

# **Fairer Scotland Duty Assessment - Summary**

## **Scotland's Inward Investment Plan: Shaping Scotland's Economy**

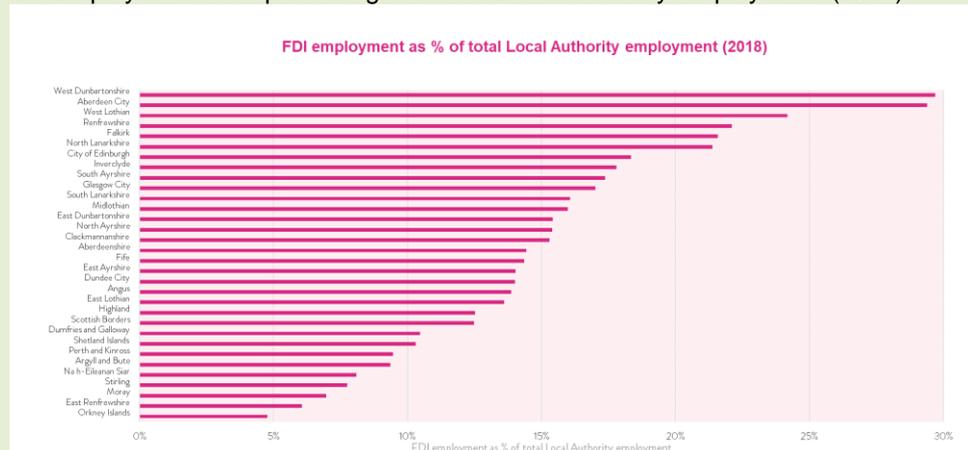
November 2020

## FAIRER SCOTLAND DUTY ASSESSMENT - SUMMARY

<p><b>Title of Policy, Strategy, Programme etc</b></p>	<p>Scotland's Inward Investment Plan: Shaping Scotland's Economy</p>
<p><b>Summary of aims and expected outcomes of strategy, proposal, programme or policy</b></p>	<p><a href="#">Scotland's Inward Investment Plan</a>: Shaping Scotland's Economy (IIP) sets out our ambition for Scotland as a leading destination for inward investment aligned with our values as a nation. The plan articulates the important role inward investment can play in Scotland's economic recovery by delivering high-value jobs as well as in shaping Scotland's future economy to ensure it delivers on our wider ambitions of achieving sustainable and inclusive economic growth.</p> <p>The IIP has been developed by a multi-agency project team drawn from Scottish Development International (SDI), Skills Development Scotland (SDS), Highlands and Islands Enterprise (HIE), South of Scotland Enterprise (SOSE), Scottish Enterprise (SE), Scottish Funding Council (SFC), Scottish Government (SG) and in consultation and collaboration with key inward investors and business organisations.</p> <p>The IIP sets the strategic direction to maximise benefits to the Scottish economy from inward investment, while simultaneously ensuring that our values around fair work, net zero and sustainable and inclusive economic growth are core to our inward investment strategy. Taking an evidence-led approach, the plan has identified nine key opportunity areas where Scotland's existing strengths intersect with current global investment flows and sets out actions to focus resources and policies on those areas to maximise the economic benefit across Scotland.</p> <p>The focus of the IIP is to enable Scotland to become even more successful in attracting inward investment, and to maximise the wider "spillover" benefits of that investment, aligned with our values. If achieved, over the next two decades the IIP has the potential, under certain conditions, to add £4.2 billion to GDP, boost Scottish exports by £2.1 billion, and increase annual government revenue by £680 million. This will benefit regions as well as the wider economy, providing revenue to support the delivery of vital public services. The IIP also has the potential to add an additional 20,000 jobs, above previous performance, to the Scottish economy over the next twenty years specifically as a result of the new focus on maximising spillover benefits.</p> <p>The IIP was developed as a commitment in the 2019-2020 Programme for Government to publish an evidence-led plan for inward investment. It aligns with the wider Scottish Government</p>

	<p>strategic context, the Advisory Group on Economic Recovery and the following National Performance Framework outcomes:</p> <ul style="list-style-type: none"> <li>• Economy – We have a globally competitive, entrepreneurial, inclusive and sustainable economy</li> <li>• International – We are open, connected and make a positive contribution internationally</li> <li>• Fair work and business – We have thriving and innovative businesses with quality jobs and fair work</li> </ul> <p>The IIP is a live plan, and implementation will be driven through a regular structured review process across government and agencies to track progress.</p>
<p><b>Summary of evidence</b></p>	<p>The purpose of this evidence section is to set out general evidence in respect of how inward investment policy can impact on inequality caused by socio-economic deprivation.</p> <p>Inward investment has a direct impact on the economy in terms of high-value jobs and associated capital brought to the project's immediate location. Scotland, along with a number of other countries is already challenging the accepted wisdom of "good" economic growth, recognising the need to go beyond GDP towards a more sustainable and inclusive definition of economic success. The links between inward investment and inclusive growth is an emerging field, however there is evidence available.</p> <p><b><u>Economic Benefits of Inward Investment</u></b></p> <p>Inward investment has a disproportionate and positive effect on Scotland's economy. Inward investors constitute 3% of Scotland's businesses, yet are responsible for 34% of jobs and 46% of Scottish GVA. Economic benefits from inward investment are primarily derived from the creation of high-value jobs but also from wider economic spillover benefits, such as supply chain benefits, spending on research and development, and regional impact.</p> <p>Inward investment therefore has the potential to generate significant income in the form of increased tax receipts, particularly income tax as jobs are generally created at the higher end of the income distribution. The Scottish Government can use this income to assist in tackling inequality and socio-economic deprivation.</p> <p><b><u>Creation of High-Value Jobs across Scotland</u></b></p> <p>The focus of the IIP is the creation of high-skilled, high-value jobs which pay higher than average wages. Inward investors typically pay higher than average wages per employee and tend to pull Scotland's average wage upwards within and across sectors. Inward investors also provide jobs across all Scotland, lifting wages across the regions and bringing higher wage benefits at both a regional and national level.</p>

## FDI Employment as a percentage of total Local Authority employment (2018)



Source: Scottish Enterprise analysis using data from Businesses in Scotland

## Creation of “Spillover” Benefits

The UK Department for International Trade (DIT) has produced analysis comparing the performance of nations and regions across the UK in capturing wider economic benefits of inward investment. In most cases Scotland is ‘mid-table’, highlighting the benefits to the wider economy to be gained from a more focussed and targeted approach to inward investment attraction which explicitly seeks to capture more of these wider impacts.<sup>1</sup>

An illustration of the benefits of bringing broader impacts or spillover benefits to the wider Scottish economy is LifeScan (Inverness). This company is involved in the design and manufacture of diabetes and glucose testing kits. LifeScan is an accredited living wage employer and has recently embedded itself in the local skills market, nurturing and supporting local talent through partnership with schools, via its Bridge to Employment initiative and STEM Ambassadors, and with Inverness College as a delivery partner in its training academy. LifeScan has been an engine for growth in the life sciences cluster of the Highlands, both with direct employment as well as with staff who were previously employed creating their own spin out firms, some of which are now themselves receiving specific equity investment and achieving growth.

LifeScan highlights the positive impact a long term inward investment can have on a local economy and specifically highlights delivery of wider spillover benefits relevant to socio-economic deprivation and inequality.

<sup>1</sup> Department for International Trade, ‘Estimating the economic impacts of FDI to support DIT’s promotion strategy’

	<p>Evidence also suggests that the creation of high-skilled jobs has a knock-on effect by also creating lower-skilled jobs more directly accessible to those from socio-economically deprived backgrounds.</p> <p>A report produced by the Resolution Foundation<sup>2</sup> analysing the effect that growth in Advanced Industries had on the labour market estimated that the creation of additional advanced industry jobs resulted in the creation of further non-tradable service sector jobs, finding that for every 10 additional jobs created in advanced industry, an additional 6 non-tradeable roles were also created, 4 of which were filled by workers with relatively low levels of education. Job creation fuelled by inward investment therefore likely has an indirect impact on the creation of additional lower-skilled jobs.</p> <p>While this Resolution Foundation analysis suggests that increasing inward investment could have a wider positive impact on socio-economic deprivation and inequality, it should be acknowledged that this benefit is indirect and not within the remit of inward investment policy to influence.</p>
<p><b>Summary of assessment findings</b></p>	<p>The purpose of this section is to set out how the policy changes laid out within the IIP will impact on inequality caused by socio-economic deprivation.</p> <p><b><u>Considerations during Development of the Plan</u></b></p> <p>The IIP takes an evidence-led approach and is based on a detailed programme of analysis. The objective of the analysis has been to comprehensively review Scotland’s approach to inward investment and to consider how inward investment can best help realise the Scottish Government’s objectives for a strong, inclusive economy. The IIP aims to maximise the benefits of inward investment to Scotland’s economy, supporting the delivery of sustainable and inclusive growth.</p> <p>The IIP sets out a change from a largely opportunistic, although successful, approach to a more targeted approach which seeks to maximise wider economic benefits and strategically shape Scotland’s economic future.</p> <p><b><u>Values-Led Approach</u></b></p> <p>A key change to current policy laid out in the IIP is the specific action to place our values at the heart of our interactions with current and potential investors, to ensure a strong partnership base to our relationships around promoting inclusive growth and creating a wellbeing economy. This is the first action within the plan highlighting its importance.</p>

<sup>2</sup> <https://www.resolutionfoundation.org/app/uploads/2017/07/A-rising-tide-lifts-all-boats.pdf>

This is a significant change in the approach towards investment with the specific intention of attracting investors who share our values and can help us progress our ambitions. Specifically in respect of Fair Work, Scotland has set itself a target of becoming a Fair Work Nation by 2025. Fair Work is fundamentally important to the delivery of inclusive growth – driving innovation, productivity and inclusion. We have engaged with Fair Work colleagues to raise awareness of the IIP and its aims. We will continue to collaborate and engage with them where necessary on aspects of the work they are undertaking to support businesses to move towards fairer working practices.

One way to maximise the impact inward investors have on promoting inclusive growth and creating a wellbeing economy is by attaching conditions designed to encourage the introduction of practices that reduce disadvantage such as asking prospective investors to sign up to the Scottish Business Pledge.<sup>3</sup> This is a values-led partnership between Government and business that is based on boosting productivity and competitiveness through fairness, equality and sustainable employment.

There is already a growing momentum of businesses implementing the principles of Fair Work across Scotland as they undertake a commitment to create jobs, develop talent, deliver flexibility, promote creativity, and increase productivity and efficiency. The IIP's commitment to consciously attract inward investment that aligns with our values should further promote these values within the business community and help maintain this momentum.

### **High-Value Jobs**

The main output of the IIP will be in the creation of high value jobs. Our revised approach seeks to deliver 100,000 jobs over the next decade. These will be high quality, well paid jobs that should, based on historical trends, be spread across Scotland.

The IIP identifies that many of these jobs will require advanced digital skills, and specifically addresses the need to upskill Scotland's population in respect of this. Although not within the scope of inward investment policy, a key action within the IIP is to increase the number of people with advanced digital skills.

To deliver this action, work is ongoing with skills colleagues including Skills Development Scotland. Skills Development Scotland was part of the multi-agency project team that developed the IIP, which complements and supports their Strategic Plan 2019 – 2022.

In delivering the skills drive, we intend to align with the Logan Review which highlights the importance of upskilling at all levels,

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<sup>3</sup> <https://scottishbusinesspledge.scot/>

placing particular emphasis on the need to deliver at school and university-level as well as on strengthening “funnel wideners”, i.e. those activities that bring additional talent into the technology ecosystem that don’t follow the main path

Work based learning is recognised as a prominent feature in the digital sector, and Modern Apprenticeships are considered an integral part of the talent pipeline. Employers are also increasingly embracing related Foundation and Graduate Apprenticeship programmes.

### **Focus on Spillover Benefits**

A further significant change in the approach to inward investment laid out in the IIP is a new focus on targeting investments that will deliver wider spillover benefits to the economy, such as supply chain opportunities, productivity improvements, spending on research and development and regional impact. This focus will maximise the economic impact achieved by inward investment, making revenue available to the Scottish Government to use to target socio-economic deprivation and inequality.

Inward investors increasingly want to talk about the wider benefits they contribute to society, beyond generating short-term profits. The significant benefits that inward investors can bring are encapsulated in the LifeScan case study previously mentioned.

Inward investment specifically strengthens and complements domestic business as a result of the clear positive relationship between inward investment, productivity, innovation and exports. The economic literature on Foreign Direct Investment shows that benefits from foreign companies can spill over to domestic businesses, leading to increases in productivity, wages, jobs and output.<sup>4</sup>

The IIP sets out a commitment to consider the wider benefits of an investment when considering whether to devote public sector resource to supporting it. The intention is to specifically target inward investment that will deliver wider spillover benefits.

It is assessed that by maximising the spillover benefits derived from inward investment, the actions laid out the IIP could, over the next twenty years, increase annual GDP by £4.2 billion, annual exports by £2.1 billion and government revenues by 1.2% - the equivalent of an estimated £680 million per year at 2018-2019 prices.

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<sup>4</sup> <https://www.gov.scot/binaries/content/documents/govscot/publications/strategy-plan/2020/10/shaping-scotlands-economy-scotlands-inward-investment-plan/documents/analytical-methodology-note/analytical-methodology-note/govscot%3Adocument/analytical-methodology-note.pdf>

## **Ensuring all of Scotland Benefits**

The IIP identifies nine opportunity areas that public sector resource will focus on when it comes to attracting inward investment. The areas were identified through an evidence-led approach which included specific analysis to ensure that every region of Scotland can benefit from the opportunity areas identified for the new focused approach.

To give just two examples, Space has the potential to impact on Shetland, Moray, Edinburgh and South East Scotland, Glasgow, the Western Isles, and Sutherland while Food and Drink Innovation will bring opportunities in The Highlands and Islands, Aberdeen City, The Tay Cities, Dumfries and Galloway, the Scottish Borders, Stirling and Clackmannanshire, Glasgow, and Argyll and Bute.

In order to ensure that all of Scotland benefits, the IIP commits to ensuring that strategic inward investment efforts align with regional growth plans, and with Scotland's Enterprise Areas, building on the strengths and assets each region in Scotland has to offer to create regional clusters of expertise and secure the benefits from inward investment across Scotland. The Plan also commits to producing Regional Prospectuses to highlight the strengths and attractions of Scotland's regions, aligned with international strengths and assets identified within the Plan. These will be showcased on a global stage to increase visibility and attraction to inward investors.

The Plan also references a number of wider policy changes in areas relevant to inward investment decision making, for example around infrastructure, digital infrastructure and the creation of a supportive environment for remote, distributed and local working. We will seek to work with policy colleagues in these areas to enable the inward investment environment.

Consideration is currently being given with partners as to how the actions within the IIP will be implemented, and the Fairer Scotland Duty requirement will be considered as part of these discussions.

## **Measurement and Evaluation**

Current inward investment measurement frameworks, such as Ernst & Young (EY)'s annual UK Attractiveness Survey, focus largely on the numbers of projects and direct jobs created. In the IIP we highlight a change to focus on attracting inward investment that delivers wider spillover benefits to the whole of Scotland's economy, something not measured under current frameworks. Going forward we need to measure what matters. As such, we are developing a new appraisal, performance measurement and evaluation framework

	<p>for inward investment to better measure and evaluate this change in approach.</p> <p>By widening what is measured, the framework will shape the public sector's response to inward investment projects that are aligned to Scotland's values and are likely to deliver the widest range of benefits to our economy.</p> <p>As well as capturing the direct benefits of individual projects this framework will seek to consider the widest range of potential impacts projects could deliver for Scotland.</p> <p><b>Conclusion</b></p> <p>The IIP sets out a change in approach to inward investment policy that delivers on the Fairer Scotland Duty requirement to actively focus on the wider benefits of inward investment that can be delivered across Scotland.</p> <p>The new policy sets out a change in approach to inward investment policy, moving to a strategic focus, targeting specific investors and projects which will help further strengthen Scotland's capabilities. Going forward we will not only consider the creation of new projects and jobs but also the wider "spillover" benefits that a project can deliver, and where in Scotland those might land. We will work to attract inward investment that aligns with Scotland's values and supports our agenda around fair work, net zero and sustainable inclusive and economic growth.</p> <p>The Plan includes a commitment to develop a new appraisal, performance measurement and evaluation framework for inward investment to capture the wider potential impacts of inward investment as well as capturing the direct benefits.</p>
<p><b>Sign off</b></p>	<p><b>Name: Stephen Pathirana</b></p> <p><b>Job title: Deputy Director, Trade and Investment Delivery</b></p>



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Any enquiries regarding this publication should be sent to us at

The Scottish Government  
St Andrew's House  
Edinburgh  
EH1 3DG

ISBN: 978-1-80004-298-8 (web only)

Published by The Scottish Government, November 2020

Produced for The Scottish Government by APS Group Scotland, 21 Tennant Street, Edinburgh EH6 5NA  
PPDAS786946 (11/20)

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