

EUROPE 2020: SCOTLAND'S NATIONAL REFORM PROGRAMME 2019



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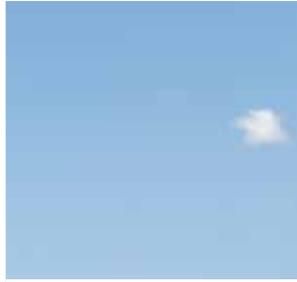
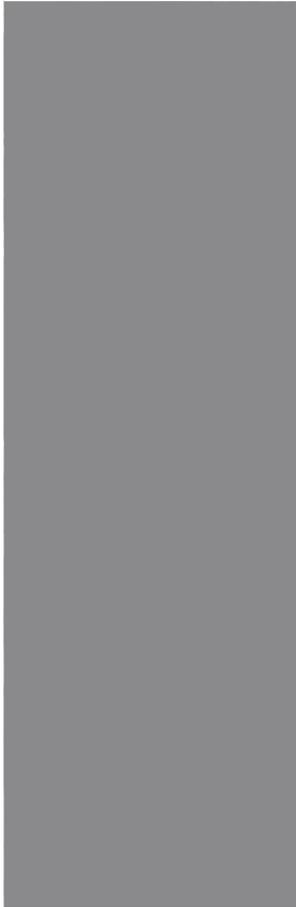
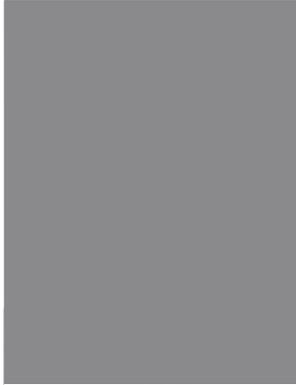
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FOREWORD



This reports details the contribution made by Scotland over the last year towards the European Union's Europe 2020 strategy for delivering smart, sustainable and inclusive growth.

Launched in 2010, the Europe 2020 strategy sets out collaborative targets for member states to help drive action to address structural weaknesses in the European economy, which in part contributed to the world-wide economic downturn in 2008.

The Europe 2020 targets relate to:

- **Reducing youth unemployment**
- **Increasing research and development**
- **Meeting climate change ambitions**
- **Improving education**
- **Reducing poverty**

The overall purpose of Europe 2020 is closely aligned with the Scottish Government's own strategic purpose of focusing government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth.

As this report highlights, Scotland is in a stronger position to deliver these ambitions as part of the EU family.

Since the UK's vote to leave the EU, the Scottish Government has been working to protect the interests of the people of Scotland and minimise the adverse impacts of Brexit.

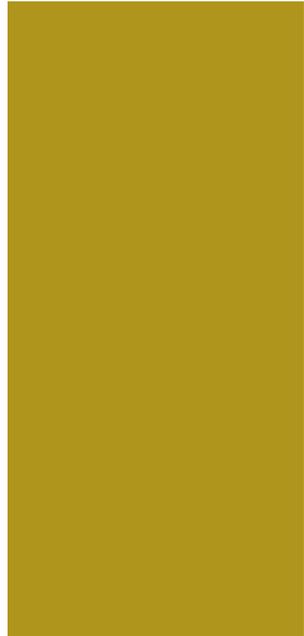
In January 2018 we published 'Scotland's Place in Europe: People, Jobs and Investment' which provided detailed analysis on the economic, environmental and wider social benefits for Scotland of retaining membership of the European Single Market, as well as the benefits of the free movement of people for Scotland's demographic needs and sustainable economic growth.

However, the UK Government's intention is to leave the EU, a position contrary to the wishes of the people of Scotland who in 2016 voted decisively to remain. The uncertainty caused by the failure of the UK Government and Parliament in Westminster to agree how, when or even if the UK should leave the EU and what future relationship it should have places the health of Scotland's economy at considerable risk.

In any case the Scottish Government is clear that no future relationship can replace the benefits currently offered by membership of the world's largest economy.

Whether a member of the EU or not, Scotland and indeed the UK are part of Europe and will remain an integral part of the European economy. That is why the Scottish Government will continue to assess and report on the contribution we have made towards Europe's achievement of smart, sustainable, inclusive growth.

CHAPTER 1: THE EUROPE 2020 STRATEGY AND NATIONAL REFORM PROGRAMME



In March 2010, the European Commission published its Europe 2020 strategy¹ aimed at helping the EU to recover from the economic crisis which began in 2008.

The overall aim of the strategy was to turn the EU into a smart, sustainable and inclusive economy which delivered high levels of employment, productivity and social cohesion. In order to achieve this, the strategy identified five headline targets

which the EU should meet by the end of this decade. The Scottish Government strongly supports all of these targets. They relate to employment; research and development (R&D); climate change and energy; education; and poverty and social inclusion.

↓ Europe 2020 targets

- 75% of the population aged 20-64 should be employed
- 3% of the EU's GDP should be invested in R&D
- The "20/20/20" climate/energy targets should be met (including an increase to 30% of emissions reduction if the conditions are right)
- The share of early school leavers should be under 10% and at least 40% of the younger generation should have a tertiary degree
- 20 million less people should be at risk of poverty

National Reform Programmes

In order to measure progress in achieving these targets each EU Member State submits an annual report to the European Commission. These reports are known as National Reform Programmes (NRP) and they outline the policies that Member States are currently pursuing to deliver on the ambitions of the Europe 2020 strategy. As part of this process, the Scottish Government has contributed to the development of the UK Government's NRP for 2019.

However, in order to highlight the unique characteristics of Scotland, and the distinct approach to the Europe 2020 ambitions that we are taking forward, the Scottish Government produces its own annual Scotland specific NRP report.

This report is the ninth Scottish NRP report. It builds on the previous Scottish reports and outlines the actions being undertaken in Scotland in support of the delivery of the ambitions of the Europe 2020 Strategy. It also provides a valuable opportunity to share with our European neighbours the innovative and often world leading policies being pursued by the Scottish Government.

1 <http://ec.europa.eu/eu2020/pdf/COMPLET%20EN%20BARROSO%20%20%20007%20-%20Europe%202020%20-%20EN%20version.pdf>

THE EUROPEAN SEMESTER

The European Commission has established an annual cycle of economic policy co-ordination known as the 'European Semester', which aims to focus the efforts of Member States on achieving the Europe 2020 targets. A summary of the European Semester is presented in Table 1.

TABLE 1 – THE EUROPEAN SEMESTER

November	European Commission publishes its Annual Growth Survey, detailing policy priorities for the EU as a whole to boost growth and job creation over the year ahead.
February	European Commission publishes a Country Report for each Member State, analysing their economic situation, reform agendas, and progress towards previous Country-Specific Recommendations (CSRs).
April	Member States present their NRPs and Stability or Convergence Programmes to the Commission.
May	European Commission proposes CSRs to Member States to address particular challenges over the coming 12-18 months.
June	The European Council discusses and formally adopts the CSRs.

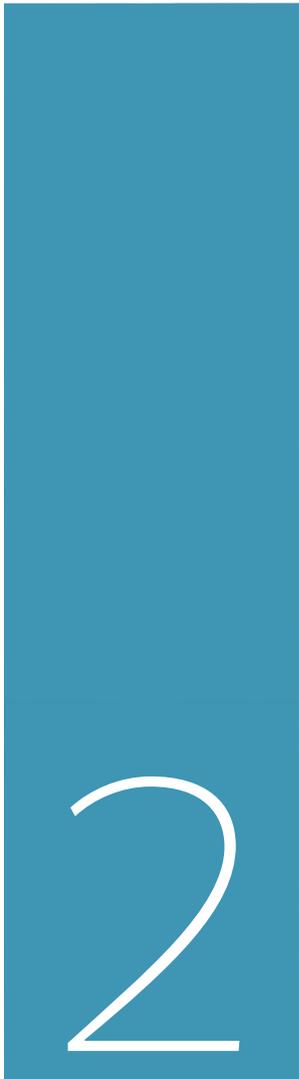
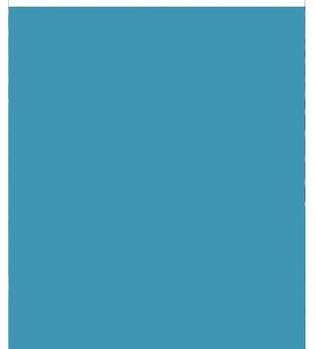
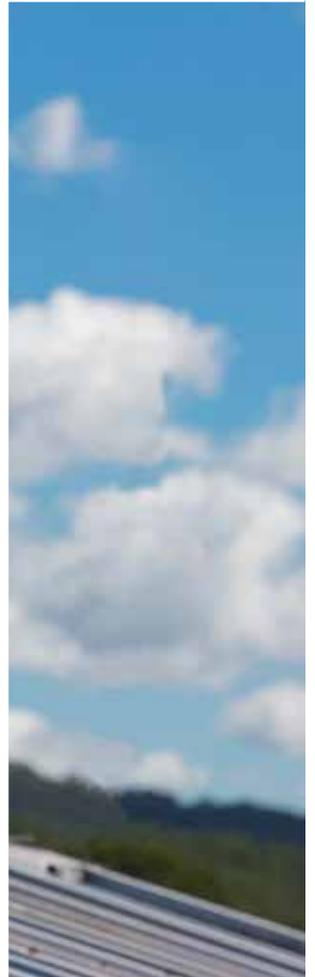
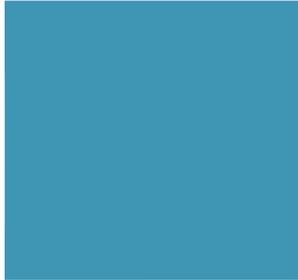
COUNTRY-SPECIFIC RECOMMENDATIONS FOR THE UK

In addition to the five headline targets outlined above the European Commission also addresses country-specific recommendations (CSRs) to each member state. These recommendations are tailored specifically to each EU country and provide policy guidance on how to boost jobs and growth, whilst at the same time maintaining sound public finances. The European Commission provided the UK with an updated set of CSRs in July 2018:²

- 1. CSR1: Fiscal Outlook** “Ensure that the nominal growth rate of net primary government expenditure does not exceed 1,6% in 2019-2020, corresponding to an annual structural adjustment of 0,6% of GDP.”
- 2. CSR2: Housing** “Boost housing supply, particularly in areas of highest demand, including through additional reforms to the planning system.”
- 3. CSR3: Skills** “Address skills and progression needs by setting targets for the quality and the effectiveness of apprenticeships and by investing more in upskilling those already in the labour force.”

² <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1538474984830&uri=CELEX%3A32018H0910%2827%29>

CHAPTER 2: SUSTAINABLE ECONOMIC GROWTH



Scotland's Economic Performance

The overall purpose of Europe 2020 is to deliver, smart, sustainable and inclusive growth. The Scottish economy continued to grow in 2018, despite uncertainty regarding the UK's withdrawal from the EU remaining a key risk to the outlook.

Scotland's economy grew 1.3% in Q3 2018, down slightly from the previous quarter, however continuing the pattern of stronger growth experienced over 2017-18. Growth over the year was broad based across the Services, Production and Construction sectors.

Scotland's labour market also continued to perform strongly in 2018. The latest data for September to November 2018 shows that unemployment fell to its lowest rate on record (3.6%), with the number of people unemployed below 100,000 for the first time, while the employment rate remained high, rising to 75.3%.

The continued positive economic performance over the past year has been underpinned by stronger global growth, alongside the lower value of the British Pound. The increase in confidence and activity in the oil and gas sector and its supply chain has also been supportive.

Independent forecasts reflect the stronger performance in Scotland's economy over the past 18 months. However, the pace of growth is expected to remain below its long run trend rate. GDP is forecast to grow by between 1.3% and 1.6% in 2018, with potentially slightly lower growth in 2019 between 1.0% and 1.5%. All forecasts assume some form of smooth and orderly transition regarding Brexit.

Uncertainty surrounding Brexit is raised as a key factor affecting the economic outlook across all the forecasts alongside weak productivity, growth and slow population growth representing long-term challenges.

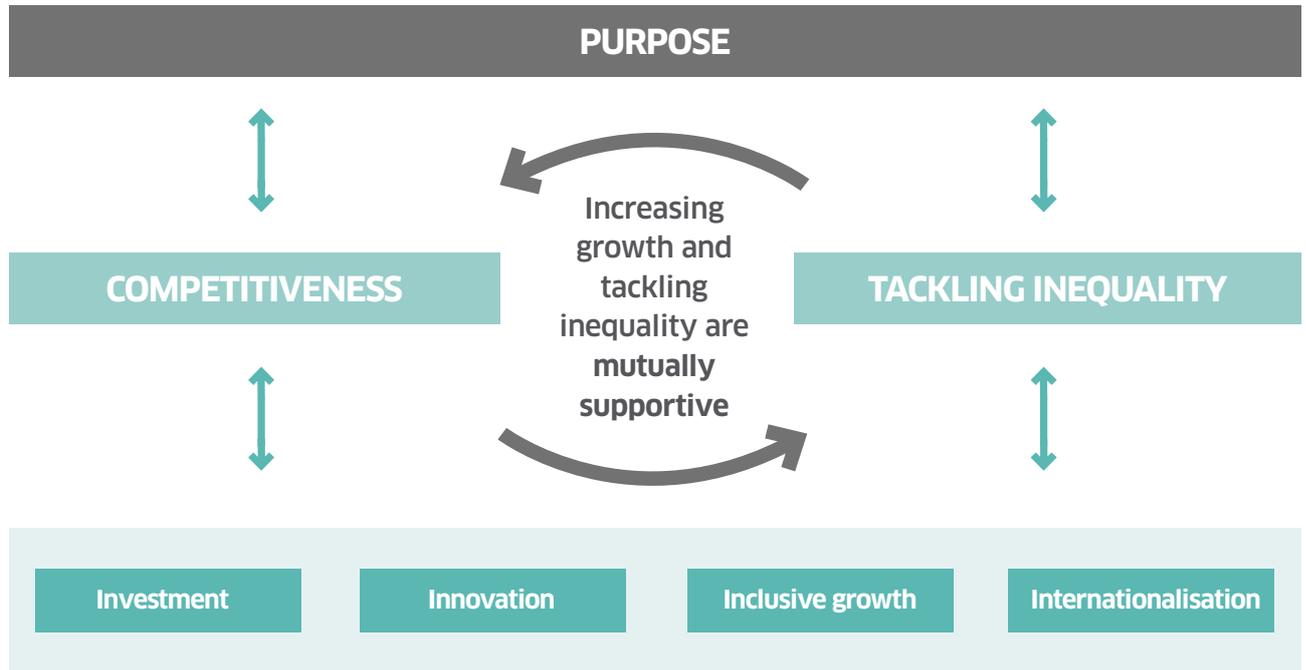
Over the short-term, some business surveys signal that business optimism has weakened over the past year, reflected in fragile business investment intentions and increased stockpiling. Alongside this, pressure on household finances and ongoing weaknesses in Scottish consumer sentiment also feature as risks to growth over the coming year.

A regular assessment of conditions in the Scottish economy is provided in the Scottish Government's Chief Economist's State of the Economy publication.

SCOTLAND'S ECONOMIC STRATEGY

The top priority of the Scottish Government is to support Scotland's economic resilience and to protect jobs, investment, long-term prosperity and growth prospects across Scotland. Scotland's Economic Strategy sets out a vision to create a more cohesive and resilient economy that improves the opportunities, life chances and wellbeing of every citizen in Scotland. At the core of the Strategy is the Government's Purpose, as outlined previously, which is underpinned by two key pillars – increasing competitiveness and tackling inequality.

This is illustrated in Scotland's economic framework as presented in Figure 1.

Figure 1: Scotland's Economic Framework

Within Scotland's Economic Strategy there are four priority areas which the Scottish Government continues to take action across to grow Scotland's economy, and ensure it remains resilient. The four priority areas are:

- **Investing** in our people, our infrastructure and our assets in a sustainable way;
- Fostering a culture of **innovation** and research and development;
- Promoting **inclusive growth** and creating opportunity through a fair and inclusive jobs market and regional cohesion;
- Promoting Scotland on the **international** stage to boost our trade and investment, influence and networks.

ECONOMIC ACTION PLAN

The Economic Action Plan, launched in October 2018, sets out the actions the Scottish Government is taking to achieve the vision set out in Scotland's Economic Strategy. This includes key interventions to increase sustainable and inclusive economic growth across Scotland. The Plan also responds to many of the recommendations made in Scotland's business-led Enterprise and Skills Board's first Strategic Plan as well as reflecting key themes from our National Council of Rural Advisors. The Plan also reflects ongoing engagement with business and will enhance Scotland's economic support to business, places and people across Scotland.

The Economic Action Plan also sets out some key new measures:

- Establishing a £18 million Advanced Manufacturing Challenge Fund to ensure all parts of Scotland benefit from developments in advanced manufacturing.
- Responding to the rapidly changing skills needs of business and employees, by enhancing the opportunities for upskilling and reskilling for those already in work.
- Working with business to pilot two 'Productivity Clubs' to support businesses to help each other to improve managerial capability and diffusion of technology and innovation
- Expanding the role of the Can Do Business Innovation Forum to take action on the economic opportunities and challenges of new technologies.

SCOTLAND'S NATIONAL PERFORMANCE FRAMEWORK

Progress towards the ambitions set out in Scotland's Economic Strategy is measured through the new National Performance Framework (NPF). The NPF sets out a collective purpose for Scotland, a values statement and 11 interconnected National Outcomes for creating a more successful country through increased wellbeing, and sustainable and inclusive economic growth. It includes 81 national indicators which underpin the outcomes and track progress in achieving these outcomes over time. The Framework's Outcomes are aligned with the UN's Sustainable Development Goals, and meaningful action under the NPF will allow Scotland to play its part in achieving these Global Goals by 2030. The National Outcomes include:

- Having a globally competitive, entrepreneurial, inclusive, and sustainable economy;
- That we are open, connected and make a positive contribution internationally;
- That we have thriving and innovative businesses, with quality jobs and fair work for everyone.

Figure 2: National Performance Framework

CSR 1: Fiscal Outlook

This recommendation calls on the UK to take action to strengthen the ongoing recovery and to ensure the sustainability of the UK public finances. While macroeconomic and monetary policy, and the overall public expenditure control framework, are matters reserved to the UK Government, the Scottish Government will continue to manage Scotland's finances in a competent, responsible and balanced way.

The Scottish Government has implemented a number of new fiscal powers in recent years, on which further details can be found in our May 2018 publication, *"Scotland's Fiscal Outlook: the Scottish Government's five-year financial strategy"*.

This document explains the fiscal framework and funding arrangements that the Scottish Government now operates within; outlines our approach to financial management and fiscal rules; sets out a range of possible funding scenarios for the Scottish Budget over the next five years; and details our key policy priorities and approach to supporting Scotland's economy.

The Fiscal Framework gives the Scottish Government access to a number of levers that can support budgetary stability and management of the volatility associated with greater revenue-raising powers, including additional borrowing powers and permission to operate a (limited) Scotland Reserve. Further details on the use of these powers are set out in our five-year financial strategy and in our Fiscal Framework Outturn Report.

In addition, we are committed to the sustainable use of revenue financed investment methods to ensure we do not overly constrain our choices in future years. Prior to the Scottish Budget in December 2018, the Scottish Government had a self-imposed revenue finance investment limit of 5% of the total Scottish Government budget. To ensure our National Infrastructure Mission will be delivered in a fiscally prudent way, and continues at a sustainable level, we are tightening this limit to 5% of the Scottish Government resource budget, excluding social security.

On 4 September 2018, the First Minister announced in her Programme for Government speech, the adoption of a National Infrastructure Mission. This commitment will increase annual investment by 1% of current GDP by the end of the next Parliament. This will mean that annual investment in our hospitals, schools, houses, transport, low carbon technology and digital connections, will be around £1.56 billion higher by 2025-26 than 2019-20. The Scottish Government has set the 2019-20 baseline of £5,195.8 million which will steadily increase so that it reaches £6,750.8 million of infrastructure investment in 2025-26.

The Scottish Government will achieve its national mission through a balance of approaches including capital borrowing, revenue finance, guarantees and growth accelerator. The Scottish Futures Trust has been asked to examine new profit sharing finance schemes, such as the Welsh Government's Mutual Investment Model, to help secure both investment and best value for the taxpayer.

A new Infrastructure Commission, chaired by Ian Russell, has been established to provide long-term strategic advice to

the Scottish Government on national infrastructure priorities, based on evidence and learning from good practice and to align investment with long term inclusive economic growth and low carbon objectives. It will advise on the National Infrastructure Mission by identifying key strategic investments in Scotland to be made to boost economic growth and support public service.

As set out in the budget plans for 2019-20, the Scottish Government will support infrastructure investment of £5 billion in 2019-20 through a combination of capital grant, borrowing powers, Financial Transactions revenue financed methods, including hub, growth accelerator, and Tax Incremental Financing.

WHY EU FUNDING MATTERS

Funding from the EU supports the implementation of the Scottish Government's economic policy in a number of important areas. EU funding benefits Scotland significantly, supporting jobs, delivering infrastructure, sustaining rural communities, providing valuable support for the farming and fishing industries and delivering research funding for universities.

EU funding is expected to benefit Scotland by around £5 billion over the current EU budget round (2014-20) across the European Social Fund (ESF), European Regional Development Fund (ERDF), European Maritime and Fisheries Fund, and European Agricultural Fund for Rural Development.

The ESF and ERDF, in particular, play an important part in helping to grow Scotland's economy in support of sustainable economic growth and the five Europe 2020 targets.

EUROPEAN SOCIAL FUND AND EUROPEAN REGIONAL DEVELOPMENT FUND IN SCOTLAND

- The current programmes are worth over €870 million (£828 million) which, together with match funding, delivers projects worth up to £1.8 billion.
- To date £490 million of funding is now approved under the 2014-20 ESF/ERDF programmes, continuing to deliver the goals of the Operational Programmes, including the Europe 2020 targets.
- The benefits are not only monetary; the funds promote innovative solutions and partnership working across sectors and Member States for the benefit of those in our communities who need it most.
- Projects supported by ERDF deliver investments in infrastructure, innovation and R&D, support for businesses and the environment.
- ESF supports investments in skills and social inclusion, aimed at accessing employment or up-skilling workers through training. This allows the programme to support the most deprived individuals and communities as well as developing skills for the future.
- EU membership has brought significant investment into Scotland, including investments in infrastructure, business and training. During the 2007-13 programmes, this totaled €740 million, which supported 96,000 people into work and helped create almost 50,000 jobs.

The 2014-20 programmes are targeted to support the Scottish Government's priorities as outlined in the Economic Strategy, Economic Action Plan and National Performance Framework and deliver across all five areas of Europe 2020 framework.

EUROPEAN SOCIAL FUND

The ESF programme targets the Employment, Education and Poverty and social exclusion targets under the Europe 2020 framework and the country specific recommendation of "Addressing skills mismatches and providing for skills progression". To date, over £196 million of ESF grant has been awarded to projects across the programme.

The programme invests in skills through the Developing Scotland's Workforce projects delivered by Scottish Funding Council, working with further education colleges, and Skills Development Scotland. This has seen the introduction of the Foundation and Graduate Apprenticeship programmes, which enable participants to gain on-the-job training, skills and qualifications, and an increased number of Modern Apprenticeship and further education college places, with a total of 30,000 individuals benefitting from the activity so far and plans being developed to continue and expand this over the remainder of the programme.

The approved projects under the employability priority have already supported over 30,000 individuals towards a target of almost 90,000 people to gain skills and improve their chances in the labour market. This targets individuals with multiple barriers limiting their opportunities, including many of those furthest from the labour market, often with long periods away from work. Alongside this, the Youth Employment Initiative aimed to support 18,000 young people by the end of 2018 in the south west Scotland NUTS region to progress towards education, training and work.

The combating poverty and promoting social inclusion priority aims to deliver against the shared Europe 2020 and Scottish Government goal of reducing poverty. So far, the approved projects under the priority are expected to fund projects to support 17,000 disadvantaged people, invest in close to 200 communities across Scotland and to support more than 100 social enterprises.

EUROPEAN REGIONAL DEVELOPMENT FUND

The ERDF programme targets the Employment, Research and development, and Climate change and energy targets under the Europe 2020 framework and the country specific recommendation of “raising GDP”. To date, over £293 million of ERDF grant has been awarded to projects across the programme.

The SME growth priority has awarded over £100 million of grant to support business growth. This is predominantly delivered through two strands: improving access to finance through financial instruments, and increased specialist support delivered through Scotland’s enterprise agencies and the Business Gateway network across

the country. Altogether, this is expected to support 15,000 businesses, including close to 2,000 new enterprises.

Innovation and the transition to a low carbon economy are supported by two of the programme priorities, which will invest a further £100 million to support hundreds of firms introduce new products, hundreds more develop and implement new low carbon technologies, and enable low carbon transport through new travel hubs and cycle paths.

Alongside this, the programme will also support the roll out of broadband in Scotland’s most rural areas, invest in urban green space and promote the highlands and island’s natural and cultural heritage.

Brexit: What’s at stake for Scotland’s Economy?

At the time of publication significant uncertainties remain as to the form and timing of Brexit. As such, there is potential for widely different outcomes, including the potentially catastrophic economic impact of the UK leaving the EU without a transition agreement toward a future relationship.

Brexit threatens Scotland’s access to the single market and international markets negotiated by the EU. The European Single Market is one of the world’s biggest marketplaces, which gives Scotland access to over 500 million consumers.

The UK’s departure from the EU means we may not share in the economic gains from future developments in the trade in services and completion of the digital single market. As the European Single Market continues to deepen new opportunities for high-value trade will emerge – particularly in the services sector, the energy sector, and the digital economy. These are sectors of key strategic importance to Scotland’s future prosperity, the loss of such opportunities threatens our ability to deliver sustainable economic growth.

The Scottish Government’s analysis *Scotland’s Place in Europe: People, Jobs and Investment*, published in January 2018 demonstrates the benefits of the Single Market to Scotland and sets out the adverse economic consequences of a hard Brexit.

The Scottish Government believes the best option for Scotland is to continue being a member of the EU reflecting the wishes of the people of Scotland who in the 2016 referendum voted overwhelmingly to remain.

The economic case for a closer relationship with the EU is backed by an overwhelming body of evidence, including Scottish Government economic modelling³. Should the UK pursue a WTO-style relationship, Scotland's GDP would be around 8.5%, or £12.7 billion (in 2016 cash terms), lower by 2030, compared to continued full EU membership. This is equivalent to a loss of around £2,300 per year for each person in Scotland. A Free Trade Agreement relationship would mean Scotland's GDP would be 6.1% (£9 billion in 2016 cash terms) lower by 2030.

Should the UK remain in the Single Market by participating in the EEA this impact could be significantly mitigated, with Scottish GDP estimated to be around 2.7% (or £4 billion in 2016 cash terms) lower.

In a more recent report for the Scottish Government by Ernst and Young (January 2019) Scottish businesses identified six key risks to Scotland's Economy as a consequence of Brexit:

- 1. Tariffs and non-tariff barriers** that will disrupt the frictionless and tariff-free movement of goods between Scotland and the EU.
- 2. Sourcing and supply resilience** – trade frictions, corresponding disruptions to supply chains, and potential changes in the value of Sterling will impact Scottish companies and their supply chains.
- 3. Legal and regulatory compliance** – leaving the EU will result in the UK leaving a number of regulatory regimes which otherwise help trade to flow.
- 4. Workforce** – the end of free movement will exacerbate the challenges Scotland already faces to attract and retain talent in the context of an ageing population. A weaker British Pound may create disincentives for workers to come to the UK and Scotland.
- 5. EU funding and finance** – Scotland will no longer benefit from EU funding beyond 2020.
- 6. Foreign Direct Investment (FDI)** – Brexit may also reduce the attractiveness of Scotland as a destination for FDI; however, a weaker Sterling may increase Scotland's attractiveness for FDI.

³ <https://www.gov.scot/publications/scotlands-place-europe-people-jobs-investment/>

CHAPTER 3: HOUSING

3



Housing Supply

The second country-specific recommendation set by the European Commission for the UK recommends that further steps are taken to boost housing supply, including through reforms to the planning system.

One of the most important factors in any person's quality of life is their housing. Good quality, warm and affordable housing is vital to ensuring a Scotland that is fair for this and future generations. Housing is an area where the Scottish Government and its partners are already taking a range of actions to ensure that all people in Scotland live in high-quality, sustainable homes that they can afford and that meet their needs.

The Scottish Government's target, over the current Parliamentary term, is to deliver at least 50,000 affordable homes, including 35,000 homes for social rent – a 75% increase on our previous social rent target. This ambitious plan has been backed up with investment of at least £3 billion – the single biggest investment in, and delivery of, affordable housing since devolution. Over £756 million is available over 2018-19 and £826 million will be available in 2019-20 – a £70 million increase. 83% of the Affordable Housing Supply Programme funding in 2019-20 (£685 million) is capital funding, primarily for social housing.

The Scottish Government has given councils and housing associations long-term certainty by allocating full resource planning assumptions to March 2021. We exceeded our previous 30,000 affordable homes target by more than 10%. Over the last parliamentary term 33,490 affordable homes were delivered, 22,523 of which were for social rent.

FINANCIAL SUPPORT AND INNOVATION

Scotland has a range of schemes providing support to private sector housing activity, including the £295 million Affordable New Build and Smaller Developers Help to Buy (Scotland) shared equity schemes, which offer support to homebuyers from 2016-19. These offer equity support of up to 15% on more affordable new build homes, with a threshold price of £200,000, targeting support to those most in need of assistance and adapting to improved market lending conditions.

In addition, the Open Market Shared Equity Scheme (OMSE) continues to assist first time buyers on low to moderate incomes and priority access groups to purchase a property on the open market by offering equity support of between 10-40%. OMSE is part of the Scottish Government's commitment to deliver 50,000 affordable homes by 2021.

The *More Homes Scotland* approach is focussed on increasing supply across all tenures, including the expansion of affordable, mid-market rent homes which will contribute towards the current housing target of 50,000 affordable homes.

The innovative use of government guarantees, loans, grant recycling and new sources of private funding is supporting the delivery of approaching 8,500 homes across all tenures and generating over £1 billion of housing investment in addition to our conventional funding routes. Our activity is also having a wider impact by unlocking associated housing delivery in many locations across Scotland.

The National Housing Trust initiative – the first government guarantee-backed housing programme in the UK – was launched to stimulate the economy during a difficult period, and increase the number of high quality new homes with no subsidy. This popular initiative has delivered over 1,600 homes to date.

The Scottish Government remains committed to supporting the expansion of mid-market rent (MMR) across Scotland.

LAR Housing Trust has used an initial £55 million Scottish Government loan to attract £65 million investment from Scottish Widows, arranged through Bank of Scotland to support delivery of their 1,000 affordable MMR homes housing target. And more recently, Scottish Government loan funding of £47.5 million has been provided to the Placemaking and Regeneration Group, Places for People, to set up a residential investment fund to deliver 1,000 affordable MMR homes across Scotland and attract pension fund investors to generate an investment package of around £150 million.

The Scottish Government has encouraged pension funds to invest into affordable housing – with Falkirk Local Government Pension Scheme fund investing £30 million through Hearthstone. The initial funding from Falkirk should finance around 300 affordable homes over the next 10 years.

We are boosting the supply of affordable housing through prudential borrowing, and delivering City Deal commitments on housing. This includes consent to on-lend up to £248 million along with a £16 million capital grant to City of Edinburgh Council to support a new city region housing company to deliver a mix of 1,500 affordable MMR homes and competitive market rent homes.

We are also supporting and enabling investment in the emerging Build-to-Rent housing market, including the introduction of the Rental Income Guarantee Scheme designed to stimulate further institutional investment and delivery of new high-quality, professionally managed, private rented sector homes. This has the potential for delivery of an additional 2,500 new homes for market rent, stimulating up to £500 million private investment.

Added to this, the Scottish Government has introduced the £150 million Building Scotland Fund (£70 million 2018-19 and £80 million over the following two financial years). This fund will offer loan or equity support, and is a precursor to the Scottish National Investment Bank. The cross-portfolio fund is available to non-public sector organisations, to support the development of new housing across all tenures, develop modern industrial and commercial space; and support industry-led research and development. The fund will provide a loan of £26.8 million for the Winchburgh housing development supporting the delivery of around 3,450 new homes in West Lothian – with associated schools, transport and community facilities being delivered as part of the wider development.

SCOTLAND'S PLANNING SYSTEM

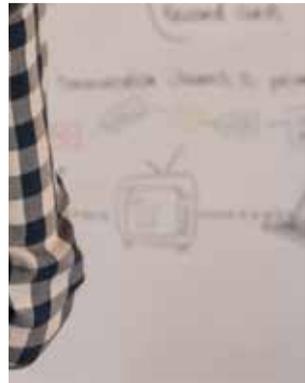
The Scottish Government published the “Places, People and Planning Position Statement” in June 2017, setting out proposed changes to be taken forward following the recommendations of the independent review of the planning system and further consultation. These changes aim to streamline development planning, strengthen community engagement, support the delivery of homes and infrastructure and improve resourcing of the planning system. A Planning Bill was introduced to the Scottish Parliament in December 2017. This includes proposals to strengthen the role of the National Planning Framework and amend the development planning system so that it is better placed to support development delivery. Work on preparing the next National Planning Framework will start in 2019 following the Bill. The timescale and content will depend on the new arrangements for preparing National Planning Framework which are currently being debated as part of the Planning Bill.

Research has been undertaken to identify the variability in approach taken by different planning authorities in using Housing Land Audits to assess compliance with Scottish Planning Policy. The research has now been published and its findings will help inform how a more standardised approach to producing Housing Land Audits can be developed within the context of a new planning system.

The Scottish Government is also supporting alternative housing delivery models. £160,000 has been provided to develop case studies that demonstrate and promote the value of self and custom build housing as an alternative mainstream housing delivery model. Seven pilot projects have included exploring the potential for affordable rural self-build, creating an online portal to support self-builders and researching the potential for custom build at scale. Planning Delivery Advice on Build to Rent homes was published in September 2017 and sets out the key opportunities of this sector to contribute to housing supply and the challenges which it presents to decision-makers. Further work to support the sector includes study visits with planning convenors and the creation of online case studies.

CHAPTER 4: EMPLOYMENT

4



The Scottish Government has a central role to play in ensuring that people have the skills, support and opportunities to realise their full potential. In particular, the Scottish Government shares the European Commission's continued concern over youth employment and the long-term impacts that the recession has had on our young people.

This chapter sets out the action the Scottish Government is taking to boost youth employment, improve young people's skills, support labour market participation and promote fair work. These actions cover the third Country-Specific Recommendation (CSR) to the UK to address skills mismatches and provide for skills progression, including by strengthening the quality of apprenticeships.

Europe 2020 headline target:

Seventy-five per cent of the EU population aged 20-64 should be employed. Europe 2020 highlights that the improvement against this target should include greater involvement of women, older workers, and better integration of migrants into the workforce.

CURRENT SCOTTISH PERFORMANCE

Table 2 sets out Scotland's current performance against the Europe 2020 employment target.

Table 2 - Current Scottish Performance Against Employment Indicators

Indicator	Current Level	Change Over Year	Reference Period
Employment rate (population aged 20-64)	77.3%	1.0% pt increase	2017
Female employment rate (population aged 20-64)	73.7%	0.9% pt increase	2017
Male employment rate (population aged 20-64)	81.1%	1.1% pt increase	2017

SUPPORTING YOUTH EMPLOYMENT

The cost of youth unemployment is significant, both to young people themselves and to the wider economy. Being unemployed while young can affect future earnings as average wages remain lower throughout the person's working life, even if the person is not unemployed again. It can also increase the chances of being unemployed again. Other consequences of being unemployed when young can emerge later in life, and include lower life satisfaction and happiness, poorer health, a higher risk of depression and lower job satisfaction. The longer the initial spell of unemployment, the greater the negative effect.

Developing the Young Workforce – Scotland's Youth Employment Strategy

Developing the Young Workforce (DYW) is Scotland's youth employment strategy and through DYW, we aim to reduce youth unemployment levels by 40% by 2021.

The strategy aims to create an enhanced curriculum offer for young people in schools and colleges and to increase opportunities for employment. It does this by bringing together schools, colleges, training providers and employers to promote the pathways young people need to participate in current and future work opportunities. This includes creating new work based learning options; enabling young people to learn in a range of settings in their senior phase of school; embedding employer engagement in education; offering careers advice at an earlier point in school; and introducing new standards for career education and work placements.

The DYW Programme's headline target, *to reduce youth unemployment in Scotland, excluding those in full-time education, by 40% by 2021*, continues to be met, having originally been achieved in May 2017.

Although the target continues to be achieved, we are mindful of the role played by wider economic and social factors. It remains important therefore that we continue our long term plans to strengthen education and skills partnerships. This is to ensure we can better guarantee the equality of experience across Scotland and minimise any downturn in youth employment should economic conditions become less favourable.

As we develop and expand the new DYW opportunities for our young people, encouraging diversity in the workforce by removing real and perceived barriers for young people is key. We have progressed much already, and met the Wood Commission's expectation for there to be gender and equality action plans in Skills Development Scotland (SDS) and the Scottish Funding Council.

We have built on existing approaches to support equalities activity, in particular for disabled young people. We have also seen the DYW Regional Groups support disabled and care-experienced young people onto work-experience placements and employment. We know, though, that persistent barriers remain for many young people, and that they won't be tackled within DYW alone.

Recognising this, our partnership approach is critical to improving opportunities for young people and we are particularly grateful all those pursuing the DYW agenda at the local, regional and national level for their continued commitment and energy.

Looking ahead, we expect to see the skills of our young people not only increase, but that these will better match the needs of employers to further the Scottish economy. As work advances on equalities we also expect to see developments in addressing gender imbalance in work and a decrease in the disability participation gap, in addition to improved outcomes for care-experienced young people.

Actions to Support Youth Employment

In December 2018 the Scottish Government published *No One Left Behind: Review of Employability Services*. The Review sets out our plan to deliver more effective and joined-up employability support across Scotland, and ultimately better employment outcomes for the people. The vision for the employability system in Scotland has been shaped collaboratively with delivery partners and service users. We will continue this collaborative approach as we seek to enhance the system in the following ways:

- By developing a new local employability model managed collaboratively between Scottish Government and Local Government;
- Develop and introduce an agreed national outcomes and measurement framework that will enable a more consistent understanding success of the employability system, and support the flexible delivery of services;
- Working with SDS, Local Government and other partners to explore the feasibility of a national all-age employment support offer, developing existing digital careers and employability platforms, alongside improved alignment with health and other services;
- Building on *No One Left Behind: Next Steps for Employability Support*, we will continue to work at local, regional and national level to improve join up between employability services and other provision; and
- Seek to embed user-led design across the employability sector.

The Scottish Government continues to provide support for young people trying to get into work and access apprenticeship programmes.

In 2018-19 the Scottish Government will continue to invest in Community Jobs Scotland (CJS) by providing funding of up to £6.1 million to support 700 job training opportunities, with support for up to 12 months for 16 to 29 year olds facing the greatest barriers to employment, and continuation of support for CJS employers to pay the Living Wage.

The Scottish Government has substantially increased the number of new apprenticeships in Scotland from around 10,500 in 2008 to 28,000 in 2018-19 and remain on track to achieve 30,000 new apprenticeship starts by 2020.

So to date, over the course of this administration, the Scottish Government has funded training for over a quarter of a million Modern Apprentices (250,033 from April 2007 – March 2018).

27,145 Modern Apprenticeship starts were delivered in 2017-18 exceeding the target of 27,000 starts. Additionally a further 278 people undertook Graduate Apprenticeships.

As well as growing the Modern Apprenticeship programme, the Scottish Government is committed to enhancing and widening our apprenticeship offering, ensuring that more people than ever before can benefit from work-based learning. The expansion of Foundation and Graduate Apprenticeships is key to delivering this vision, as is the additional support we're offering to rural areas, and to key sectors.

Our commitment to equality of opportunity in apprenticeships is set out in SDS Apprenticeship Equalities Action Plan (EAP), which was published in December 2015. This publication makes clear the interventions we will make to increase the numbers of underrepresented groups in apprenticeships and to tackle gender segregation where it exists. SDS published its EAP Year 2 update in August 2018.

The Employability Fund (EF) remains a key element of the Scottish Government's efforts to boost employment levels in Scotland, with 9,000 EF training places being delivered in 2017-18 and another 9,000 to be delivered in 2018-19. More than 70,000 training places have been delivered through EF since its launch in 2013, supporting individuals towards and into work.

PROMOTING FAIR WORK

Fair Work is a key driver of inclusive economic growth. The Scottish Government is committed to creating a fair and inclusive jobs market in which every individual can participate to their full potential. Building on the Economic Strategy, Scotland's Labour Market Strategy demonstrates how a labour market that is fair and inclusive, and that provides sustainable and well-paid jobs, is key to tackling income inequality and addressing wider issues, including health, crime, deprivation and social mobility. It sets out a vision for a strong labour market that drives inclusive, sustainable economic growth characterised by growing, competitive businesses, high employment, a skilled population capable of meeting the needs of employers, and where fair work is central to improving the lives of individuals and their families.

Given powers over employment law are currently reserved, our approach to delivering fair work is built on collaboration, engagement and using our wider powers to exert strategic influence. We are working with the Fair Work Convention to drive change and to promote fair work through engaging with employers, employees and trade unions.

The Fair Work Convention produced its Fair Work Framework for Scotland in March 2016. The Framework sets out the Convention's vision and definition of Fair Work which are endorsed by the Scottish Government.

- **Vision:** By 2025, people in Scotland will have a world leading working life where Fair Work drives success, wellbeing and prosperity for individuals, businesses, organisations.
- **Definition:** Fair Work is work that offers effective voice, opportunity, security, fulfilment and respect that balances the rights and responsibilities of employers and workers and that can generate benefits for individuals organisations and society.

Regardless of size, sector or location of a business, the Fair Work Framework is an accessible guide to adopting Fair Work practices. It demonstrates that not only is Fair Work a moral imperative, but that Fair Work actually improves productivity and innovation in the workplace which will help businesses to thrive.

Our approach is to persuade and influence where we cannot legislate, and we continue to make great progress using the levers which we have. For example:

- Meeting and exceeding our target of 1,000 Scotland-based living wage accredited employers (now over 1,300). Furthermore, Scotland is the best performing of all four UK countries in terms of both the proportion of the workforce paid at least the living wage and the proportion of accredited companies paying the Living Wage.
- Almost 600 Scottish Business Pledge signatories.
- Introducing Statutory Guidance on Addressing Fair Work Practices, including the real Living Wage, in Procurement and supporting Best Practice Guidance and Toolkit.

- Introducing the Workplace Equality Fund to deliver employer-led innovative solutions to overcome workforce inequality.
- Introducing the Women Returners Programme to assist women to re-enter the workforce following a career break.
- Establishing the Carer Positive scheme to encourage flexible, fair and supportive policies to support carers in the workforce.
- Promoting development of flexible workplaces through continued funding of Family Flexible Working Scotland.
- Collaborating with the Scottish Trades Union Congress (STUC) to publishing the Severe Weather Charter which sets out Fair Work principles to help employers manage severe weather situations.
- Jointly publishing the Facility Time Reporting Guidance with the STUC.
- Reaching a Fair Work Agreement between Scottish Ministers and Civil Service Trade Unions.
- We see Trade Unions as our social partners and a huge strength for our country. That is why we opposed the UK Government's Trade Union Act which is a threat to unions; to the fundamental rights of workers; and to the collaborative approach we take here in Scotland. We continue to offer support to the STUC via Scottish Union Learning and the Trade Union Fair Work Modernisation Fund,
- We support the work of Business in the Community Scotland to bring those from a background of poverty and limited opportunity closer to the workplace and to ensure access to fair employment. It has a leadership group which focuses on innovation, employability, communications and education.

The Fair Work Action Plan, published on 27 February 2019, sets out how we will deliver our ambition of becoming a world-leading Fair Work Nation by 2025. Our focus will be on: supporting employers adopt Fair Work practices, delivering Fair Work to a diverse and inclusive workforce; and, embedding Fair Work across the Scottish Government. The Action Plan was developed in consultation with the STUC, the Fair Work Convention, employers and other stakeholders and recognises that Fair Work is an iterative process where new the actions and approaches we are proposing will develop over time.

Actions set out in the Plan include:

- working with employers and partners to deliver Fair Work First – the default position to harness the financial power of the Scottish Government to, by the end of this Parliament, extend fair work criteria to as many funding streams, business support grants and public contracts as we can;
- aligning the Scottish Business Pledge to the Fair Work Framework;
- co-hosting an International Fair Work Summit with the Fair Work Convention to showcase Scotland's achievements;
- extending the Workplace Equality Fund;
- supporting trade unions to embed Fair Work in workplaces;
- increasing the number of people employed who are paid the real Living Wage;
- embedding Fair Work across Scottish Government portfolios;
- engaging with the UK Government to enhance worker's rights;
- as an employer, demonstrating our leadership by adopting Fair Work practices.

The full set of actions are available on the Fair Work Action Plan website.

The Scottish Business Pledge has grown steadily since its launch in 2015 and currently over 580 companies have made their commitment across a range of sectors.

On 22 March 2018, a review of the Scottish Business Pledge was announced to focus on how it might evolve in order to increase scale and impact, and provide better support for our existing Pledge companies. In response to business feedback during

this review, we announced in February 2019 a refresh of the Business Pledge to make it more accessible for business, to build impact and scale and ensure that business can play a greater role. We will introduce a business-led leadership group and business to business learning network to promote and in driving forward the changes, to grow the numbers making their commitment to more than the current 600 companies.

↓ The Scottish Business Pledge

The Scottish Business Pledge is a partnership between Government and business, with the shared ambition of boosting productivity, competitiveness and inclusive growth through fair work practices, employee engagement and progressive business practices. It provides a vehicle to bring together all elements recognised in Scotland's Economic Strategy as the key drivers of sustainable inclusive economic growth, i.e. innovation, internationalisation and investment in our people.

The Pledge has nine components:

1. Paying the living wage
2. Not using zero hours contracts
3. Supporting progressive workforce engagement
4. Investing in youth
5. Making progress on diversity and gender balance
6. Committing to an innovation programme
7. Pursuing international business opportunities
8. Playing an active role in the community
9. Committing to prompt payment

Women's employment

The Scottish Government is working with the Equality and Human Rights Commission to tackle pregnancy and maternity discrimination. The Minister for Business, Fair Work and Skills is chairing a working group whose remit includes:

- improving employers' access to advice to ensure best practice;
- developing an industry-specific communications strategy around the benefits of positive pregnancy and maternity policies;
- strengthening health and safety advice.

We have delivered on our commitment for a Returner's Programme to assist women to re-enter the workforce following a career break. We approved seven projects to date with a total value above £235,000. These projects helped to address the under-representation of women in the science, technology, engineering, mathematics (STEM), finance, security and manufacturing sectors; increase business start-up rates for women and the number of women in senior positions and also encourage men into childcare which will help to change the perception of caring as a 'women's role'. One project specifically supported black and minority ethnic women back into the workplace.

As part of the Programme for Government 2018-19 there will be a commitment to take forward a range of actions to support women to return to work including investing an additional £5 million over the next three years to support around 2,000 women to return to work.

The Scottish Government has supported the Workplace Equality Fund which will deliver employer led innovative solutions to overcome workforce & workplace inequality. The Fund will have a key focus on supporting women, older workers, disabled people, and those from a minority ethnic background. There are in total 22 projects, involving a range of employers, receiving funding through the £750,000 Workplace Equality Fund.

On 8 March 2019, *A Fairer Scotland For Women: Gender Pay Gap Action Plan* was published. The aim of the Action Plan is to bring together a cross-Government approach to support action on tackling the causes of women's inequality in the labour market. It will form part of a number of Plans, including the Disability Delivery Plan, the Fair Work Action Plan and the Future Skills Action Plan, being developed to support the implementation of the Labour Market Strategy. The Action Plan sets out actions that will be taken over the coming years in order to further reduce the gender pay gap for workers in Scotland. It will address labour market inequalities faced by women, particularly disabled women; minority ethnic women; women from poorer socio economic backgrounds; and women with caring responsibilities.

Delivering more integrated and aligned employment support to meet the needs of those facing the greatest barriers

The Scotland Act 2016 devolved employment support powers to Scotland, which are now being delivered from April 2018 through Fair Start Scotland (FSS). FSS is a voluntary service focused on people who are further removed from the labour market, and has core values of treating people with fairness, dignity and respect. FSS is an important first step towards the Scottish Government's vision of joined-up, flexible and responsive employability support in Scotland. Delivering devolved employability services on an ongoing basis is now a cornerstone of employability support in Scotland.

In April 2018, we published *'No One Left Behind - Next Steps for the Integration and Alignment of Employability Support in Scotland'* (*'No One Left Behind'*). It contains a range of activity that we will collectively take to deliver more effective and joined-up employability support across Scotland. It has a specific focus on integrating employability support with health, justice, and housing services, as these areas are critical to continue to help those people who are further from the labour market.

One of the activities in *No One Left Behind* was to undertake a review of the employability landscape and Scottish Government investment in employability services, with the aim of developing a more joined-up, flexible system that is more responsive to the needs and capabilities of users. In December 2018, we published the conclusions of that review setting out a range of proposals we will take forward with partners, including plans for a new local employability delivery model, to be managed collaboratively between Scottish Government and Local Government from April 2019.

Over 2017-18 – 2018-19, we have been testing new innovative approaches for organisations to collaborate and deliver innovative proposals that join up employability support with health and social care, justice and housing services. Learning from these projects will feed into our wider work on developing an employability system that is more flexible and responsive to the needs of Scotland's labour market.

A Fairer Scotland for Disabled People – Employment Action Plan

In December 2016 the Scottish Government committed in its Disability Action Plan to at least halve the disability employment gap. This action plan included also a commitment to consult with public sector bodies on whether or not to set targets for the public sector, and other measures to improve disability employment in the public sector.

In December 2018, following a period of extensive stakeholder engagement including disabled people and disabled people's organisations, the Scottish Government published *A Fairer Scotland for Disabled People: Employment Action Plan*.

This sets out actions the Scottish Government will take towards halving the disability employment gap by 2038, focussing on three key areas: support for employers and supporting people who are in employment; supporting people into fair work; and focussing on youth transitions. Specifically – in addition to the up to £96 million we are already investing in our newly devolved employment service, Fair Start Scotland, we will invest:

- £6 million to support more disabled parents towards and into work in areas with the highest levels of child poverty and lowest disability employment rates.

- Up to £1 million to support employers through a new Public Social Partnership and working with enterprise companies to develop pilots aimed at ensuring that employers have the support they need to attract, recruit and retain talented disabled staff.
- Up to £500,000 to test the provision of support, similar to Access to Work, for disabled people undertaking work experience and work trials.

We will also, following the consultation around public sector targets, set targets for the Scottish government's own workforce, and explore how we can share our learning and encourage other public sector bodies to consider this as well.

ENTERPRISE AND SKILLS STRATEGIC BOARD

Following the conclusion of the Enterprise and Skills Review in 2017 we have established an Enterprise and Skills Strategic Board. The Board will align and co-ordinate the activities of Scotland's enterprise and skills agencies, in order to maximise the impact of the collective investment that Scotland makes in enterprise and skills development, and to create the conditions that are conducive to delivering inclusive and sustainable growth. The Board's membership reflects a wealth of business and public experience, encompassing a broad range of sectors, sizes and locations. In October 2018 the Board published its full strategic plan, outlining a series of actions for Scotland's enterprise and skills agencies aimed at driving productivity and inclusive growth.

NATIONAL RETRAINING PARTNERSHIP & FUTURE SKILLS ACTION PLAN

The Scottish Government's 2018-19 Programme for Government sets out that in 2019 we will establish a National Retraining Partnership. Working together in collaboration with employer groups and trade unions, the partnership will establish how employers and businesses can best support the upskilling and development of their workforce, and

provides the opportunity to better understand the upskilling and reskilling needs of the existing workforce more broadly. In addition we are also committed to developing and publishing a Future Skills Action Plan in 2019. The plan will set out how the skills system in Scotland should be orientated against a future context of greater economic uncertainty, technological and workplace change, and changing workforce demographics, so that it can continue to provide the skills that the economy demands and requires.

Brexit: What's at stake for employment in Scotland?

The progress made by the European Single Market in dismantling the obstacles to trade in goods and services has been a key driver of growth and employment in Scotland and across the UK. Young people in particular have benefited enormously from the opportunities to study and work abroad, as well as, openness and dynamism of the Scottish economy provided by membership to the EU. The UK's decision to leave the EU, European Single and Customs Union may impact the labour market and job opportunities in the following ways:

European Single Market and Trade: Attracting less foreign investment: Foreign Direct Investment (FDI) is a key feature of the contemporary global economy and one from which Scotland has derived considerable benefits. Foreign companies investing in Scotland help to create jobs and stimulate economic activity. Presently EU owned firms employ about 122,000 people in Scotland.⁴ The current uncertainty, and a changed future relationship with the EU, creates the risk that potential new investors will re-evaluate their investment projects and future flows of FDI will move elsewhere, thereby potentially harming job creation and productivity of firms.

Losing opportunities in sectors reliant on trade: The EU is the largest single market for Scotland's international exports, with exports worth £12.7 billion in 2016 supporting directly and indirectly hundreds of thousands of jobs across Scotland. If the UK leaves the European Single Market and Customs Union, that is, becoming a third country outside the EU, trade is likely to become subject to much more restrictive trade agreements with the introduction of tariff and non-tariff barriers to trade. This negative impact will be felt across all sectors of the Scottish economy – in our trade in goods but also in our exports of services to the EU.

4 <https://www2.gov.scot/Resource/0054/00543007.pdf>

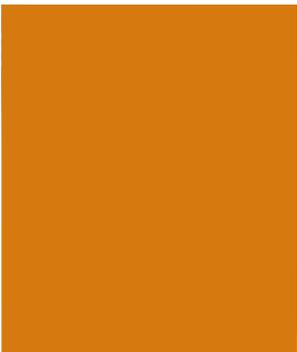
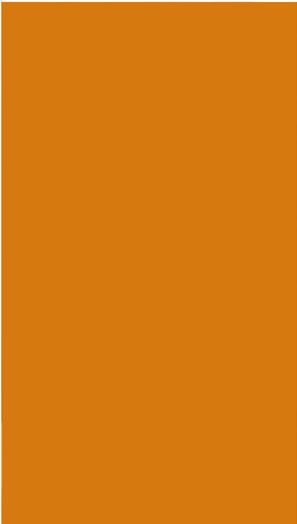
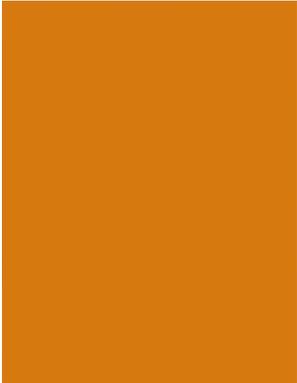
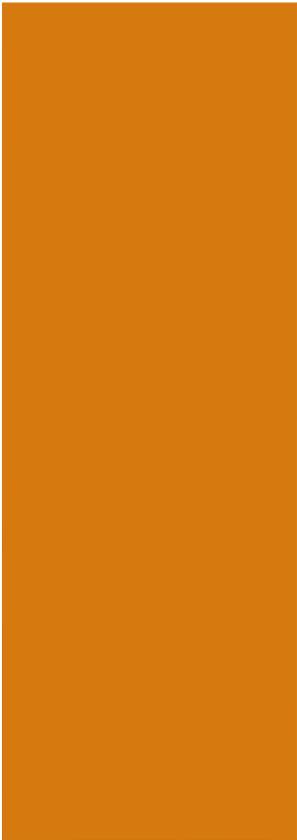
Losing opportunities at home and abroad for young people: Under EU rules Scots can study, work or retire in any EU country. Many young people in Scotland have taken advantage of this, studying abroad on the Erasmus Plus programme or seeking job opportunities in another EU country. Participation in Erasmus Plus programme has also brought considerable benefits to other sectors beyond higher education. It has been vital in equipping children and young people of all ages with the skills and competencies they need to thrive in an increasingly globalised world. All these benefits are put at risk by the prospect of the UK's withdrawal from the EU.

These examples illustrate why the Scottish Government believes that the best option to protect jobs and maximise employment opportunities in the future, is through continued membership to the European Single Market.

Free Movement of People: Scotland's economy and society have benefitted enormously from the arrival of EU citizens through the freedom of movement of persons. Scotland's economy and public services are particularly dependent on the contribution of EU citizens. Migrants who come to Scotland tend to be well educated and highly skilled, help raise productivity and contribute to government revenue. Scottish Government analysis found that the average EU citizen in Scotland adds £10,400 to government revenue and £34,400 to GDP each year.

Scottish Government modelling also indicates that by 2040, lower migration alone would result in Scotland's real Gross Domestic Product (GDP) being 4.5% lower than continued full EU membership – equivalent to a long run impact of almost £5 billion a year. Across the rest of the UK, GDP would be 3.7% lower, demonstrating the Scottish economy's greater reliance on migration. In a 'worst case scenario' where migration is reduced to tens of thousands, the cost to the Scottish economy could be £10 billion per year by 2040. Brexit threatens continuation of freedom of movement which is essential for maintaining Scotland's population growth, which in turn underpins future economic growth and the sustainability of public services.

CHAPTER 5: INNOVATION



Innovation is vital for improving economic growth and Scotland has many strengths in this area. It has a strong commitment to research and science, a highly-skilled workforce and world-renowned universities producing high-impact research.

This chapter outlines the actions taking place throughout Scotland aimed at fostering a culture of innovation and research and development (R&D). It also highlights actions that create wider support for innovation through the business environment, supporting entrepreneurship, and developing Scotland's digital economy, highlighting the Scottish Government's support for the EU's flagship initiatives, 'Innovation Union' and 'Digital Agenda for Europe'.

Europe 2020 headline target:

Raising the combined public and private levels in research to 3% of GDP.

CURRENT SCOTTISH PERFORMANCE

Scotland's entrepreneurship, innovation and R&D performance is measured through a range of indicators, with Table 3 outlining current performance on key indicators.

**Table 3 -
Current Scottish Performance against Entrepreneurship, Innovation and R&D Indicators**

Indicator	Current Level	Change Over Year	Reference Period
The total number of VAT/PAYE registered private sector enterprises in Scotland per 10,000 adults	391 businesses per 10,000 adults	Same as the rate of 391 in the previous year	2018
Gross expenditure on research and development as a share of GDP	1.63% of Scottish GDP (0.43% pts above the baseline year of 2006)	0.1% pts above the previous year	2017
Proportion of innovation active businesses in Scotland	45%	5.4% pts below previous reference period (2012-14)	2014-16

Table 3 shows that:

- The 2018 registered business stock rate of 391 businesses per 10,000 adults, which is the same as the 2017 rate.
- In 2017, Scotland's Gross Expenditure on R&D as a share of GDP was 1.63%, representing an increase from 1.54% in 2016. Spend in 2017 was also well above the 2006 baseline level.
- The proportion of innovation active businesses in 2014-16 was 5.4% below the previous reference period (2012-14).

ENCOURAGING ENTREPRENEURSHIP AND BUILDING A SUPPORTIVE BUSINESS ENVIRONMENT

The Scottish Government has worked closely with Entrepreneurial Scotland and other partners in the public, private and third sectors to develop Scotland CAN DO. This sets out a collective vision to make Scotland a world-leading entrepreneurial and innovative nation where sustainable growth and innovation go hand in hand with wider benefits to all of society.

An example of Scotland CAN DO in action is the Scottish EDGE Fund. Led by a partnership interests from across different sectors, this delivers investments of up to £150,000 to early-stage businesses with growth potential. After thirteen rounds of awards, the latest of which were made on 6 December 2018 more than £13 million has been awarded to over 300 businesses which have, in turn, generated an additional £131 million in turnover while raising £108 million extra investment and creating over 1,600 jobs.

The Scotland CAN DO approach, alongside the combined efforts of the entrepreneurial community, has helped Scotland develop the fifth most supportive business environment in the world, rising above other parts of the UK from 12th (2013) in the Global Entrepreneurial Development Index. Since the launch of Scotland CAN DO in 2014, the proportion of people actively trying to start businesses has doubled. Our commitment to entrepreneurship has been reaffirmed in the Enterprise and Skills Review Strategic Board's Strategic Plan and the Economic Action Plan.

Business Gateway is an integral part of the Scottish Government's public business support offering. This is delivered through local authority partners and offers all businesses in Scotland, regardless of their stage of development, advice and services related to funding, planning, financial management, marketing, sales and growth.

More than 50,000 people a year receive support from Business Gateway to start, run or grow their businesses. In 2017-18, this helped more than 9,000 people to start their own businesses. While over 30,000 attended at least one free Business Gateway event or workshop.

Scotland's Enterprise Agencies focus on businesses with the potential to grow and those that are important to a sustainable and inclusive economy. An account management approach helped around 2,500 of Scotland's ambitious and high growth companies to increase turnover, particularly in international markets, and increase employment. This supported turnover increase in 2015-16 of around £740 million, the creation of 3,500 jobs and the retention of 855 jobs.

Flowing from Phase 2 of the Enterprise and Skills Review (winter 2016 - summer 2017), the Enterprise and Business Support project focused on how we develop still deeper collaboration between delivery partners and take forward further opportunities to improve business support. It also looked to establish stronger mechanisms to facilitate on-going review and continuous improvement.

In 2016, additional ERDF Business Competitiveness funding of £24 million plus match funding totalling £60 million was invested to enhance the existing provision to grow Scotland's small and medium sized enterprises (SMEs). This linked support for innovation and investment to build international capability, particularly in key sectors including food and drink, energy, technology and engineering. The process helped to identify and develop the next generation of growth businesses in Scotland.

BOOSTING INNOVATION

The CAN DO Innovation Action Plan, published on 11 January 2017, focuses on the steps the Scottish Government can take now to improve Scotland's innovation.

Key priorities of the Plan are to:

Directly encouraging more business innovation:

- setting a goal in the 2017 Programme for Government to double Business Enterprise Research and Development (BERD) from £871 million in 2015 to £1.75 billion by 2025, and committing an additional £45 million over the next three years to R&D grants for business to support this.
- Created the Open Innovation Portal to support Scottish companies to innovate and grow as businesses both at home and overseas by providing a platform for collaboration and innovation.
- Scottish Government has been working collaboratively with our Enterprise Agencies to raise awareness of benefits of innovation to businesses.
- Launched VentureFest Scotland; a yearlong festival of discovery, innovation and entrepreneurship.

Using public sector needs and spend to catalyse innovation:

- The £9 million CAN DO Innovation Challenge Fund, launched in November 2017, uses private sector innovation to solve public sector challenges. It has funded 16 organisations to run 18 challenges to date and 100 SMEs have applied to the calls so far.
- CivTech - the world's first cross-public-sector tech accelerator - over the past 3 years has worked with over 20 public sector organisations and the companies they have supported have secured over £2 million in contracts

Supporting innovation across sectors and places:

- supporting the development of Fintech Scotland, launched in January 2018,
- developing and delivering the National Manufacturing Institute for Scotland
- supporting a health innovation pilot in the Highlands and Islands on personalising care, education and remote monitoring for people living in Scotland with inflammatory bowel disease.
- Launched £16 million Northern Innovation Hub to help SMEs in the Highland Council area improve their businesses through innovation focusing on Life Sciences, Tourism, Food and Drink and Creative Industries.
- £56 million Medicines Manufacturing Innovation Centre will revolutionise the way medicines are manufactured and will be co-located with National Manufacturing Institute for Scotland.

Making best use of University research knowledge and talent to drive growth and equip Scotland's people with the tools and skills needed to innovate:

- launched the £500k College Innovation Fund on 29 May 2018, invested £5 million in Interface to connect business and academia.
- Companies supported by Interface contribute an estimated £64.2 million (gross value added) to the economy each year and the programme has introduced almost 3000 businesses to academic partners.
- Continuing to support the network of eight Innovation Centres, including backing for the £1 million Innovation Centres: Cancer Innovation Challenge.
- Provided the Data Lab with an additional £13.5 million helping to develop a strong data science community and accelerate Scotland's economic growth.

- Provided IBioIC with an additional £11 million to drive forward Scotland's Industrial Biotechnology sector.
- Provided CENSIS with an additional £9.25 million helping to cement Scotland's place as a world leader in internet of things and sensor technology.

Access to Finance

The ability for SMEs to access finance is important for funding business investment, ensuring businesses meet their full growth potential and encouraging business start-ups. There is a range of action being taken by Scottish Government and its agencies:

- **Advice & support** is available from Scottish Enterprise (SE) or Highlands and Islands Enterprise (HIE) and through Business Gateway – (online, by phone or at a local outlet) – for advice and information on sourcing different forms of finance.
- **Stimulating** viable demand for finance through Scotland wide Financial Readiness Programme with expert advice and support for SMEs so that a greater number of companies can prepare and consider “options” before seeking finance. In 2017-18 some 508 companies were assisted.
- **Scottish Government is ‘Investing in ambition’** through a £500 million Scottish Growth Scheme (SGS) aimed at helping SMEs realise their growth and export ambitions. Microfinance loans are available up to £25,000 for individuals and small businesses; loans between £25,000 and £100,000 available for companies; loans between £250,000 and £2 million available for companies (delivered by Scottish Enterprise); and access to equity funding below £2 million, and for deals over £2 million.

- Overall the Scottish Growth Scheme has supported some £106 million of equity investment – one fifth of our planned activity – in 82 companies.

The Scottish Investment Bank (SIB)⁵ will continue to play an important role in the business finance landscape in Scotland, delivering risk capital and debt finance to new, innovative, technology-based companies and growth and exporting SMEs. It works with the wider investment community, in particular Business Angel syndicates.

DEVELOPING DIGITAL INFRASTRUCTURE

Scotland's Economic Strategy emphasises the need to invest in digital infrastructure to improve connectivity, helping our cities, towns and regions to drive growth and compete internationally.

Thanks to our Digital Scotland Superfast Broadband programme, around 900,000 additional premises across Scotland have access to fibre broadband, with the majority of those able to access superfast broadband (speeds greater than 30 Mbps). We also exceeded our target of 95% fibre broadband coverage across Scotland by the end of 2017 largely thanks to the current programme's roll-out.

However, we recognise that we can go further and that is why, in December 2017, we committed £600 million to the initial phase of our Reaching 100% programme that will help to deliver our commitment to extend superfast broadband access to every home and business in Scotland by the end of 2021. Achieving 100% coverage will support rural development, and contribute towards continued innovation and growth across the economy.

We have also agreed an action plan with mobile operators – the first of its kind in the UK – aimed at improving mobile coverage across Scotland. A key part of this is our £25 million Scottish 4G Mobile Infill Programme, launched in March 2018, which will deliver new future-proofed, 4G mobile infrastructure to selected mobile 'not-spots'. The Scottish Government also wishes to drive the development of 5G in Scotland, and will establish a 5G Hub in partnership with industry and academia in order to do so.

The Scottish Government is taking action to improve the use of digital connectivity in the delivery of public services. The first major partnership project in the digital delivery of public services, the Scottish Wide Area Network (SWAN) is delivering cost efficiencies for public sector organisations by aggregating demand for a single public services communications network in Scotland. SWAN now has 20 members which represent 51 individual organisations. More than 5,000 sites are now connected to SWAN, making a saving of over £30 million across the 51 members.

In addition, a number of SWAN Value Added Services are being developed and delivered over the network, such as voice and video services, an Internet of Things service and connectivity into the major cloud service providers, again in order to aggregate demand and save costs through single, shared procurements.

The Scottish Government's refreshed Digital Strategy, published on 22 March 2017, makes clear that digital connectivity is a vital part of national infrastructure and sets out our commitment to achieving high-quality connectivity throughout the whole of Scotland.

⁵ <http://www.scottish-enterprise.com/about-us/what-we-do/sib>

Brexit: What's at stake for Research and Development?

Scotland's strong commitment to supporting innovation, our highly-skilled workforce and world-leading universities are key parts of our focus on sustainable economic growth, however the UK's decision to leave the EU undermines collaboration with our European neighbours. This includes:

Missing out on EU research and innovation programmes – It is widely acknowledged that research and innovation policies make a significant difference to increasing productivity and boosting the competitiveness of industry. The Scottish Government believes that our universities, research institutions and businesses must continue to work within the common, and expanding, European-wide collaborative framework to continue to capitalise on these benefits. The recent Multiannual Financial Framework (MFF) announcement suggested that there would be a significant increase in funding for the next EU research programme. However, it is not just the money: our opportunity to influence the direction of this programme will be severely limited from outside the EU.

Not being a part of the Digital Single Market – A key priority for the EU is completion of the Digital Single Market. This would allow EU citizens and companies to more easily, and more securely, access and sell online goods and services across national boundaries. Digital is a key sector in Scotland which links into wider economic productivity but the UK government has already stated on a number of occasions that, post-Brexit, the UK will not be a part of this innovative and fast moving sector. Scotland in the future therefore risks missing out on the potential benefits of reinforcing the Digital Single Market, which could be annually worth as much as £529 per person in Scotland.

These examples illustrate why the Scottish Government believes that the best option to protect innovation and the key role this plays in Scotland's economy is through the UK's continued membership of the European Single Market and Customs Union.

CHAPTER 6: EDUCATION

6



The Scottish Government shares the European Commission's ambition of improving education levels, Scotland's Economic Strategy highlights the importance of investment in education and skills in driving long-term improvements in competitiveness and in creating economic opportunities for all.

This chapter sets out the activities being undertaken across Scotland to equip our young people with the knowledge and skills to flourish.

- Increasing the share of the population aged 30-34 having completed tertiary or equivalent education to at least 40% by 2020.

Europe 2020 headline targets:

Improving education levels, in particular by:

- Reducing the rate of early school leavers to 10% from the current 15%.

CURRENT SCOTTISH PERFORMANCE

Current Scottish performance against the headline EU targets and the relevant National Indicators to education is presented in Table 4.

Table 4 – Current Scottish Performance Against Education Indicators

Indicator	Current Level	Change Over Year	Reference Period
Proportion of 18-24 population who are early leavers from education and training	10.3%	2.8% pts decrease	2017
Share of the population aged 30-34 having completed tertiary education	57.5%	2.5% pts decrease	2017
The proportion of young people in learning, training or work	91.8% 16-19 year olds were participating in education, training or employment	0.7% pts increase	2016-17
The proportion of working age adults that have low or no educational qualifications (SCQF Level 4 qualifications or below)	10.8%	1.1% pts decrease in proportion of adults with low or no educational qualifications	2017

As indicated in Table 4, the share of the population aged 30-34 having completed tertiary education has decreased over the year but still well exceeds the European Commission's target of 40%; and the proportion of early school leavers decreased over the year and is close to the Commission's target of 10%.

RAISING ATTAINMENT AND ADDRESSING INEQUALITIES OF EDUCATIONAL OUTCOME

The Scottish Government is fully committed to raising attainment among all children, but particularly those from low income backgrounds. The First Minister has made it her personal commitment to raise the bar and close the gap in education to give all children and young people the same chance to realise their full potential. This informs all of our policies that affect children and young people.

Scottish Attainment Challenge

The Scottish Government's Scottish Attainment Challenge aims to achieve equity in educational outcomes with particular focus on closing the poverty related attainment gap continues in 2019-20. It is backed by the £750 million Attainment Scotland Fund (ASF) over the course of the current parliament, prioritising improvements in literacy, numeracy and health and well-being for pupils impacted by socio economic disadvantage. As part of this, in 2019-20, every local authority area in Scotland will for a third year benefit from £120 million of Pupil Equity Funding which will be allocated directly to over 96% of schools based on estimated free school meal registrations. In addition, over £60 million from the ASF will be assigned to Scottish Attainment Challenge programmes to provide targeted support to specific Scottish Attainment Challenge authorities

and schools in areas with high levels of deprivation; to care experienced children and young people; and fund a number of national programmes including support for staffing supply and capacity, professional learning and school leadership.

Education Maintenance Allowance

The Scottish Government has retained the Education Maintenance Allowance (EMA) in Scotland to provide financial support to eligible 16 to 19 year olds from the lowest income families, enabling them to stay in education and learning beyond the school leaving age. In January 2016, the programme was expanded to include part time non advanced college courses and the income thresholds were increased. 31,675 school pupils and college students received EMA payments in Scotland in the academic year 2016-17. The total amount spent on EMA payments in 2016-17 was £24.6 million. Of this, £17.3 million (70.1%) was paid out to school pupils, and the remaining £7.4 million (29.9%) paid out to young people attending college.

SCHOOL ATTENDANCE – PROMOTING ENGAGEMENT

The Scottish Government works with local authorities, schools, pupils and parents to highlight the potential risks of disrupting learning by absence from school. The Scottish Government published guidance on attendance for local authorities and schools "Included, Engaged and Involved Part 1: Attendance in Scottish Schools" in 2007 which provides guidance on how to promote engagement and motivation, including among those who may be at risk of poor attendance. In Scotland, the attendance rate in publicly funded schools has remained relatively stable since 2010-11, increasing from 93.1 to 93.7% in 2014-15 then decreasing slightly to 93.3% in 2016-17.

SUPPORTING STUDENTS AND WIDENING ACCESS

The Scottish Government is committed to developing a highly-skilled and educated workforce, and is taking steps to ensure that people from all backgrounds have the support to reach their full potential, including:

- In further education, full-time students are currently able to receive a means tested non-repayable bursary of up to £98.79 per week. The 2018-19 student support budget is at a record high of over £111 million in college bursaries, childcare and discretionary funds.
- The Scottish Government is committed to providing student support. The current higher education funding package includes an annual minimum income of £7,625, through a combination of bursaries and loans, for students with a family income of less than £19,000, and a student loan of £4,750 a year, which all students are eligible for. Part-time students with a personal income of less than £25,000 are eligible to receive a grant towards tuition-fee costs.
- Eligible students taking 'taught' postgraduate diploma and masters courses in Scotland can apply for a tuition fee loan of up to £5,500, in addition to a living cost loan of up to £4,500. Over the academic year 2017-18, £882.7 million of student support, covering tuition fees, grants, bursaries and authorised loans, was allocated through the Student Awards Agency Scotland (SAAS) to 147,920 full-time higher education students.
- Ensuring that access to higher education remains free for eligible Scottish-domiciled students, we invested over £1 billion in Scotland's higher education sector in 2018-19. In addition, the latest Scottish Governments Draft Budget proposes this level of investment in universities continues in 2019-20.

We responded to the Independent Review of Student Support in June 2018 and committed to a range of improvements to financial support for students in FE and HE. From 2018-19, we have ensured that every care-experienced student under 26 at college or university receives a full £8,100 non-repayable bursary to help finance their studies.

In 2019-20, we will increase and expand access to FE and HE bursaries for students from the lowest income families. In FE, we will increase and expand access to FE bursaries by increasing the FE bursary to up to £4,500 per year and introducing a 'Guaranteed System' of FE bursaries. In HE, we will ensure that the poorest students receive increased bursary support and increased access to bursaries through improvements to the HE bursary threshold, increasing from £19,000 to £21,000. We have also committed to raising the repayment threshold for student loans to £25,000 from April 2021.

The Scottish Government is committed to widening access to higher education. We established the Commission on Widening Access and accepted all 34 of the recommendations in its final report, A Blueprint for Fairness, which was published in March 2016. To coordinate and monitor delivery of the recommendations we have established an Access Delivery Group. The Group is chaired by the Minister for Further Education, Higher Education and Science and brings together all those with a responsibility for implementation of the recommendations, those leading delivery projects, and other key stakeholders.

The Group also provides a forum for strategic discussion with the sector on access. In line with the Commission's recommendations we appointed a Commissioner for Fair Access in December 2016. The Commissioners' second annual report will be published in summer 2019. The Commissioner is also leading the development of a Scottish Framework for Fair Access. This online toolkit and community of practice, will be launched in early 2019. It will help access practitioners plan and evaluate new ways of helping people from disadvantaged backgrounds to access higher education.

Supporting Older Learners

The Scottish Government is taking action to support older learners. For example:

- The Scottish Funding Council's Outcome Agreements ask colleges to remove barriers and support full participation and successful outcomes for all groups of learners in their local community.
- Older learners are well represented amongst all college students:
 - For those aged 25 and older, the number of funded full-time enrolments at college has increased by 41.9% (to 19,175 in 2016-17) since 2006-07.
- Older learners in further education are benefitting from record levels of support. The 2018-19 budget of over £111 million in college bursaries, childcare and discretionary funds is a real-terms increase of 33% since 2006-07.

INVESTING IN SCOTLAND'S LEARNING ENVIRONMENT

The Scottish Government is also committed to increasing student and staff mobility, and promoting Scotland as a learning nation. Scotland's participation in ERASMUS+, the EU programme for education, training, youth and sport for 2014-20, helps to raise the profile of Scotland as a place to live, work and study in key overseas markets and to showcase the best of Scottish higher education to the world.

Participation is of considerable value in providing people in Scotland with the opportunity to learn new skills, develop their confidence and broaden their horizons. Since 2014 proportionally more students from Scotland have taken part in Erasmus than from any other country in the UK. The inclusion of support for areas such as adult education and youth volunteering is of particular importance because it provides valuable opportunities for mobility to those who too often have few opportunities to spend time studying or working overseas.

Across the UK, ERASMUS+ is delivered by a consortium of the British Council and Ecorys. British Council estimates published in February 2018 show that to date, almost €65 million has been awarded for 658 successful projects led from Scotland, in sectors such as higher and adult education, schools, youth, and vocational education and training.

Brexit: What's at stake for Education?

Membership of the EU has been hugely beneficial for the people of Scotland over the past four and a half decades providing opportunities to learn which may not have otherwise been available to them, and Scotland has benefitted both culturally and economically from those that have chosen to come here to live and study. The UK's withdrawal from the EU will have an impact on everyone in Scotland. This may include:

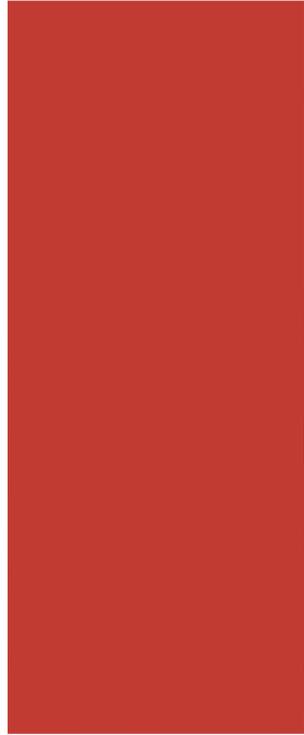
Loss of access to Erasmus+ programme: The Erasmus+ programme has played a significant role in broadening the education experience, and increasing employment prospects for young people in Scotland. The programme has also supported access to vocational education and training, adult education, schools education and youth work, which are necessary for Scotland's society and economy to thrive. In its proposal for the next Multiannual Financial Framework the European Commission has suggested doubling the level of funding for Erasmus+. This clearly demonstrates that expanding the Erasmus+ programme is a key priority for the EU, and demonstrates what Scotland may miss out by leaving the EU.

The Scottish Government's position is that Scotland should continue to enjoy the full benefits we enjoy through our current membership to the programme, and are making this case strongly to the UK Government.

Impact on Higher Education: The potential loss of free movement of EU citizens could have a direct bearing on the ability of universities and research institutions to attract and retain the very best international talent and to support research and innovation. A diverse student population is also highly valued for its social, cultural and educational impact, including an enriched learning experience and international outlook among home students and graduates, and the development of an international network of alumni.

The impact of Brexit is already being shown through a reduction in applications from EU students to Scottish universities, raising concerns about the longer term impact of Brexit on the diversity of our student population. That is why the Scottish Government supports the UK's continuing membership of the single market and access to programmes such as Erasmus+, to ensure that we can continue to share learning with our European neighbours and our institutions and society continue to benefit from the significant contribution made by those from the EU.

CHAPTER 7: POVERTY AND SOCIAL EXCLUSION



Promoting inclusive growth is central to Scotland's Economic Strategy. Improving equality and tackling inequalities – social, regional and inter-generational – are not only desirable outcomes in themselves, but are also essential for improving economic performance.

This chapter sets out the actions being undertaken throughout Scotland to deliver inclusive growth, tackle child poverty and income inequality and maximise the potential of all areas of Scotland. These policies and actions cover one of the European Commission's Country-Specific Recommendations to the UK relating to improving the availability of affordable, high-quality, full-time childcare, and strongly support the Europe 2020 flagship initiative, "European platform against poverty and social exclusion".

Europe 2020 headline target:

The number of Europeans living below the national poverty line should be reduced by 25 per cent, lifting over 20 million people out of poverty.

CURRENT SCOTTISH PERFORMANCE

Progress in Scotland in this area is measured through the Scottish Government's National Performance Framework, which includes measures relevant to poverty and social inclusion. Scotland's current performance is presented in Table 5.

Table 5 – Current Scottish Performance Against Poverty and Social Inclusion Indicators

Indicator	Current Level	Change Over Year	Reference Period
Proportion of income earned by the top 10% compared to the bottom 40% (Solidarity Target)	127	Increased from 121	2015-18
Reduce the proportion of individuals living in poverty – this is measured in terms of the percentage of people living in relative poverty (below 60% of UK median income before housing costs)	17% of the population in relative poverty	Increased from 16% in 2013-16	2015-18
Reduce children's deprivation National Indicator – this is measured in terms of percentage of children in combined material deprivation (based on a suite of questions in the Family Resources Survey) and low income (below 70% of UK median income) before housing costs	11% of children in combined material deprivation	Increased from 10% in 2014-17	2015-18

DELIVERING INCLUSIVE GROWTH

The Europe 2020 vision of inclusive growth is for a high-employment economy delivering economic, social and territorial cohesion. The Europe 2020 Strategy identifies that this will require making full use of labour potential; spreading the benefits of economic growth to all areas; ensuring access and opportunities for all throughout the lifecycle; and promoting gender equality.

As highlighted in Chapter 2, inclusive growth is a central priority of Scotland's Economic Strategy. The Scottish Government is committed to ensuring that economic growth is inclusive and is shared across all of the people and parts of Scotland. A more cohesive economy that improves the opportunities, life chances and wellbeing of every citizen in Scotland not only improves outcomes for individuals and households, but is a critical driver of economic performance over the long term. This approach – which includes investing in the early years, promoting fair work and protecting households from current economic pressures – is embedded in the foundations of Scotland's Economic Strategy.

EQUITY

Making growth more inclusive is important for improving both Scotland's economic competitiveness, reducing wider inequalities, and improving opportunities for all. As highlighted previously, the Scottish Government is working with partners to drive this agenda across a range of areas, including:

- Initiatives to improve the quality of workplaces in Scotland, such as the Business Pledge.
- Carrying out an Enterprise and Skills Review to ensure that public agencies are delivering the support that young people, universities, colleges and businesses need.

FAIRER SCOTLAND

Tackling poverty and inequality is central to what the Scottish Government is seeking to achieve. In October 2016, the Scottish Government published the Fairer Scotland Action Plan (FSAP), which sets out 50 selected actions over this Parliamentary term under five themes of:

- A Fairer Scotland For All;
- An End To Child Poverty;
- A Strong Start For All Young People;
- Fairer Working Lives; and
- A Thriving Third Age.

In December 2018 we published our second update on the FSAP, highlighting considerable progress we have made. This update also recognises our continued commitment to the original ambition: to build a better country – one with low levels of poverty and inequality, genuine equality of opportunity, stronger life chances and support for all those who need it.

Key achievements to date include:

- Becoming the only part of the UK to introduce a Socio-Economic Duty which asks key public bodies to consider carefully the impacts on tackling poverty and reducing inequality whenever they are taking major, strategic decisions
- Providing £13 million from the Aspiring Communities Fund to 140 community-led projects to tackle poverty and promote social inclusion at localities across Scotland
- Launching a new Financial Health Check service, backed by £3.3 million over 2018-20. This service will help low income individuals maximize their income by ensuring that they are not paying the poverty premium and that they are receiving all the benefits, grants and exemptions to which they are entitled.

- Providing a baby box to every new-born in Scotland since August 2017
- Establishing a £50 million Tackling Child Poverty Fund to get innovative work off the ground to help low income families via local and national activity.
- Increasing Carer's Allowance from £62.70 per week to the same level as Job Seeker's Allowance (£73.10) and made a commitment to increase the levels for those caring for more than one disabled child.
- Investing £2 million to expand the Children's Neighbourhoods Scotland programme to improve a range of outcomes for children;
- Establishing a new £7.5 million innovation fund with the Hunter Foundation.

The first report outlining our progress on delivering these actions will be published by the end of June 2019, however our Plan has already started to deliver by:

EVERY CHILD, EVERY CHANCE

In March 2018 the Scottish Government published 'Every Child, Every Chance: The Tackling Child Poverty Delivery Plan 2018-22'. This is the first of three delivery plans which will be published by the Scottish Government in order to meet the ambitious targets set out in the Child Poverty (Scotland) Act 2017. The Plan sets out a range of actions aimed at meeting the targets by increasing family incomes and reducing household costs.

Key commitments include:

- Investing an additional £12 million for intensive parental employment support; helping parents to enter and progress in work;
- Almost doubling publically funded early learning and childcare by 2020 and have committed to delivering a draft strategic framework on After School and holiday childcare, for public consultation in Summer 2019;
- Continuing our commitment to the real Living Wage by working to lift at least 25,000 more people onto this rate through our work to build a Living Wage nation;
- Working towards introducing a new income supplement for low income families;

- Establishing a new agreed minimum amount for the School Clothing Grant of £100, in every local authority in Scotland – estimated to benefit 120,000 children this year.
- Successfully launching the first stage of the Best Start Grant providing £600 to low-income families on the birth of their first child and £300 for subsequent children.
- Launching a new Financial Health Check Service, estimated to help 15,000 families each year to maximise their incomes and reduce costs.

Progress reports will be published annually on the Delivery Plan. Alongside this Local Authorities and Health Boards will publish jointly publish progress reports outlining the action they have taken, and plan to take in future. The first of these reports will be published by the end of June 2019.

SOCIAL SECURITY

The Scottish Government's Social Security (Scotland) Act 2018 was unanimously passed by the Scottish Parliament on 25 April 2018 and put in place the legislative framework to create a new social security system based on dignity, fairness and respect. This includes the safe and secure transition of 11 benefits and the establishment of a social security agency for Scotland – Social Security Scotland officially became an executive agency of the Scottish Government on 1 September 2018.

The first benefit to be delivered by Social Security Scotland was the Carer's Allowance Supplement. Carers tend to live in lower income households. The Scottish Government has increased Carer's Allowance by 13% for carers in Scotland through the Carer's Allowance Supplement. In 2018-19 this has provided over 75,000 carers with an extra £442, and will be increased annually in line with inflation.

In autumn 2019 the Scottish Government will introduce a Young Carer Grant, and £300 annual payment for carers aged 16 and 17 (and 18 if still at school) caring for 16 hours or more weekly for someone in receipt of certain disability benefits. The aim of the Young Carer Grant is to help young people improve their quality of life and help them improve their health and education outcomes. Recipients of the Young Carer Grant will also be provided with free bus travel from 2020-21, subject to successful piloting.

The Scottish Government also replaced and expanded on the Sure Start Maternity Grant with the Best Start Grant Pregnancy and Baby Payment in December 2018. This increases the payment to the first child from £500 to £600 and introduces £300 birth payments for second and subsequent children. A further two additional payments of £250, per child, will be introduced at key transition points in the early years and are set to be delivered by summer 2019. The extra money provided through the Best Start Grant will help decrease the financial pressures on the household, which can have negative effects on maternal health, mental health, parenting skills and family relationships.

The Scottish Government intends to introduce a Job Grant for young people aged 16 to 24 who are starting work after a period of 6 months or more out of paid employment. The Job Grant will comprise of a one-off payment of either £250 or £400, the higher amount being payable to young people who have children. The

Job Grant aims to meet the immediate costs of transitioning into employment, as well as contributing towards longer-term outcomes, such as improvements in employment and health.

Funeral Expense Assistance will launch in summer 2019, replacing the current Department of Work and Pensions Funeral Payment in Scotland. The Scottish Government will widen eligibility by 40% compared to the current payment, providing improved support to far more people on low incomes who are struggling with funeral costs. This widened eligibility is backed by around £2 million of Scottish Government funding in the first full year of operation. Delivery of Funeral Expense Assistance is one of ten actions in our Funeral Costs Plan, which was published in August 2017.

The Scottish Government has maintained the Scottish Welfare Fund, a grant based scheme delivered by local authorities, at £38 million to provide help to the most vulnerable in times of crisis. From 1 April 2013 until 30 September 2018, 316,095 individual households in Scotland have been helped with awards totalling more than £181 million. £76.3 million of that has gone to households with children, that is 42% of the total amount awarded.

EXPANDING EARLY LEARNING AND CHILDCARE

The Scottish Government continues to take strong action to improve the availability of affordable, high-quality, full time childcare.

In Scotland, through the Children and Young People (Scotland) Act 2014, entitlement to funded early learning and childcare (ELC) increased to 600 hours for all 3 and 4 year olds and to eligible 2 year olds. The Act also made it a legal requirement for local authorities to consult parents in order to increase flexibility and choice over how ELC is accessed.

The Scottish Government is committed to further expanding the entitlement and will nearly double the funded early learning and childcare entitlement to 1,140 hours per year by 2020.

This will be high quality, flexible early learning and childcare that is accessible and affordable for families.

In December 2018 the Scottish Government published the new Funding Follows the Child approach will be introduced in August 2020 alongside the statutory roll-out of the expanded entitlement. This approach is 'provider neutral' and is underpinned by a National Standard that all settings who wish to become a funded provider – regardless of whether they are in the public, private or third sector, or if they are a childminder – will have to meet.

However, the evidence is clear that if ELC is to help give children the best start in life and contribute to closing the poverty related attainment gap, it must be of high quality. That is why at the heart of the National Standard are a clear and consistent set of quality criteria, recognising that the ELC expansion is fundamentally about improving the early years' experience of Scotland's youngest children.

Whilst the National Standard sets a minimum quality threshold for providers delivering the funded hours, we want to see quality enhanced further still – and more settings continuously striving to improve the quality of ELC across the sector. The Scottish Government published a Quality Action Plan in October 2017, which contains 15 actions to further embed and strengthen quality in early learning and childcare.

The expansion will require substantial increases in the workforce and investment in infrastructure. To support this the Scottish Government and COSLA have agreed a multi-year funding package which will see annual revenue investment in early learning and childcare increase by around £567 million on 2016-17 levels. £476 million in capital funding will also be provided over the four year period to 2020-21.

The funding package also includes funding to support the payment of sustainable rates to providers delivering the funded entitlement; to enable payment of at least the real Living Wage to all childcare workers delivering the funded hours; and to provide a free meal to every child attending a funded ELC session from August 2020

On 19 December 2018 the Scottish Government published a Delivery Support Plan for Providers, to set out how providers, including childminders, will be supported through the transition to 2020. This builds on existing support including the 100% rate relief for private properties wholly or mainly used as day nurseries, which was introduced in April 2018.

The total benefit to families from 1,140 hours of funded entitlement is estimated to be worth around £4,500 a year per child, enabling more families to keep more of their income. This will make a vital contribution to the Scottish Government's priorities to grow Scotland's economy, tackle inequality, and close the attainment gap.

CHAPTER 8: CLIMATE CHANGE AND ENERGY



Scotland's Economic Strategy emphasises the importance of ensuring that Scotland protects and nurtures its natural resources and explores the opportunities offered by the transition to a more resource efficient, lower carbon economy.

This chapter sets out the activities being undertaken across Scotland in support of the transition to a low carbon, resource-efficient economy, reflecting the EU's flagship initiative, "Resource Efficient Europe".

Europe 2020 headline targets:

- Reducing greenhouse gas emissions by 20% compared to 1990 levels (or by 30% if conditions are right).

- Increasing the share of renewable energy sources in final energy consumption to 20%.
- A 20% increase in energy efficiency.

CURRENT SCOTTISH PERFORMANCE

The Scottish Government has established a range of targets which are focused on driving Scotland's transition to a low carbon economy. Scotland's current performance against these targets is presented in Table 6.

Table 6 – Current Scottish Performance Against Transition to a Low Carbon Economy Indicators

Indicator	Target	Current Level	Change Over Year	Reference Period
Greenhouse Gas Emissions	Reduce emissions by at least 42% by 2020 and at least 80% by 2050, compared to a 1990/1995 baseline period ^(1,2)	45.2% reduction from the 1990/1995 baseline period to 2016, after taking account of trading in the EU Emissions Trading System (EU ETS)	2.5% increase in emissions, after taking account of trading in the EU Emissions Trading System (EU ETS)	2016
Indigenous Renewable Energy Sources	Generate the equivalent of 100% of gross electricity consumption from renewable sources by 2020	70.1%	15.7% pts increase	2017
Heat Demand	11% of Scotland's heat demand from renewables by 2020	5.9% (provisional)	1.2% pts increase	2017
Energy Efficiency	Reduce final energy end-use consumption by 12% by 2020 (against a 2005-2007 baseline)	13.9% lower than baseline (provisional)	1.1% pts increase in consumption	2017

1. The baseline period is 1990 for Carbon Dioxide, Methane and Nitrous Oxide, other greenhouse gases use a 1995 base year.

2. The Scottish Government introduced a new Climate Change Bill in May 2018, with more ambitious targets based on actual Scottish emissions (see below).

CLIMATE CHANGE

The Scottish Government is committed to achieving net-zero emissions of all greenhouse gases as soon as possible. With emissions already reduced by 49% from the 1990 baseline, Scotland's low carbon transition is well underway.

In May 2018, the Scottish Government introduced a Climate Change Bill that responds to the United Nations Framework Convention on Climate Change (UNFCCC) Paris Agreement with new, evidence-based, statutory emission reduction targets. The Bill includes the most stretching statutory targets of any country in the world for 2020, 2030 and 2040. The Bill targets will also mean that Scotland reaches net-zero emissions of carbon dioxide, known as carbon neutrality, by 2050. The Bill builds upon and retains the rigorous statutory framework of the current Climate Change (Scotland) Act 2009, which includes annual emissions reduction targets and independent reports on progress.

The targets in the Climate Change Bill follow independent, expert advice from the UK Committee on Climate Change on a high ambition Scottish response to the Paris Agreement. The Scottish Government has committed to setting a statutory target date for net-zero emissions of all greenhouse gases as soon as this can be done credibly and responsibly. In light of the Intergovernmental Panel on Climate Change's 2018 Special Report on global warming of 1.5 degrees, we have joined the UK and Welsh Governments in commissioning further advice on targets from the UK Committee on Climate Change. This advice is expected to inform the completion of the parliamentary passage of the Bill during 2019.

Scotland's high ambition on tackling climate change is matched by a stretching and credible package of on-the-ground measures to reduce our emissions.

In February 2018, the Scottish Government published its Climate Change Plan⁶ for meeting current statutory greenhouse gas emissions reduction targets out to 2032. In December 2017, it also published a full statement of its ambitious long-term vision of energy supply and use in Scotland, aligned with greenhouse gas emissions reduction, in the Energy Strategy⁷.

Both the Climate Change Plan and Energy Strategy are rooted in the ambition and vision of Scotland's Economic Strategy, and are designed to boost productivity and secure competitive advantage, protect and preserve Scotland's environment and deliver inclusive growth. The approach set out in these documents contains transformational outcomes in transport, heat, electricity generation, and energy efficiency along with increased natural carbon sinks and more efficient agricultural practices. They will shape action to deliver a modern, integrated, clean energy system, delivering reliable energy supplies at an affordable price, in a market that treats all consumers fairly; and a strong, low carbon economy – sharing the benefits across communities, reducing social inequalities and creating a vibrant climate for innovation, investment and high value jobs.

6 <https://www.gov.scot/publications/scottish-governments-climate-change-plan-third-report-proposals-policies-2018/>

7 <https://www.gov.scot/publications/scottish-energy-strategy-future-energy-scotland-9781788515276/>

On the global climate action agenda, Scotland continues to engage with external partners to share expertise and lessons from domestic action in support of the Paris Agreement and in December 2018 announced funding to support the Marrakesh Partnership for Global Climate Action. This is underpinned by direct backing for inclusion and capacity building amongst developing countries, in addition to the programmes run under Scotland's Climate Justice Fund. Technology and policy initiatives are also areas of cooperation with global partners through Scotland's membership of the Under 2 Coalition and The Climate Group's States and Regions Alliance. A new partnership with Solar Impulse's 1000 Solutions initiative will also enable Scotland to spearhead clean and profitable technology to protect the environment. The period between 2018 and 2020 is an important phase for the Paris Agreement, and the Scottish Government will continue to be active at the UNFCCC level alongside the UK, as well as regional, city and community level as part of the combined global effort to tackle climate change. March 2019 will also see over 200 of the world's leading climate scientists arrive in Edinburgh for the Intergovernmental Panel on Climate Change's Lead Authors meeting on mitigation.

To ensure communities, economy and natural environment are resilient to the changing climate, the Scottish Government will publish a new five-year Scottish Climate Change Adaptation Programme (SCCAP) in 2019. This will build on the progress made in the first five-year SCCAP, published in 2014, and work already happening nationally and locally like Climate Ready Clyde, Edinburgh Adapts and Aberdeen Adapts, as well as complement our new actions as a hydro nation. An independent assessment of the first SCCAP, published in September 2016, found that Scotland had made a positive start in taking steps to prepare for climate change.

OPPORTUNITIES FROM A LOW CARBON ECONOMY

The transition to a carbon-neutral economy will bring new economic, environmental and social opportunities to individuals, business and communities across Scotland.

Scotland is already capturing the economic benefits associated with this energy transition. Scotland is an internationally renowned centre for energy innovation and expertise with Scottish renewable energy businesses now working in more than 40 countries around the world. In 2017, low carbon industries and their supply chains in Scotland generated over £11.1 billion and supported 46,500 jobs.

As well as reducing emissions, increasing our energy supply from renewable and low carbon sources presents an opportunity to build upon Scotland's proud legacy of community energy projects. Community ownership of renewable schemes is delivering valuable local revenues to support a wide range of local needs. With a shift towards smarter, more local approaches to energy, the opportunity also exists to develop new local energy economies. This broadening in our approach to energy provision can help tackle some of Scotland's most pressing issues from security of supply, to demand reduction, making energy supplies more affordable to households and business and to stimulate regeneration and local economic renewal.

MAXIMISING THE SOCIAL AND ECONOMIC OPPORTUNITIES OF ENERGY AND RESOURCE EFFICIENCY

Scottish Ministers have designated improving the energy efficiency of all of Scotland's buildings a National Infrastructure Priority. Scotland's Energy Efficiency Programme, a key part of Scotland's Energy Strategy, is the culmination of this thinking and delivers across two key policy areas of Government: fuel poverty and climate change. It has two main objectives: to remove energy efficiency as a driver for fuel poverty and reduce greenhouse gas emissions through more energy efficient buildings and decarbonising our heat supply in our homes and buildings.

By 2040, our homes and buildings will be warmer, greener and more comfortable, as well as reducing our impact on the environment. The Programme is supporting our ambitious targets to reduce greenhouse gases; we will see emissions reductions in the residential and services sectors of 23% and 59% respectively by 2032 on 2015 levels. Our Climate Change Plan sets out the policies and proposals that will keep Scotland on course to achieve its current greenhouse gas emissions reduction targets. To achieve this, emissions from all buildings in Scotland will need to be near zero carbon by 2050. We will achieve this in a way that is socially and economically sustainable.

By making these improvements to our homes, business premises and public buildings we can use less energy. This will help to tackle fuel poverty, help businesses to be more competitive and release savings in the public sector for front line services. To achieve this we will put in place a framework of standards and regulations to make investing in energy efficiency the norm. We will continue to provide support to households suffering from fuel poverty, and will also seek to

leverage further private investment into improving energy efficiency to support the development of loan schemes to enable households and businesses who can afford to pay, to spread the upfront costs of investing in energy efficiency.

In May 2018, we published the Programme Route Map and two consultations. The Route Map sets out the journey our homes, businesses and public buildings will take to become more energy efficient. It will also guide the decisions that we will be making, with our partners, over the next 20 years. The Route Map has been developed after a series of consultations and stakeholder events that have shaped the decisions we have taken. The Route Map proposes:

- A long term residential standard of at least Energy Performance Certificate (EPC) Energy Efficiency rating band C to be met by 2040 at the latest.
- Higher targets for fuel poor homes.
- Benchmarking for nondomestic buildings.
- To maximise the number of homes in the social rented sector attaining EPC Energy Efficiency rating band B by 2032.
- A longer term vision for the social rented sector by 2040, whereby poor energy efficiency has been removed as a driver for fuel poverty and all social housing is carbonneutral as far as is reasonably practical.

We are now consulting on these proposals.

Energy Efficiency has been a long term priority for the Scottish Government and the Programme will build on the good progress already made. The standard assessment procedures for EPCs continues to show improvement in the energy efficiency profile of housing. Under SAP 2009, the share of the most energy efficient dwellings (rated C or better) increased from 24% in 2010 to 46% in 2017. In the same period, the proportion of properties in the lowest EPC bands (E, F or G) has more than halved, reducing from 27% to 13%.

By the end of 2021, the Scottish Government will have allocated over £1 billion since 2009 through energy efficiency programmes to make homes warmer and cheaper to heat. This funding will be used to build on the over 1 million measures delivered through a range of UK and Scottish programmes to 1 million households since 2008.

JUST TRANSITION COMMISSION

The Just Transition Commission started work on 31 January 2019. It is tasked with providing practical advice on how Scotland can maximise the social and economic opportunities associated with Scotland's move towards carbon-neutrality, whilst identifying and mitigating risks. The independent Commission will report to Scottish Ministers within two years.

The Commission is chaired by Professor Jim Skea, an expert in energy systems and technological innovation. Professor Skea was co-chair of a working group of the Intergovernmental Panel on Climate Change and was the Scottish Champion on the UK Committee on Climate Change until the end of last year. The group has two trade union representatives, two environmental group representatives and representatives from business, industry, academia, farming and the third sector. Collectively, the Commission has expertise on labour markets and skills, social inclusion and regional cohesion, as well as climate change.

The Commission will work openly and transparently, and engage meaningfully with workers, communities, NGOs, business and industry leaders and other relevant bodies across Scotland. It will actively seek and consider the views of young people.

LOW CARBON INFRASTRUCTURE TRANSITION PROGRAMME (LCITP)

The Low Carbon Infrastructure Transition Programme (LCITP) has committed European funds to projects up until September 2021. Launched in 2015, LCITP is a collaborative partnership led by the Scottish Government, working with Scottish Enterprise, Highlands and Islands Enterprise, Scottish Futures Trust and Resource Efficient Scotland. This intervention, which is co-funded by the European Regional Development Fund, focuses on supporting the acceleration of low carbon energy infrastructure projects across the public, private and community sectors to develop investment grade business cases to help projects secure public and private capital finance.

The programme aims to stimulate commercial interest and investment and maximise Scotland's vast potential in the low carbon sector whilst contributing to the positive progress of the Scottish Government in reducing Scotland's greenhouse gas emissions. Since 2015 LCITP has supported the co-development of over thirty proof of concept and development proposals for low carbon projects. LCITP has also run a number of open funding invitations, including the Transformational Low Carbon Demonstrator Invitation and the Innovative Local Energy Systems Invitation and has offered over £40 million of capital funding to fourteen low carbon projects. This funding has been matched by equivalent investment from both the public and private sector. Supported projects include the Glenrothes Energy Network in Fife, Scotland's first battery storage linked to tidal project in Shetland and an energy system project providing 24 hour power to Fair Isle for the first time.

LCITP launched the £60 million Low Carbon Innovation Funding Invitation in January 2018 offering support for projects in three priority areas – integrated energy systems, low carbon heat and ultra-low emission vehicle infrastructure. Four projects have been offered capital support

of £12.7 million in total. Fourteen projects have received offers of development support totalling £770,000 to compile investment grade business proposals, these development projects will be considered for LCITP capital support, subject to a viable business case, in summer 2019.

Brexit: What's at stake for Climate Change and Energy?

The EU's climate and energy objectives are increasingly important in UK and Scottish efforts to address the energy and climate goals of ensuring secure, affordable and decarbonised energy supplies while also ensuring that those energy supplies continue to drive competitiveness and economic growth. In addition the EU has led international efforts to secure a global, legally-binding agreement to address climate change, and was instrumental in two decades' worth of complex negotiations with other major economies such as the US, China and India, to deliver the landmark Paris Agreement in 2015. Leaving the EU could mean:

- **Not benefitting from an integrated energy market** – the UK's exit from the EU threatens the opportunity for Scottish consumers, to benefit from the development of an integrated energy market in the EU through a reduction in the cost of energy bills. EU policies such as the Clean Energy Package rationalise reserves and procurement activities, incentivising investment and the common management of cross-border energy infrastructure. This energy market is also of particular importance for the Scottish renewables sector.
- **The loss of leadership and undermining of collective efforts to tackle climate change** – Climate policy has domestic, regional and global implications and connections and the EU's legislative reach, market influence and climate diplomacy are extensive. Through the UK's membership, Scotland has benefitted from being a direct part of the EU's considerable diplomatic clout in the climate negotiations, projecting our domestic climate leadership internationally through collective effort with our EU partners.
- **Influence** – Scotland has developed a world leading expertise in environmental management and regulation that is very much valued across Europe. Leaving the EU would reduce our ability to bring our experience to the table and have a positive influence on future environmental policies, which would affect not only Scotland but the EU as a whole.

CONCLUSION

Through the Scottish Government's Economic Strategy, Scotland shares the vision set out in the Europe 2020 strategy of smart, sustainable and inclusive growth. We strongly support reducing youth employment; increasing innovation and R&D; meeting our climate change ambitions; improving access to and quality of education and reducing poverty and promoting social inclusion. This report demonstrates that Scotland is both making progress in supporting Europe 2020 targets and contributing to European growth as part of the wider European economy.

The contribution that Europe makes to Scotland is significant, and the evidence presented illustrates the extent of the risk Brexit represents to Scotland's future prosperity. The Scottish Government continues to believe that the best option for Scotland, indeed the UK as a whole, is to remain in the European Union or at the very least the European Single Market, and will continue its efforts to protect Scotland against the worst effects of a disastrous UK Brexit.

Scotland has a long history as a proud, outward-looking European nation. No matter what the future relationship between the EU and the UK is, Scotland will stand with our European neighbors in meeting the challenges that face us, and will remain united in our shared values for the benefit of all our citizens.

FURTHER READING

UK National Reform Programme 2019

[Delivering for today, investing for tomorrow: the Government's programme for Scotland 2018-2019](#)

[Europe 2020: A European Strategy for smart, sustainable and inclusive growth](#)

[Economic Action Plan 2018-20](#)

[Scotland's Place in Europe](#)

[Scotland's Place in Europe: People, Jobs and Investment](#)

[Scotland's Economic Strategy](#)

[A Fairer Scotland for Disabled People: employment action plan](#)

[Fair Work Action Plan](#)

[National Performance Framework](#)

[Scotland's Economic Strategy](#)

[Economic Action Plan 2018-20](#)

[No One Left Behind: next steps for employability support](#)

[A Fairer Scotland for Disabled People: employment action plan](#)

[Realising Scotland's full potential in a digital world: a digital strategy for Scotland](#)

[Every child, every chance: tackling child poverty delivery plan 2018-2022](#)

[Climate Change Plan: third report on proposals and policies 2018-2032](#)

[The future of energy in Scotland: Scottish energy strategy](#)

[Places, People and Planning consultation: Scottish Ministers' position statement](#)

[No One Left Behind: review of employability services](#)



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