wind). This gives a £20-30 billion opportunity in the next decade but needs quick and decisive co-ordinated action to set up the foundation for expansion in future decades.

- Roles for Government, UK and Scotland
 - Create a vision for the industry the country wants in 2040.
 - Agree the grid infrastructure plan that enables that vision. The current system of OFTO and developing one grid connection per project is both inefficient and costly. A harmonised network including links to other markets is required to ensure the cheapest, most reliable and secure network is delivered to cut cost to consumers and give investors confidence to create the pipeline of projects needed to develop a sustainable supply chain.
 - Allow Grid owners and the ESO to collaborate to design and consent the network. Permitting a network takes 5-8 years. Building a network takes 3-4 years. We cannot wait until projects are consented to start the process. Grid consents must be in place to deliver capacity on time.
 - Use NPF4 to ensure the network plans have a needs-based case.
 - Engage with supply chain to understand where these plans can unlock investment and jobs.
 - Create a sector plan including grid to help investor confidence.
 - Support the supply chain companies to set up with latest technology and know how. This will ensure sustainable work and a competitive sector with no compromise on quality or price. Automation and modern methods/ management are key. These will probably need to be imported to begin with to help set up new fit for purpose centres of excellence. SOSE, HIE, SE and the new investment bank should all pay their part in this investment plan.
 - Look to collaborate with other nations if it creates a better supply chain story and long term investment for secure jobs. Norway and Scotland could collaborate on an offshore floating wind plan and supply chain, sharing in the benefits, investment and creating a much larger sector than one country alone.
 - Education and training are also part of this new environment.
 - SOSE recognise that this is a plan for very large companies with large balance sheets but also recognise that the momentum this sector would bring would help all clean energy in Scotland and create a competitive environment for cheap clean power. We will support them to build local supply chains to ensure local businesses and people benefit from the opportunities.
 - In all of this there is no need to tie in large amounts of public money. If the planning is correctly managed, regulation is modified (redesigned where required) and large investment opportunities bundled for the market to invest in, the transition can be funded by private/ pension fund investors. Government provide the vision, structure and efficient design in collaboration with industry to lay the foundation for investment.

ONSHORE LARGE-SCALE WIND

- Onshore wind is established in Scotland but can do much more than it has done to date.
- It will be the cheapest source of electricity in Scotland.
- It can deliver another 8-10 GW of new capacity by 2035, by which time it will be a sustainable sector and supply chain, repowering, maintaining, improving, managing and innovating.
- To achieve this there needs to be a plan like offshore above.
- Plan an efficient grid network.
- Plan supply chain and operational hubs.
- Support the supply chain to capture more of the value in both construction and operation.
- Support education centres to train the apprentices and graduates needed in grid and project delivery/maintenance.
- USE NPF4 to deliver the needs-based case for grid and capacity.
- Make as many projects competitive for AR4 (CfD) as possible. Allow a one off extension of tip heights on all existing consents (where practical). Projects that have received consents after protracted processes or have had consents for some time (up to 5 year in some cases) but have had no route to market because of Westminster's refusal to allow Pot 1 technologies in AR2 and AR3 of CfD are no longer as competitive as they should be. Technology has moved on. If the Scottish Government wants very cheap power to fuel its future industrial plans, it would be a missed opportunity if these projects were not as good as they can be. It would also mean that Scottish wind would lose out to English Solar in AR4. For the onshore pipeline of projects and supply chain this would be a welcome injection of shovel ready projects for 2025/6. Up to 2GW could be enabled this way giving a massive boost to the economy over these years.
- SOSE would want to work with councils and grid companies to understand where it could best expand on the existing wind farm supply chain and education within the area. To ensure hubs identified in the region would deliver long term sustainable jobs.
- SOSE could also use the fact that the region has some of the most secure transmission network in Europe with some of the cheapest energy to attract new manufacturing and industrial opportunities. In parallel, we will need to ensure the region has the communications network to match the energy network, as they are interdependent. The region should be very attractive to highly automated energy intensive industries wanting to enter the clean economy.
- The energy sector would be a contributor to the SOSE region become carbon negative, by 2035.

A JUST TRANSITION AND SMALL-SCALE RENEWABLES - DISTRIBUTION SYSTEMS

- SOSE recognise the opportunity to make the region a more attractive place to live and work through good communications and energy infrastructure.
- Just as the transmission system needs a central plan and regulatory change, the distribution and supply system needs the same and both need to be efficiently regulated to ensure ease of management and to provide the platform for disruptive and innovative technologies to deploy, enabling load smoothing, balancing of demand, storage, heat and local power to local people.
- Much of this planning has started but the OFGEM process does not encourage long term planning and reward innovation. In addition the transition from Distribution network owners to Distribution system operators is both slow and creating potential market conflicts. The distribution system should have dynamic system owners who are incentivised to develop intelligent systems which can then be managed by the transmission and distribution system operators to deliver consistent contracting, charging and opportunity across the GB market. Scotland should promote its distribution network owners (who are already some of the most innovative in the GB market) to capture larger parts of the GB system operation market.

- A comprehensive engagement with communities and small businesses is essential so that they understand the transition and need for change. How this transition will give them choices, opportunities for investment and how their choices will shape the cost and security of their energy supplies (heat, transport and electricity) in the future. They however must understand that standing still is not an option.
- An assessment of what the SOSE region needs by way of network capacity to facilitate the access to cheap, local and national power should be carried out. This needs to make assumptions and create the long term vision for the rural economy of the future. What capacity is needed to allow communities to charge their cars, heat their homes (assuming energy efficiency standards improve) and run their businesses. Can they be encouraged to invest in community heat pumps or other options? Can renewable projects help bring/ pay for the upgrades needed as part of a regional development plan?
- Can the Government look at investment vehicles which aggregate small community projects (properly constructed and managed) to access cheap funding otherwise only available to large projects?
- SOSE wish to identify the areas where local plumbing, electrical and building contractors can take advantage of the new drive for energy efficiency, and the ability for the region to lead on air source and ground source heat pumps. Through training, re skilling and expansion can these companies grow to supply the city as well as the rural areas?

BACKGROUND TO OUR OTHER IDEAS

Overview

This Annex gives more background to our suggestions. It is an abbreviated version of our thinking and sets out the key points of what would need to be put in place.

Restoring our collective confidence

Marketing campaign

- Scotland has a powerful brand that resonates across the world and we now need the biggest marketing campaign we have ever put in place. This needs to encourage people to Scotland, and be supported by strong regional campaigns celebrating each part of Scotland. The South of Scotland is uniquely placed with access to the English market and the Irish market.
- As people begin to travel again, they may want to stay relatively close to home and the South of Scotland provides that opportunity. We have a strong tourist offering, with long tradition of being attractive to domestic tourists, with around 8.5m day visitors a year. We need to rebuild confidence of tourists wanting to visit to enjoy the offering of the region.
- We also need to rebuild the confidence of communities so that they are happy to welcome visitors, overcoming fear and the messages given that areas were closed to visitors during COVID-19 and the examples of acts of hostility. Tourism businesses are the lifeblood of many of these communities providing direct employment, central to local supply chains and bringing in income.
- The other audience is international investors to reassure them that Scotland remains a good place to do business, to ensure the future of the businesses they already own here and to encourage them to bring further investment to the country.

Recognising the strength of rural communities

- Throughout the crisis, we have seen the strength of rural communities that have come together to deliver key services and support the most vulnerable. Communities need support to develop local leaders and their own skills and capacity. This will unlock opportunities allowing communities to work together to do bigger and better things that are sustainable.

Unlocking opportunity through investing in our infrastructure

Developing rural infrastructure

- We need to look at rural infrastructure in a different way. Localism has highlighted new opportunities as consumers turn to local suppliers. There is value in encouraging that behaviour to continue. It requires local infrastructure to allow local suppliers to respond to the demand – such as local abattoirs, packing facilities and distribution facilities.
- There is an opportunity to establish funding to support co-operation, aggregation models and collaboration. We need the Scottish National Investment Bank to pump-prime investment in infrastructure and support collaborative business models. We have examples in the South of supporting farmers with aggregation and further support for those models is important.

Traditional infrastructure investment

- Infrastructure investment by central government remains important. Across the South of Scotland there are important assets with unique characteristics. For example, the proximity of Stranraer and

Cairnryan to Ireland, with untapped potential as a gateway or a potential freeport. Rural economies need good physical and digital infrastructure to thrive.

- It is important that we have a road and rail network that is fit for purpose. We welcome the work being taken forward to consider the potential to extend the Borders Railway, looking at the evidence base, options appraisal and feasibility work on the Carlisle to Tweedbank rail options.
- The difficulties of travelling by road in the South of Scotland, apart from the M74, are well known - the road network is very poor in terms of current and future needs. Poor roads are a disincentive for new business and investment.
- One example of success has been the Scottish Government's Strategic Timber Transport Fund, which has supported communities and the forestry sector by improving the movement of wood from forests to market, whilst minimising adverse impacts on communities. The Scheme/Fund has facilitated modal shift by the movement of wood by sea (movement by rail is still a challenge for almost everyone), rather than road and has improved many roads, bridges etc to facilitate timber transport - and avoided timber crops being 'landlocked' because of poor roads, weight restrictions community opposition etc. This is a powerful example of partnership working and good value for money.
- However, many of our rural roads are not fit for purpose and with limited spending on and improvement. Significant Government investment in the road network across the South of Scotland, including key rural routes, will be an essential ingredient for recovery and regeneration.
- We also need to make best use of the infrastructure we have. Our research shows that the lack of an integrated public transport system inhibits both business growth and people accessing other opportunities. We need to work with the councils and national agencies, including Transport Scotland, to deliver. This will require a new model of provision, drawing together public, private and community provisions.

Restoring property assets

- Across the South there are properties that are empty or unfit for current use. Focusing on restoring that stock to meet with and be compliant with modern standards could create economic opportunity for a range of SMES, generating local employment, as well as contributing to net carbon targets and reducing fuel poverty. Investment in securing future and alternative uses for this property is key to bring assets back into use. There are a number of large buildings across the South which could provide accommodation for businesses wanting to relocate to where property is cheaper.
- We should look at ways to encourage people to tackle dereliction, for example for housing where we could support mortgages that encourage self-build and self-restoration developing skills and using local tradespeople and look at how VAT is charged on building supplies to incentivise.
- Example from social housing:
 - Social housing providers in the South of Scotland own over 20% of the housing stock in the area. They employ both directly and indirectly a huge workforce in maintenance, planned improvements to their homes and new build. They invest millions of pounds in their homes every year and are a bigger force in the economy than they are given credit for.
 - The future of the maintenance and construction industry and its development is of paramount importance to the area if we are to seize opportunities and remodel, reshape present homes and community buildings, build new homes of ALL tenures to attract people.

- We want to see a much wider promotion of jobs in maintenance, construction, associated highly qualified areas such as architects, surveyors and engineers in schools and colleges
- We want to broaden apprenticeships and encourage collaboration between small providers to offer apprenticeships and succession plan and to be able to deliver the work which central belt providers are less and less interested in. Other parts of Scotland and the North of England have their own demands to meet.
- Grant funding is needed to bring the present stock up to climate change targets by 2032. The amount of money is huge and the only source of income is tenants: i.e. those on the lowest income. While all are moving towards much more joint procurement, collaboration and working together the targets are unaffordable through efficiencies.
- If social housing providers put up the rent to pay for the work (or to pay for the loans they would have to take out) the rent would become unaffordable and the regulator champions of tenants and so expects rents to be maintained in the affordable zone. Tenants are predominantly on low income jobs or on Universal Credit.
- So grant and loan mixed with new build feels like the only answer.
- We do want to create frameworks for contractors to bid into. The present situation is that the small businesses don't bid and are overwhelmed by the complexity and bureaucracy and have no means to collaborate even if they had the will. So working with these small contractors and on their behalf is crucial. Changes need to be made to the national approach to procurement and the frameworks system to allow rural areas to develop their own supply chains which the current system mitigates against.

Delivering digitally

Digitisation

- The crisis has prompted businesses to look at different operating model making more use of digital, including e-commerce, and other ways of delivering services. We need to build on this to make the most of this change while helping businesses to develop the digital skills to do this and recognising that not everything can be done on-line and social contact remains important.
- This reinforces the need for ensuring that the digital infrastructure for the South of Scotland is fit for purpose.

Creating opportunities for young people

- We need to build on the significant investment in our digital learning and skills model to offer training opportunities within region rather than requiring people to travel for these opportunities. The next phase of development is to deliver more on-line and direct with employers. Broadening the offer will begin to create confidence in the opportunities available in the region. People need to have training and learning opportunities within the region, opportunities for career progression, with a good and thriving environment in which to live.
- We need to raise and support the ambitions of our young people. With our digital networks, it should be possible for every person to access the training they want and need without having to travel long distances or leave the region. There is no longer any reason why those in our rural communities should have fewer options than those in our urban communities.

Ensuring regulation does not stifle opportunity

- Regulation through its nature and the way it comes into being usually looks over its shoulder to things that have happened previously or issues from the past that have caused concern. Very few regulations get changed when they become unnecessary. In addressing the problems of the past, we shouldn't prevent the opportunities of the current day or of the future.
- Regulation should be about shaping our future, and allowing those that want to make the future happen do what they need to do. In many cases, regulation needs to be more flexible and attuned to local circumstances. But its primary function should be about supporting the future we want to see, not putting right the past.
- We want to ensure that public procurement in the South is used effectively to develop economic resilience and opportunity and we will look to learn from the North Ayrshire approach to Community Wealth Building to bring it to the South.

OUR ECONOMIC CONTEXT

The South of Scotland has a predominantly rural economy. Recovery in the South will be impacted by the structure of our pre-COVID-19 economy and we need to focus on building opportunities and underlying resilience. The following gives a picture of our economy drawn from current data sets, as we move towards a well-being economy, we need to will develop other indicators to give a more rounded picture.

- Natural
 - an abundance of natural capital
 - strategically well placed, with unique locational advantage, including the border with England, our proximity to Northern Ireland and Ireland and a varied coastline ;
 - significant land assets (1/7th of Scotland's land-mass); and
 - considerable natural resources, including renewable energy generation.
- Social
 - strong social capital vibrant communities with a rich history and culture, with small towns and communities with only 4 settlements over 10,000 ; and
 - well placed and active Further Education colleges, with a relatively small but growing Higher Education E provision which needs empowered by more local places and with structures in the region able to respond to the re-skilling agenda.
- Human
 - challenging long term demographic trends
 - an ageing population, with an increasing dependency ration (by 2041 for every 100 people working there will be 95 who are not)
 - a declining population (2% predicted decline by 2041) where the rest of Scotland is seeing population growth
 - fewer women in employment, with pockets of significant poverty; and
 - traditionally lower wages (with Scottish Borders Council 28th and Dumfries and Galloway Council 32nd average wages) in with fewer higher skills jobs.
- Economic
 - a business base dominated by micro and small businesses, with some innovative businesses operating across a range of sectors but with low levels of research and development – 63% of employment is in SMEs and 19% self-employment
 - our economy is diverse with businesses operating 3 main sectors – agriculture, forestry and fishing, tourism and manufacturing – as well as widely across other sectors including textiles and cultural creative industries.
 - supply chain strengths (providing a range of essential primary products from food to forestry) with important exporting sectors including textiles;
 - a strong tourist offering, focused on the outdoors, potential to expand the reputation of the hospitality and food sectors;
 - improving digital connectivity; and
 - lower productivity when compared against standard economic data.

Measuring what matters across the four pillars

We need to develop a measurement framework that reflects the range of factors that contribute to well-being across the four pillars. Traditional economic measures are no longer sufficient. What we do will be informed by a depth of understanding of our region and how it can contribute to Scotland's future success. That requires a much wider range of indicators, embracing all aspects of inclusive growth (productivity, population, participation, people and place).