

ANNOUNCEMENT OF SPIRIT WINNING THE CONTRACT FOR AIRBUS SPOILER PROJECT FOR AND GIVING WIDER ECONOMY SPEECH

BRIEFING FOR THE FIRST MINISTER

ANNOUNCEMENT OF THE A320 SPOILER PROJECT FOR SPIRIT AEROSYSTEMS AND GIVING WIDER ECONOMY SPEECH

31 August 2017

<p>Key messages</p>	<ul style="list-style-type: none"> • Delighted that Spirit Aerospace have won this important contract, boosting the Ayrshire economy and bringing in a great achievement for Scotland's aerospace sector. • Pleased that this important contract will create over 100 jobs mostly high-value as the project grows. • Significant first step for Spirit into composite manufacturing which will establish a world class manufacturing platform, involving state of the art automation and robotics. • Reflects positively on the strengths and diversity of our manufacturing base and the huge opportunities that aerospace presents. • New innovative manufacturing processes for composite materials create exciting new supply chain opportunities. • Funding of £2.1m for R&D and Training support to Spirit from Scottish Enterprise demonstrates how support can help to accelerate R&D to drive up levels of innovation in Scotland.
<p>What</p>	<ul style="list-style-type: none"> • You will be announcing the contract awarded to Spirit by Airbus for the design of the new composite spoiler component and the manufacturing work package for the A320 aircraft. • You will be giving a speech on 'Scotland's economy - turning challenges into opportunities'.
<p>Why</p>	<ul style="list-style-type: none"> • To announce that Spirit AeroSystems has secured a contract with Airbus. • To give a wider economy speech in the run up to Programme for Government.
<p>Who</p>	<ul style="list-style-type: none"> • <u>Senior Officials from Spirit AeroSystems and Airbus</u> [redacted] Vice President – UK & Malaysia, Spirit AeroSystems (Europe) Ltd [redacted] Director – New Business Capture, Spirit AeroSystems (Europe) Ltd [redacted] PR & Communications Manager, Spirit AeroSystems (Europe) Ltd [redacted] Senior Director, Airbus Programs [redacted] Senior Operations Manager, Airbus Programs [redacted] Senior Operations Manager, Airbus Programs

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Where	Spirit Aerosystems Glasgow Prestwick Intl Airport KA9 2RW
When	Thursday 31 August 2017 09:50 – 12:05 Full agenda is at Annex B
Media	Your Communications team will provide separate advice on media attendance and handling arrangements.
Supporting officials	Richard Rollison, Deputy Director for Innovation, Industries and Investment, [redacted] Linda Hanna, Managing Director, Strategy and Sectors, Scottish Enterprise, [redacted] [redacted]
Attached documents	<p><u>Summary</u> Annex A: Summary and Key Facts – Spirit and Airbus (Pg3-6) Annex B: Agenda and Running Order (Pg 7) Annex C: Biographies and Delegates (Pg 8-11)</p> <p><u>Aerospace</u> Annex D: Scotland’s Aerospace sector (Pg 12-13) Annex E: Proposed Aerospace Innovation Centre (Pg 14)</p> <p><u>Background to speech announcements</u> Annex F: National Manufacturing Institute for Scotland (Pg 15-16) Annex G: Enterprise and Skills Review (Pg 17-19) Annex H: Increasing Support to Business R&D (Pg 20-21)</p> <p><u>Other</u> Annex I: Manufacturing Action Plan (Pg 22) Annex J: Lightweight Manufacturing Centre (Pg 23) Annex K: Scottish Growth Scheme (Pg 24-25) Annex L: UK Industrial Strategy (Pg 26-27) Annex M: Weekly Scottish Economic Perf – 25 Aug 2017 (Pg 28-29) Annex N: Scotland’s Economic Performance (Pg 30-31)</p>

COPY LIST: As per covering email.

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ANNEX A

SUMMARY

PURPOSE

- You will be visiting Spirit AeroSystems' site in Prestwick.
- You will be announcing the contract awarded to Spirit by Airbus, to design the new composite spoiler component and the manufacturing work package for the A320 aircraft.
- In advance of the Programme for Government, you will be giving a speech 'Scotland's economy - turning challenges into opportunities' which will be substantiated by three announcements:
 - £15m to support business expenditure on research and development.
 - Confirmation that the location and partners of the National Manufacturing Institute for Scotland will be announced in the next year.
 - Nora Senior will be the Chair of the new Strategic Board for Enterprise and Skills.

KEY MESSAGES

- Delighted that Spirit AeroSystems has won this important contract, boosting the Ayrshire's economy and bringing in a great achievement for Scotland's aerospace sector.
- Pleased that this important contract will create over 100 jobs mostly high-value as the project grows.
- Significant first step for Spirit into composite manufacturing which will establish a world class manufacturing platform involving state of the art automation and robotics.
- The strengths and diversity of our manufacturing base and the huge opportunities that aerospace presents.
- New innovative manufacturing processes for composite materials create exciting new supply chain opportunities.
- Funding of £2.1m for R&D and Training support to Spirit from Scottish Enterprise demonstrates how support can help to accelerate R&D to drive up levels of innovation in Scotland.

KEY FACTS

Spirit AeroSystems

- Spirit AeroSystems Europe Ltd in Prestwick is part of the Spirit AeroSystems Group with its HQ in Wichita, USA. The Group also has sites in Kansas, Oklahoma, North Carolina and Malaysia (wing components) and is the world's largest independent designer and manufacturer of aerostructures.
- The Group manufacture aerostructures for every Boeing commercial aircraft and almost every Airbus aircraft.
- Group turnover in 2016 was \$6.8bn (+2% on 2015) with over 17,000 employees globally. In 2016, the group also announced reaching a long term agreement with Airbus on A350 XWB aircraft work.
- The strategic focus going forward is on delivering on production rates, maximising manufacturing opportunities and supply chain efficiencies.

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Spirit Scottish Operations - Prestwick

- Spirit AeroSystems' Prestwick site is recognised as one of the leading aerospace companies in Scotland and is also a leading Tier 1 manufacturer of aircraft components in the UK. It is also part of a key aerospace cluster in Ayrshire.
- [redacted]. It is one of the largest employers in the region and the sector in Scotland. [redacted].
- Spirit is responding to the increased demands from Airbus and Boeing on production rates [redacted].
- *Wing of Tomorrow* – Spirit's work at the heart of Composites R&D and Factory of the Future efforts for Airbus means that it is at the forefront of R&D of composite materials for the next generation of commercial aircraft and associated production processes of components.
- *Supply Chain Management*: Spirit is interested in attracting key suppliers to Ayrshire to reduce costs and delays in the supply chain.
- A proposed '*Aerospace Innovation Centre*' is in the early stages of development with Spirit and partners. This would see the Prestwick site invest in R&D, Engineering & Manufacturing facilities [redacted] See ANNEX E for more information.
- The Prestwick facility, formerly the aero-structures division of BAE Systems, was acquired by Spirit in April 2006.

Spirit – Spoiler Project

- Spirit AeroSystems (Europe) Ltd has been awarded a contract by Airbus [redacted] for the spoiler wing component on the Airbus A320 aircraft at Prestwick. Currently this component is manufactured in Malaysia [redacted].
- A spoiler is a device, often found on the top surface of a wing, intended to intentionally reduce the lift of an aircraft in a controlled way.
- The project will create over 100 mainly high value jobs as the project evolves. The project will also involve a total investment of £18.3m in R & D and Training activities, with SE contributing £2.1m of grant funding towards this.
- [redacted]
- This is a fundamental step-change at the Prestwick site as it will be their first step into composite manufacturing and will establish a world-class manufacturing platform [redacted].

A Future for Spirit and the Aerospace Sector in Scotland (COMMERCIALY SENSITIVE)

- [redacted]
- [redacted]
- **COMMERCIALY SENSITIVE** - [redacted]

Previous SE financial support for Spirit in Prestwick includes:

- Support for a Finishing/Paint Centre to enhance site capability - now completed and officially opened by the Cabinet Secretary for Economy, Jobs and Fair work in October

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2016, (supported by an RSA grant of £450k towards a £5.2m company investment, safeguarding 75 jobs).

- A350 SPAR engineering capability enhancement (currently being supported by a £1m Training Aid grant awarded in August 2015 to create 16 jobs and safeguard 52 jobs at the site).

Airbus

- Airbus Group SE is a diversified provider of aerospace and defence products and related services. It is the parent company of Airbus, Astrium, Cassidian and Airbus Helicopters.
- Airbus is a commercial aircraft manufacturer and is the largest aeronautics and space company in Europe and a worldwide leader. In 2016 Airbus employed 133,782 people, had revenue of €66.bn and an order book of €1,060bn.
- Airbus has roughly 180 locations and 12,000 direct suppliers globally.
- In 2014/15, the Airbus division delivered 635 aircraft and received 1,190 gross orders of aircraft with more than 100 seats. At the end of 2014/15, the division had 387 customers and a total of 16,351 Airbus aircraft had been ordered, of which 9,520 aircraft were delivered to operators worldwide.
- Airbus' commercial aircraft product line comprises of aircraft, ranging from 100 to more than 500 seats: the single-aisle A320 Family, including the A320neo (the best-selling aircraft in aviation history); the widebody, long-range A330 Family; the all-new, next-generation A350 XWB Family; and the double-deck A380.

Airbus – UK Operations

- Airbus' plants in Filton, near Bristol, and Broughton, North Wales play a vital role in the design and production of aircraft for the company. Annually Airbus spends c.£4bn with UK suppliers, a significant contribution to the UK aerospace industry, which supports around 110,000 high value, highly skilled jobs across the UK.
- The Filton site employs over 4,000 people. It is involved in the design and manufacturing areas, as well as in business support roles such as procurement, finance and customer service. More than 2,000 engineers at Filton are involved in a range of areas, including wing integration, flight physics, structures and systems – with several hundred engineers also working on research and technology for future aircraft projects.
- Broughton is responsible for assembling the wings for all Airbus civil aircraft, including the new-generation A350 XWB. Producing over 1,000 wings a year, the site employs more than 6,000 people – primarily in manufacturing, but also in engineering and support functions such as procurement and finance.
- Wing sets are transported to the final assembly lines in various ways, including by road and the Airbus Beluga Super Transporter aircraft. The A380 wings are transported by road and sea for final assembly in Toulouse, France.

EU Referendum

- Following the EU Referendum result, the company has some concern in relation to the future of wing manufacturing in the UK. This will, of course, depend on the outcome of

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UK Brexit negotiations with Europe but Spirit is heavily dependent on Airbus business, and Airbus is based in France.

- Airbus warns Out vote may hit investment – Prior to the EU Referendum, Airbus wrote to their UK employees warning about the risks of voting to leave the European Union (SOURCE: BBC news 4 April 2016).
- Airbus and Rolls-Royce say UK must quickly get beneficial EU trade deals - Airbus and Rolls-Royce warned that the UK government needs to secure swiftly favourable terms in trade negotiations with Europe to avoid jeopardising investment in the UK (SOURCE: The Guardian 12 July 2016).

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ANNEX B

AGENDA AND DRAFT RUNNING ORDER

Time	Item	Leader
9:50 - 10:00	FM and team arrive at security for check-in and receive badges	Spirit Security
10:00 – 10:10	VIP reception, meet Spirit Management team and spoiler team. Venue - Building 90 learning resource centre reception. Coffee and light refreshments	[redacted]
10:10 – 10:30	FM and guests tour A320 leading edge	[redacted]
10:30 – 10:50	FM and guests tour A350	[redacted]
10:50 – 11:00	First Minister prep time – A350 conference room	
10:30– 10:45	Invited guests arrive at security for check-in and proceed to A350 for main event	Spirit security
10:45 - 11:00	VIP guests and media arrive in A350 and met by front line managers (TBC)	[redacted] A350 TLs on shift
11:03	Welcome and introduction to First Minister	[redacted]
11:05	First Minister spoiler announcement and economy speech	Nicola Sturgeon
11:25	Speech ends	Nicola Sturgeon
11:25	Q & As – invited audience and employees – [redacted] and others to help facilitate and answer questions	Nicola Sturgeon / [redacted]
11:35	Q&As end. [redacted] thanks First Minister and hands over gift - Photo opportunity	[redacted]
11:35	First Minister to undertake media bids TBC from Spirit to be available for media bids	Nicola Sturgeon
12:00 -12:05	First Minister to depart	Nicola Sturgeon
12:01	Gifts distributed to all (TBC)	[redacted]
12:05	PROGRAM ENDS	
12:05	Guests escorted back to reception	UK Senior Mgt Team

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ANNEX C

BIOGRAPHIES AND DELEGATE LIST

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

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Delegate List

Current list as at 16:00 on 29 August 2017. Registration does not close until midnight on 29 August 2017.

First Name	Surname	Organisation
[redacted]		ADS Scotland
		AFRC
		Airbus
		Ardagh Group
		Ayrshire Chambers
		Ayrshire College
		BAE Systems
		BAE Systems
		Booth Welsh
		CENSis
		CENSis
		Chair of Strategic Board for Enterprise and Skills Review
		Confederation of British Industry
		Confederation of British Industry
		Data Lab Innovation Centre
		Federation of Small Businesses (FSB) Scotland
		Glasgow Prestwick Airport
		Glasgow Prestwick Airport
		Industrial Bio Innovation Centre
		MP Central Ayrshire
		National Air Traffic Services
		North Ayrshire Council
		SCDI
		SCDI
		Scottish Chambers
		Scottish Engineering
		Scottish Enterprise
		Scottish Enterprise

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Scottish Enterprise
Scottish Enterprise
Scottish Government
Scottish Government
Scottish Government
Scottish Government
Scottish Government
Scottish Government
Scottish Government Special Adviser
Scottish Government Special Adviser
Scottish Government Special Adviser
Scottish Manufacturing Advisory Service
Scottish Renewables
South Ayrshire Council
South Ayrshire Council
South Ayrshire Council
South Ayrshire Council
Terex Trucks
University of Dundee
University of Glasgow
University of Stirling
University of Strathclyde
University of the West of Scotland
University West of Scotland
UTC Aerospace Systems
Utopia Computers
Utopia Computers
Visit Arran
Visit Arran
Vistage
Walker Precision
West College Scotland
Woodward Group
Woodward Group
Zero Waste Scotland

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ANNEX D

SCOTLAND'S AEROSPACE SECTOR

- The aerospace, defence and marine (AD&M) industry in Scotland is one of our highest value sectors, employing nearly 40,000 staff.
- Aerospace in Scotland is a mature and highly developed industry with annual sales in the sector of £1.6 billion and well over 8,000 direct aerospace employees.
- Scotland is a strong contributor to the UK's 13% share of the global aerospace market.
- All the key elements of an internationally competitive aerospace environment exist in Scotland today. This highly skilled workforce, with a very high proportion of graduates and industry leading apprenticeship programmes, is at the very heart of our success and is evidence of Scotland's commitment to future success.

Ayrshire / Prestwick

- Prestwick and the surrounding area accounts for 50% of the aerospace industry in Scotland with both assembly/manufacture and a significant proportion of Scotland's Maintenance, Repair & Overhaul (MRO) taking place on site for both aerostructures and engines.
- Prestwick is also a centre for industrial research and design through the excellent engineering capabilities of BAE Regional Aircraft, Spirit and others.
- The companies at Prestwick are key members of industry groupings such as the Aerospace, Defence, Marine & Security Industry Leadership Group; the Prestwick Aerospace Operations Group and the Council of ADS Scotland.
- A new national strategy for Aerospace, Defence, Marine & Security was published in March 2016. The sector strategy connects directly with the manufacturing action plan, 'A Manufacturing Future for Scotland' with key activities into the development of the manufacturing supply chain to engage with the aerospace market and the use of the latest equipment and processes to increase productivity and reduce costs aimed at parallel delivery of both strategies.
- The main opportunity at Prestwick comes in the form of a significant increase in the rate of production of aircraft components by Boeing and Airbus in order to meet record global demand fuelled by the Mid and Far East markets.
- The extension of the timescale and expansion of the Enterprise Zone at Prestwick will allow SE/SDI to continue to utilise this in the support to companies locating to the area and join the cluster. SE's Business Infrastructure team are also evaluating the case for additional infrastructure within the zone to house additional companies.
- [redacted]. Scotland has a highly dynamic and growing space sector with a strong supply chain, including world-leading capabilities in the CubeSat market. Having launch capabilities in Scotland will further consolidate the position of our space sector on the world stage and we remain confident that Scottish proposals for spaceport facilities can be delivered.

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SE Support

- Scottish Enterprise through the Aerospace, Defence, Marine and Security Industry Leadership Group, Account Management, the Sector team and stakeholders like ADS Scotland (business representative body for the aerospace, defence and security sectors) is supporting the internal projects of companies to capture the opportunity coming from global demand as well as highlighting the scale of the opportunity to engineering companies (struggling with the downturn in Oil & Gas) to explore a shift into Aerospace.
- The opportunity for new supply chain entrants into aerospace is being developed by SE in partnership with BAE Systems Regional Aircraft, Spirit, Vector Aerospace (in Perth) and others by highlighting the needs of the Tier 1s and then supporting the SMEs through account management, Scottish Manufacturing Advisory Service etc to invest in the skills, equipment and approvals to be globally competitive as an aerospace supplier which will allow the Tier 1s to procure from them in the future.

Key Aerospace Companies in Prestwick

BAE Systems Regional Aircraft

Employing 250 and focusing on the long term support of their civil fleet of aircraft operating globally with a number of clients and differing roles, its Prestwick facility is a unique capability [redacted] and acting as a focal point for the growth of the Scottish cluster.

UTC Aerospace Systems

UTC has a 300 staff operation undertaking maintenance, repair and overhaul (MRO) of Aero Engine Nacelles, Thrust Reversers, components and Engine Build-up activity, primarily serving medium/large civil aircraft.

GE Caledonian

GE Aviation is a world-leading provider of jet engines, components and integrated systems for commercial and military aircraft and has a global service network to support these offerings. GE Caledonian is part of this service network, employing 547 FTE employees with turnover to December 2015 of [redacted].

Inter-tec Services Ltd

An approved one-stop stress analysis and design consultancy.

Woodward Aircraft Engine Systems

The Woodward support staff develop innovative repair and overhaul methods that minimise downtime and provide lowest on-wing cost, while providing world-class service to their customer base.

[redacted]

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ANNEX E

PROPOSED AEROSPACE INNOVATION CENTRE (AIC)

Background

- Spirit AeroSystems, Scottish Enterprise, South Ayrshire Council and other industrial and academic partners are in the early stages of development for a new aerospace centre at Prestwick. The objective of the Aerospace Innovation Centre (AIC) is to create a focal point in Ayrshire for the national capability in aerospace to collaborate, innovate and train to become a global centre for the design, manufacture and maintenance of current and future aircraft.
- With global demand for air travel at record levels and \$3 trillion of new aircraft on order, the Scottish industry needs to evolve into a critical part of the UK and Global supply chains for Airbus, Boeing and other OEMs. Scotland must shift its capability to manufacture in metal to design and manufacture in composite materials and underlying technologies such as automation.
- Supporting the design and manufacture in composites in the production of aircraft in Scotland would also secure the future capability of the Maintenance, Repair & Overhaul (MRO) side of the industry also. The AIC would ensure that Scottish based companies have access to the critical infrastructure, equipment, R&D capabilities, engineering talent, experience workforce, skills pipeline and collaborative environment.
- Creating a model which seeks to support the full lifecycle of an aircraft in Scotland would engage the whole sector as they look to prepare for the next generation of aircraft which will contain up to 70% of new materials, new designs and new methods of production to meet the weight and cost savings demanded by the aircraft OEMs and their airline customers.
- Spirit AeroSystem's interest in exploring the possibilities for investing in their facilities at Prestwick acts as a clear driver from industry to crystallise a joint response to their future business needs and to catalyse the needs of the wider sector into an Aerospace need with numerous elements which can be accessed and beneficial to the whole industry.

Potential Model

- [redacted]
- [redacted]
- [redacted]

[redacted]

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ANNEX F

NATIONAL MANUFACTURING INSTITUTE FOR SCOTLAND (NMIS)

Key Messages:

- There should be no doubt about the importance of our manufacturing industry - which employs over 180,000 people in Scotland - to our future success.
- NMIS, as an internationally renowned centre of manufacturing expertise, will foster the ambition and leadership capacity to make Scotland a world leading manufacturing location.
- NMIS will harness academic capability and skills development services to meet current and future industry growth needs, stimulating increased manufacturing productivity and employment across Scotland and further afield, and boosting competitiveness through raising the sectors innovation and Investment performance.
- We are working towards a public statement of intent with all key delivery partners confirming a location and academic anchor for NMIS and setting out how the detailed development and business planning will be taken forward. We aim to conclude this agreement in September 2017.

Background

- In February 2016 we launched the Manufacturing Action Plan for Scotland – ‘A Manufacturing Future for Scotland’. A key commitment in the plan was for a new joint centre for manufacturing excellence and skills academy, a National Manufacturing Institute for Scotland (NMIS).
- The September 2016 Programme for Government states that developing the business case for the NMIS is ‘a key action for the forthcoming year’. This commitment was confirmed in the draft Budget 2017/18 in December 2016.
- On 19 June 2017 the First Minister announced a new Lightweight Manufacturing Centre, a significant first step in proving the concept of and delivering NMIS (funding of £3.9m from SG, £3.4m from SE and £1.6m from Strathclyde University).

Working with the public and private sectors to deliver on this ambition:

- NMIS will be an internationally renowned centre of manufacturing expertise in specialisms relevant to Scotland’s strengths, and will foster the ambition and leadership capacity to make Scotland a world leading manufacturing location.
- NMIS will be industry-focused and will concentrate on delivering tangible benefits for the Scottish economy by developing practical solutions to industry challenges, encouraging innovation and investment in new technologies and processes.
- We have established a multi-partner approach to take forward the development of the NMIS, including Scottish Enterprise, HIE, SFC, SDS and Strathclyde University who operate the Advanced Forming Research Centre.
- Commissioned research and engagement with large manufacturing companies across sub-sectors like defence, automotive, space and energy, as well as SMEs with potential to enter the supply chain of global players, has indicated a strong industry demand for establishing NMIS.

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- The expectation is that this is a co-funding/ co-investment model between the public and private sectors, including potentially drawing on UK and EU funding.
- While NMIS will have a core location, regional outreach initiatives will help ensure it delivers benefits for the whole of Scotland. A location will be announced shortly.

Objectives for NMIS, currently being tested with industry, include:

- Increase productivity and innovation performance of manufacturing businesses and reduce the risk associated with innovation.
- Stimulate manufacturing investment, both inward and from businesses already located in Scotland, to increase their competitiveness.
- Catalyse job creation and strengthen supply chain linkages
- Inspire and attract a diverse talent pool to work in manufacturing, equipping existing and future employees with the skills to prosper in a digital manufacturing environment.
- Minimise displacement of companies and jobs within Scotland.

[redacted]

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ANNEX G

ENTERPRISE AND SKILLS REVIEW

Background

- Phase 2 of the Enterprise and Skills Review commenced in November 2016, with nine projects being established in order to take forward the Phase 1 recommendations.
- The overall Phase 2 Report was published in June 2017.

Strategic Board and Implementation Board.

- One of the key actions emerging from Phase 2 is the creation of a new Strategic Board to align and co-ordinate the activities of the enterprise and skills agencies.
- Building on the recommendations of Professor Lorne Crerar's Report, Proposals on Governance and the Creation of a Strategic Board, the Strategic Board will be formed in October 2017 with a remit to drive greater collaboration, innovation and strategic purpose, enhancing the system so it delivers more than the sum of its parts. Agency boards will remain in place with no changes to their legislative status.
- The Implementation Board met for the first time in June 2017 and is meeting monthly throughout the summer. Chaired by Professor Crerar, it has established three short-life project groups to take forward key priorities:

The purpose of this Strategic Board is to provide the high-level governance to deliver five aims:

- Improve the overall performance of the economy by ensuring that the whole Enterprise and Skills System delivers Scotland's Economic Strategy and supporting strategies, in all parts of Scotland.
- Through collective responsibility ensure hard alignment between Agencies to drive improvement in Scottish productivity and better support business and users of the skills system.
- Hold Agencies to account for performance against agreed measures, both collectively and individually through new, formal lines of accountability.
- To actively engage with other agencies and bodies who support the economy with a view to increasing alignment and challenging others where collaboration is not happening.
- To deliver wider collective leadership, based on common culture and values, and which inspires and empowers delivery.

Strategic Plan

Led by SE, this group will produce a draft Strategic Plan by end September. This draft will set out the high-level vision on which a more detailed plan can then be finalised under the auspices of the Strategic Board. It will be important that the Strategic Board feel ownership over the content of the final Strategic Plan and the identification of priorities within it.

The draft plan and supporting Performance Framework are being developed in line with the Inclusive Growth Framework and the five traditional drivers of productivity.

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Analytical Unit and Performance Framework

Led by OCEA, the new Analytical Unit will not displace current capability but will draw upon it, allowing for informed decision-making backed by evidence and advice across the whole system, with a common Performance Framework being developed.

Governance and advice

Led by SDS, this group is developing proposals for a committee structure to support the Strategic Board, flowing from the core priorities as set out in the Strategic Plan.

It has been agreed that the Strategic Board will have oversight of the Analytical Unit via a strategic committee on data / evidence, and that this committee should have access to senior, external expertise.

South of Scotland Enterprise Agency

- A further key action to emerge from Phase 2 is the creation of new enterprise agency for the South of Scotland. The new agency will drive inclusive growth, increase competitiveness and tackle inequality in the area through supporting a diverse and resilient economy, sustaining and growing communities and capitalising on people and resources.
- Proposals have been developed in consultation with stakeholders, including businesses and education interests, and the new agency will offer business support, support business infrastructure, and have an increased presence on the ground, working closely with other national and local organisations in the area to align activities and support communities behind an agreed strategic economic vision.
- Establishing a new agency will require legislation which we intend to introduce in 2018 which will need to progress through Parliament – the body should be up and running by the beginning of the financial year 2020.
- Working with partners, we will put in place interim arrangements to ensure that the area can benefit in advance of the statutory agency to ensure the area benefits from a new approach as soon as is possible.

Other key actions emerging from Phase 2

- A more coherent, collaborative and streamlined system of business support, including development of a single digital access point
- Piloting a £500k College Innovation Fund to support Scotland's colleges to work with businesses on innovation activity
- A new, five-stage skills planning model developed jointly by the skills agencies
- Strengthened engagement with regional partnerships, including closer work with the private sector
- A review of the learner journey for 15-24 year olds to ensure it provides the best path to success
- Boosting trade and investment in Scotland by better co-ordinating international activity
- A cross-agency analytical unit set up to drive performance and ensure business support decisions are based on the best data available

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Next Steps

- The Implementation Board is meeting monthly over the summer ahead of the Strategic Board being established in October 2017.

New Chair of Strategic Board



Nora Senior is Chair, UK Regions & Ireland of global PR firm Weber Shandwick.

A specialist in corporate communications, she has more than 25 years' experience working with clients across a wide range of sectors, including infrastructure, transport, energy, property, finance, healthcare, technology and FMCG.

Her professional skills include strategic counsel, reputation management, high level media relations, integrated marketing and crisis management.

In May she stepped down as Chair of Scottish Chambers of Commerce after serving a four-year term, is a former President of the British Chambers of Commerce and is a Council Member of the International Chambers of Commerce.

She was made a CBE in the Queen's Birthday Honours List in June.

She began her career in Edinburgh with Saatchi and Saatchi's Scottish-based PR consultancy, Hall Associates, taking over as managing director following a restructuring of the firm in the late 1980s, returning the business to profitability at a time when it was under threat of closure. At the time she was the youngest managing director of a plc in the UK.

In 1990, she formed a start-up PR company - the PR Centre - and built it up to achieve an annual turnover of more than £1million before merging the company into Weber Shandwick in 1998 to take advantage of the emergence of the Scottish Parliament the following year. She was appointed to her current role within Weber Shandwick in 2009.

[redacted]
[redacted]

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ANNEX H

**BUSINESS ENTERPRISE EXPENDITURE ON RESEARCH AND DEVELOPMENT (BERD)
AND SCOTTISH ENTERPRISE R&D SPEND**

Key issue: [redacted]

R&D grant support

- R&D grant support is part of a broad range of support for innovation and is directed towards businesses developing new products, processes and services to improve company competitiveness and boost innovation.
- This support is divided into different categories; SMART: Scotland which is a national grant scheme and the large R&D grant scheme which is for the Scottish Enterprise (SE) area only.
- **Scottish Enterprise is our main provider of R&D support and currently spends more than £22m pa on R&D grants, leveraging in £150m of investment from business.** It also achieves significant leverage (around 6:1 for large R&D grants) in terms of total R&D spend and contributes to broader economic outcomes (GVA).
- Over the last 3 years, SE has refocused their approach to business innovation resulting in an increased demand for support.
- SE is confident that there is still a lot of unmet demand in the system: there is a pipeline of 35 projects with projected BERD of £150m that are ready to be funded if and when support can be made available.
- **SE has undertaken significant restructuring work to re-prioritise their activities** in order to meet current challenges. However, despite these actions the high demand has continued to such an extent that they have to take steps to keep programmes open by **reallocating funding from elsewhere in the organisation to R&D support.**
- The next Programme for Government will focus on increasing BERD as a key priority. At the time of writing we understand that **an additional £15m will be made available to SE to support R&D grants each year for the next three years. (However, the current draft of the PFG only has 1 year).**

Sunday Times article: 20 August 2017

E-mails sent to SE staff that R&D funding would be halted have been leaked to the Sunday Times and an article appeared in the newspaper on 20 August 2017. The following statement was issued in response:

A spokeswoman for SE said: *"[We are] investing more than £22m in R&D support this year. We have a really strong pipeline of future support over the next 18 months and are seeking to ensure we manage that against the resources we have. We continue to meet existing commitments and consider new projects and our R&D programmes remain open."*

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Key Messages

- The Scottish Government recognises the importance of R&D support and how vital this is to businesses and consequently to our economy.
- We are taking a number of steps to stimulate innovation in businesses and R&D grants is one incentive that we have to support us doing this.
- Increased levels of demand for R&D support are a good indication that our business innovation policies are working. While this is to be welcomed in order to continue to improve our innovation performance we need to ensure that our enterprise agencies are allocating the optimal amount of funding and staff resource to meet increasing demand.
- Demand for support from all SE's R&D Schemes over the last few years has been hugely successful and contributed directly to the recent increases in BERD and numbers of innovation active companies.
- SE has undertaken significant restructuring work to re-prioritise their activities in order to meet current challenges.

What will increasing BERD achieve?

For every £1 spent on R&D we get £6 back from industry. This means if we increase our R&D funding immediately, it should have immediate impact on our BERD.

What else are we doing?

- Our economic objective is to see Scotland ranked in the top quartile of OECD countries' productivity and wellbeing.
- In working towards this target, a strong innovation performance will be critical to improving long-term productivity growth and higher living standards.
- In the Enterprise and Skills Review published in October we committed to publishing an Innovation Action Plan. This was published on 11 January 2017.

We are supporting innovation by:

- Developing a **co-ordinated programme of mission orientated challenges** including introducing the **£9m CAN DO Innovation Challenge Fund**;
- **Doubling the funding for CivTech to £1.2m** to scale up their activity to address public sector needs with business led innovation;
- **Piloting a £500k College Innovation Fund** to support Scotland's colleges to work with businesses on innovation activity;
- **Increased investment in Interface**, Scotland's hub to connect business and academia;
- Continuing to support the network of **eight Innovation Centres**, The SFC has committed up to £120 million over six years (2013-2019);
- **Piloting projects in Edinburgh and the Highlands and Islands** to encourage businesses to scale up;
- Implementing the **Innovation Action Plan**.
- **Working with universities and colleges to deliver leadership and entrepreneurial skills training** for emerging entrepreneurs, innovators and businesses.
- **Supporting innovation through the City Deals**

[redacted]

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ANNEX I

MANUFACTURING ACTION PLAN (MAP)

Key Messages / Top Lines

- There should be no doubt about the importance of our manufacturing industry - which employs over 180,000 people in Scotland - to our future success.
- The action plan is based on a commitment to raising productivity through increased investment and innovation and a long-term partnership between government, industry, our Enterprise Agencies and other key stakeholders.

A Manufacturing Future for Scotland

- On 15 Feb 2016 we launched the Manufacturing Action Plan – ‘A Manufacturing Future for Scotland’, a commitment in the Programme for Gov.
- Development of the Plan was led by Scottish Enterprise in partnership with HIE, the Scottish Funding Council, Skills Development Scotland, Zero Waste Scotland and the Scottish Government.
- As part of the launch the First Minister announced £70m of funding for the circular economy: £30m of European Structural Funds, and £40m of public sector match-funding, to 2018.
- Plans for the proposed new National Manufacturing Institute for Scotland (NMIS) are under development. See ANNEX F for more information.

Progress to date

- In Feb 2016, we launched ‘Making Things Last – A Circular Economy Strategy for Scotland’, taking forward our commitment to the new Circular Economy Investment Fund and Service.
- In Mar 2016, Zero Waste Scotland launched the £18m Circular Economy Fund for business.
- In Jun 2016, the Scottish Manufacturing Advisory Service (SMAS) launched the new capital asset review service – over 150 reviews have already been carried out.
- In Aug 2016, SE launched the new Workplace Innovation service.
- On 7 Nov 2016 I [First Minister] visited the Advanced Manufacturing Research Centre (AMRC) in Sheffield. The AMRC is a world leading research facility that researches and resolves advanced manufacturing problems, and it is one potential model that we are considering for Scotland.
- In Jun 2017 the First Minister announced an £8.9m investment by the Scottish Government (£3.9m), Scottish Enterprise (£3.4m) and the University of Strathclyde (£1.6m) in a new Lightweight Manufacturing Centre (see ANNEX J for more information), a significant first step in proving the concept of, and delivering, NMIS.

[redacted]

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ANNEX J

LIGHTWEIGHT MANUFACTURING CENTRE

Key Points / Top Lines:

- £8.9m of funding for the building and operating cost of the Lightweight Manufacturing Centre over 2017 – 2020. (Scottish Government - £3.9m; Scottish Enterprise £3.4m; and AFRC £1.6m).
- Lightweight manufacturing provides a great opportunity for Scottish companies to be part of the aerospace, automotive and other industries of our low carbon future.
- This is a significant first step towards realising the Manufacturing Action Plan's commitment to establish a National Manufacturing Institute for Scotland.

Background

- The Lightweight Manufacturing Centre (LMC), led by the University of Strathclyde's Advanced Forming and Research Centre (AFRC), will deliver cutting-edge R&D projects involving lightweight materials with, and for, companies in Scotland.
- The opening of the new Centre will bring about a considerable opportunity for Scotland to play a vital role in the development of these lighter, next generation, components using multiple new material types. Lightweight components offer increased efficiency and performance, alongside achieving a reduction in emissions and will attract organisations involved in high-value manufacturing across many sectors.
- Due to a lack of locally based and accessible expertise in lightweight manufacturing technology, many companies in the aerospace and automotive sectors in Scotland currently outsource production overseas. LMC will bring this expertise to Scotland and return production to these shores.
- LMC will be at the existing Doosan Babcock facility in Renfrew and will be expected to open early 2018.
- The Centre will support high-value manufacturing sectors such as aerospace, automotive, oil and gas, renewables, medical, marine and off-highway transport – any industry in which lighter, lower-cost, more efficient materials offer benefits.
- By developing materials such as light alloys, composites, hybrid materials and building expertise in advanced materials, the LMC will truly revolutionise how Scotland interacts with high-value manufacturers across the world.

[redacted]

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ANNEX K

SCOTTISH GROWTH SCHEME

Issue: The Scottish Growth Scheme (SGS) was announced in last year's PfG to target SMEs that have significant growth potential, both here and through exports, in particular those that are technology intensive and which struggle to obtain finance through conventional means. The Scheme is intended to support investment through guarantees, up to a maximum of £500 million over the next three years. [redacted]. It is therefore now planned that the Scheme will encompass a broader "umbrella package" of financial support, under the SGS brand, to be delivered in stages, with further elements under the wider Scheme to follow in the coming months, but still supporting our original intention to unlock investment for the private sector. Under the first tranche, the Cabinet Secretary for Finance and the Constitution launched the **Scottish-European Growth Co-investment Programme** on Friday 16th June. This is a £200m equity investment initiative bringing together investment from Scottish Government, the European Investment Fund (EIF) and European private sector fund managers, attracting higher levels of international investment into Scotland aimed at companies seeking to raise **above £2m**. While we continue to develop the guarantee offering, we are not moving away from previously announced lines, simply providing a complementary, and more comprehensive offering. An equity approach as part of the structure was not ruled out, although the initial focus was on guarantees. [**Embargoed until announced** The 2nd tranche of investment under the scheme - £25m which will generate £100m for early stage young innovative technology based businesses seeking equity investment **up to £2m** – still to be announced. This additional resource will be dispersed over the next 15 months to be fully invested by December 2018].

Top lines

- Scotland's future economic success lies in the strength of our SMEs. Despite current levels of business support, more is needed, so we are Investing in our future through a £500 million Scottish Growth Scheme targeting - over three years - high growth, innovative and export-focused SMEs.
- Current uncertainty is putting investment at risk, especially the type of innovative and ambitious investment that is needed to deliver jobs, growth and revenues.
- Scottish Government is fully focused on increasing the level of funding available to SMEs, through the Scottish Growth Scheme.

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Why is the scheme only now available?

- When the scheme was announced, it was clearly indicated that work would be undertaken to develop and design it, working with financial institutions, and our enterprise agencies. The first tranche of this work was completed with the introduction of a programme, with the European Investment Fund in June.
- Important to get the structure right to meet the different needs and ambitions of Scotland's businesses. We are working to develop and deliver a number of market solutions under the umbrella of the Scottish Growth Scheme.

Why have no companies yet received money under SGS

- The 1st tranche of activity was only announced in June. Currently working with partners, financial institutions to deliver the offering, and remain confident of investing £500m over 3 years.
- While actively working on getting the Scheme up and running, let's not forget that currently, under the Scottish Government's own SME Holding Fund, resources are being distributed to support financial products covering microfinance, debt and equity.
- Up to March 2017, 260 companies have so far directly received access to financial support under the Holding Fund, and by December 2018 it was anticipated that £250m will have been dispersed to SMEs.
- Not yet announced - This is being boosted by additional funding, under the Scottish Growth Scheme, which means that we will see £350m being distributed to viable SMEs by December 2018, meeting greater levels of ambition.
- Scotland's future economic success lies in the strength of our SMEs. Despite current levels of business support, more is needed.
- Seeking to encourage high quality investment where the market might not have the requisite risk appetite, for example where companies are capable of growing and securing new contracts but struggle to access working capital and finance from lenders.

[redacted]

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ANNEX L

UK INDUSTRIAL STRATEGY

Key Points/Top Lines

- We have impressed repeatedly on the UK Government that the Scottish Government has a key role to play in taking forward the development of the UKIS.
- We are particularly keen to ensure that Scottish companies and the Scottish economy can extract maximum benefit from the Industry Strategy Challenge Fund and emerging Sector Deals.
- The UK Industrial Strategy should take account of Scotland's strengths and the structure of the Scottish economy eg Scotland's integrated approach to business growth.
- The 10 'pillars' in the UK paper resonate closely with existing Scottish Government priorities and action as laid out in Scotland's Economic Strategy

Background

- On 23 January 2017 the UK Government published the consultation document 'Building our Industrial Strategy' as part of the process of developing a new UK industrial strategy (UKIS). The consultation was open to all to respond until 17 April 2017.
- A white paper is expected to be published towards the end of 2017. Its stated aim is to 'build on our strengths and extend excellence into the future; close the gap between the UK's most productive companies, industries, places and people and the rest; and make the UK one of the most competitive places in the world to start or grow a business.

Scotland's Economic Strategy

- Scotland's Economic Strategy sets out the Scottish Government's strategic approach to growing Scotland's economy. It is based on two mutually supportive pillars – boosting competitiveness and tackling inequalities – recognising that improving economic performance is critical to tackling deep-rooted social problems, and vice versa. The Strategy is underpinned by a focus on 4 key priorities for sustainable growth: Investment, Innovation, Inclusive Growth, and Internationalisation.
- The UKIS Green Paper recognises the importance of a number of these factors in improving productivity, and the need to support rebalanced and sustainable growth across the whole of the UK. However, it does not fully recognise some of the fundamental underpinnings necessary for sustainable, long-term transformational change in the economy; the need for differing policy emphasis and levers across the UK; or reflect fully upon the differing roles and responsibilities of governments and institutions across the UK.
- Our focus on regional economic growth goes beyond a recognition of the importance of skills, including basic skills, for driving growth in all parts of the country. We believe it is necessary to consider 'productive inclusive growth' in its entirety, through deep understanding of specific drivers and barriers to growth and inclusion in different regions, across sectors and industries - and having the means to be able to address these - through greater devolution of institutions, policy or regulation and delivery powers.

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Industrial Strategy Challenge Fund (ISCF)

- On 21 April 2017 Greg Clark announced the ISCF, committing over £1bn over the next 4 years and focussing on six key areas. The funding allocations are designed to help deliver a step-change in the UK's ability to turn strengths in research into commercialised products. The six key areas are: healthcare and medicine; robotics and artificial intelligence; batteries for clean and flexible energy storage; self-driving vehicles; manufacturing and materials of the future; and satellites and space technology.
- The first three areas set to receive investment through the fund were announced at the 2017 Spring Budget. Mr Clark confirmed the total investment in each field (subject to business case approval):
 - clean and flexible energy or the 'Faraday Challenge': an investment of £246m over 4 years to ensure the UK leads the world in the design, development and manufacture of batteries for the electrification of vehicles
 - cutting-edge healthcare and medicine: an investment of £197m over 4 years to develop new technologies that will speed up patient access to new drugs and treatments, building on the exporting strengths of the UK's biopharmaceutical sector
 - robotics and artificial intelligence (AI): an investment of £93m over 4 years, to developing AI and robotics systems that can be deployed in extreme environments in off-shore energy, nuclear energy, space and deep mining
- Three additional areas may receive ISCF grants in the next 4 years:
 - driverless cars: a further £38m in new collaborative R&D projects, working with industry partners to develop the next generation of AI and control systems to ensure the UK is at the forefront of the driverless cars revolution
 - manufacturing and future materials: a new £26m fund for R&D programmes for the UK's civil aerospace industry, to develop the next generation of affordable light-weight composite materials for aerospace, automotive and other advanced manufacturing sectors
 - satellites and space technology: funding for a £99m satellite test facility supporting new launch technologies and the manufacturing and testing capabilities that will allow the UK to construct future satellites and deliver payloads into orbit
- Innovate UK will be supporting a £10m first wave of projects through the ISCF in each of the six areas with a number of smaller projects, starting in 2017-2018. As at 7 July 2017, 22 projects in Scotland had been sent offers of funding out of a total of 519 projects across the UK, ie 4.2% of the total. The amount of funding offered is not yet in the public domain. Successful projects span emerging and enabling technologies; energy; and materials; and manufacturing, and include projects from academic institutions and businesses of all sizes. In comparison, looking at all projects funded by Innovate UK, 10% are in Scotland, representing 4.8% of funding allocated.

[redacted]

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ANNEX M

WEEKLY SCOTTISH ECONOMIC PERFORMANCE UPDATE – 25 AUGUST 2017

Top Lines

- Scotland's economic fundamentals remain strong with employment at a record high and continued growth in the economy, despite headwinds facing the oil and gas sector and Brexit uncertainty.
- Scotland's economy grew 0.7% in Q1 2017. The fastest quarterly growth since the end of 2014.
- Scotland's GDP per head is higher than the UK average, excluding London.
- There are 2.65 million people in employment in Scotland, which is a record high level.
- Scotland's unemployment rate is close to record lows and is lower than the UK's rate (3.9% vs. 4.4%).
- Last year, Scotland attracted more FDI projects than any part of the UK outside of London for the fifth year in a row, securing over 2,800 jobs in Scotland.
- Scottish business surveys provide encouraging signals for economic performance in the first half of 2017.

Developments/Releases over the past week

- **UK GDP 2nd Estimate (Q2 2017):** UK GDP grew 0.3% in Q2 2017 (1.7% annually), up from 0.2% in Q1 2017.
- **Quarterly National Accounts Scotland (QNAS):** In financial year 2016-17, the value of Scottish onshore GDP is estimated at £150.0 billion (£27,854 per person).
 - **Scottish GDP update (Q1 2017):** Scottish GDP grew by 0.7% in Q1 2017. This was updated from the July estimate (0.8%) to reflect new industry weights for 2014.
 - **Index of Manufactured Exports (IME):** The volume of manufactured exports increased by 7.2% in Q1 2017 and decreased by 2.8% on a rolling annual basis.
- **Government Expenditure and Revenue Scotland (GERS):** In financial year 2016-17 Scotland's net fiscal deficit (including North Sea revenue) fell by £1.3 billion (10%) to stand at £13.3 billion (8.3% of GDP).

Economic Indicators

Output	Quarterly Change (Q1 2017)	Annual Change (Q1 2017 vs. Q1 2016)	Summary points
			The Scottish economy picked up at the start of 2017. Strong growth in the Production sector – which includes much of the oil and gas supply chain – contributed 0.5 percentage points to the overall quarterly growth figure driven by significant growth in output from the metals industry, reflecting in part the resumption of steel production at the Dalzell plant. This follows recent business survey evidence that suggests output and confidence in the oil and gas supply chain may be stabilizing. Conversely, weak consumer sentiment alongside the fall in Sterling since the referendum is already pushing up prices and squeezing household income, placing pressure on consumer facing services such as Retail and Wholesale. Despite recent contractions in the Construction industry, output from the sector was 22% higher in Q1 2017 than it was at the start of 2014, suggesting that recent falls are consistent with the sector returning to sustainable levels of growth. GDP data for Q2 2017 will be released in October 2017.
Total GDP	0.7%	0.6%	
Services	0.4%	1.2%	
Production	2.7%	-0.1%	
Construction	-0.6%	-4.0%	
Labour Market April - June 2017	Level ('000)	Rate (%)	Summary points
Employment	2,650	75.2	Scotland's labour market has performed strongly in 2017 with the employment rate and level increasing to record highs, and the unemployment rate now sitting close to its record low. More people are moving into full-time jobs, with full-time employment rising 72,000 over the past year, whilst part-time employment is down by 44,000 over the same period. Also, Scotland continues to outperform the UK on female and youth employment, unemployment and inactivity rates.
Unemployment	107	3.9	
Inactivity	743	21.8	
Weekly Earnings (Full-time median pay)		£535.0	Using ASHE, weekly earnings in Scotland grew by 1.5% over the year to April 2016. With annual inflation of 0.3%, real wages grew by 1.2%. More timely LFS data shows that over the year to Apr-Jun 2017, real total (incl. bonuses) and regular pay in Great Britain both fell by 0.5% (adjusted for inflation).

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CPI Inflation (July 2017)	+2.6%	UK inflation remained unchanged from June with increased prices of a range of goods and services including clothing, household goods, gas and electricity, and food and non-alcoholic beverages, which offset a fall in the price of motor fuels.
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Financial Markets				
	Latest Value	Weekly Change	Annual Range	Summary Points
FTSE100	7,435	+1.5%	6,654 – 7,599	<ul style="list-style-type: none"> ▪ The FTSE 100 and 250 made marginal gains over the week in the face of ONS data showing UK GDP growth of 0.3% in Q2 2017 and household spending growth slow to 0.1%, its lowest since Q4 2014. ▪ Movements in the currency and bond markets are a barometer of investor expectations about economic prospects and interest rates. ▪ Sterling fell slightly against the dollar and the euro over the past week. The euro has reached an 8-year high against the pound (1.09 €/£), boosted recently by a strengthening economic outlook for the euro area. Markets are sensitive to monetary policy signals towards the end of the week in advance of speeches from Janet Yellen (US Federal Reserve) and Mario Draghi (ECB) at the annual Central Bankers meeting on 25 August. ▪ A fall in bond yields means that government borrowing becomes cheaper. UK 10-year bond yields fell marginally over the week to 1.07. The UK Gov continue to be able to borrow at close to record low costs.
FTSE250	19,735	+0.6%	17,068 – 20,082	
Currency (\$/£)	1.28	-0.6%	1.15 – 1.34	
UK 10yr Bond Yield	1.07	-0.01 p.p.	0.53 – 1.54	
Brent Crude Oil (\$/b)	52.45	-0.8%	43.57 – 58.37	

Economic Achievements since 2007
<p>Since 2007, Scotland's economic performance has improved across a range of indicators:</p> <ul style="list-style-type: none"> • Scotland's GDP per head is 2.1% above its pre-recession level (Q2 2008), compared to 1.8% in the UK. • Scotland's Productivity (output per hour worked) grew by 7.6% between 2007 and 2016, compared to growth of 0.4% in the UK. • The Productivity Gap with the UK, which stood at 5.5 percentage points in 2007, has largely closed. • Employment in Scotland is now 86,000 higher than at its pre-recession peak (Mar-May 2008). <p>There has been considerable progress in reducing youth unemployment since 2007:</p> <ul style="list-style-type: none"> • Since 2007, the number of young people (aged 16 – 24) unemployment in Scotland has almost halved, falling from 62,000 in Apr-Jun 2007 to 32,000 in Apr-Jun 2017. • Scotland's youth unemployment rate is lower than the UK's and amongst the lowest in the EU (8.4%). <p>Since 2007, Scotland has also delivered strong performance in areas including:</p> <ul style="list-style-type: none"> • Registered Businesses – The number of registered businesses in Scotland has grown by 15% since 2007 to an all-time record level of 173, 995 in 2016. • Research & Development – Business R&D rose by 41% in real terms between 2007 and 2015 to £871 million. • Exports – The value of Scotland's international exports increased by 41% between 2007 & 2015 (£20.4bn to £28.7bn). • Inward Investment – Since 2007, Scotland has secured more FDI projects than any part of the UK outside London.

Releases coming out next week	
Scotland	UK
Scottish Labour Productivity	30 August

[redacted]

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ANNEX N

SCOTLAND'S ECONOMIC PERFORMANCE

Recent Economic Developments:

Quarterly National Accounts Scotland (published 23 August):

- Scottish GDP grew by 0.7% in Q1 2017 (revised down from 0.8% published in July).
- The volume of Scottish manufactured exports grew by 7.2% in Q1 2017 compared to Q4 2016. However, they have still fallen over the past year by 2.8%.

Top Lines - Recent data shows encouraging signs for Scotland's economy.

- Latest economic data points to an improving picture in Scotland – the economy is growing, the number of people in employment is at a record high, and unemployment is close to its record low.
- Scottish GDP grew 0.7% in 2017 Q1. In comparison, UK GDP grew by 0.2%.
- There are now 2.65 million people in employment in Scotland – a record high.
- Unemployment has fallen by 34,000 over the past year. Scotland's unemployment rate of 3.9% is close to its record low.
- Scotland secured 122 Foreign Direct Investment projects in 2016, more than any part of the UK outside London for the fifth year in a row.

Emerging signs that the situation is improving for oil and gas operators.

- Bank of Scotland Oil and Gas report shows that more than half of respondents expect to grow their business over the next year and more than half of companies expect to increase employment this year.
 - *Bank of Scotland, North of Scotland Regional Director, Stuart White - "The expression of confidence in this year's survey reflects an industry that appears to be turning a corner, with conditions for growth more favourable than they have been in recent times".*
- The Aberdeen and Grampian Chambers of Commerce Oil Survey showed contractors' confidence in the North Sea has improved significantly and is now the highest since 2013.
- Statoil and EnQuest announced in July that their new projects around Shetland will support 1,500 and 1,000 jobs respectively.

Real risk to Scotland's economy comes from a hard Brexit.

- The EU is the largest single market for Scotland's international exports, with exports worth £12.3 billion in 2015 – an increase of £520 million on the previous year.
- Brexit threatens to cost our economy around £11 billion a year by 2030, and result in 80,000 fewer jobs, compared to remaining a member of the EU.
- The Brexit related fall in Sterling following the EU referendum is already pushing up prices and squeezing household income.
- In the Bank of England's Inflation Report Press Conference on 3 August, Mark Carney stated *"...as the MPC has previously emphasised, the process of leaving the EU is beginning to affect*

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potential supply in the UK. Brexit-related uncertainties are causing some companies to delay decisions about building capacity and entering new markets”.

Scotland’s economic fundamentals have been strong over the past 10 years.

- **Employment** – Employment is now 86,000 above its pre-recession peak (Mar-May 2008).
- **Productivity** – Since 2007, GDP per hour worked has increased by 7.6% in Scotland, compared to 0.4% for the UK as a whole. (To note that new productivity stats will be released 30 August 2017 and this line will probably change)
- **Registered Businesses** – The number of registered businesses in Scotland has grown by 15% since 2007 to an all-time record level of 174,000 in 2016.
- **Research & Development** – Business R&D rose by 41% in real terms between 2007 and 2015.
- **Exports** – International exports are up 41% between 2007 and 2015.

Scottish Government is taking actions to support businesses and grow the economy.

- On 16 June, the Scottish Government launched the first package of new support through the £500m **Scottish Growth Scheme** which will target high growth, innovative and export-focused SME’s. Companies looking for significant investment will now be able to access an additional £200 million through the Scottish-European Growth Co-investment Programme.
- We are committed to expanding **the Small Business Bonus Scheme** in 2017 to remove the rates burden entirely from 100,000 premises.
- We’re increasing the supply of **affordable housing** in Scotland. Having exceeded our target to deliver over 30,000 affordable homes in the last Parliament, we are now committed to delivering at least 50,000 affordable homes by the end of this Parliament.
- We’re improving **Scotland’s transport connectivity**, through strategic investments in our transport infrastructure, including investments in the Queensferry Crossing, the M8 M73 M74 Motorway Improvements Project, the Aberdeen Western Peripheral Route, and continuation of the Edinburgh-Glasgow Rail Improvement Programme.
- We’re investing to improve **Scotland’s Digital Connectivity** and in 2017/18 plan to invest £112 million in digital and mobile infrastructure, including £51 million to support our commitment to deliver 100% superfast broadband access by 2021.
- We’re supporting **Scotland’s steel industry** and brokered a deal with international industrial group Liberty House to re-open the Lanarkshire steel plants and backed a deal worth £330 million for the sale of Rio Tinto's Fort William aluminium smelter to SIMEC/Liberty.

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