Draft socio-economic context and SWOT analysis for ESF ex-ante analysis

Office of the Chief Economic Adviser

1 Summary

Structural Funds form an important part of the Scottish Government's response to the economic downturn. With 2007-13 programmes over-committed, it is important to both get the new programmes started as soon as possible; and to ensure that they have the right focus to both address the current economic issues and to build towards Europe 2020 – the underlying objective for all European funding for the next period.

The European Commission identified in its position paper a number of aspects which the UK should be using EU Funds to address. However, the UK is one of the larger and most populous member states, and Scotland faces challenges which are both common across the UK; and distinct and shaped by geography and history, for example migration patterns and historical concentrations of particular industries.

This paper uses formal published statistics to set out an economic context, Scotland's current performance against each of the thematic objectives relevant to the European Social Fund (ESF), and sets out reasons for areas where Scotland's performance diverges form the EU 2020 targets. Where relevant, the analysis is broken down further by NUTS region or by other inter-sectional indicators such as gender. This baseline information in turn drives the analysis of the type of intervention or area of activity where the Social Fund could be focused in order to have the biggest impact in Scotland, included in each section as policy recommendations.

In this context, it is important to note that Structural Funds, although a valuable contribution to economic and social development, represent a relative modest amount of funding to change such significant policy areas as skills levels or poverty in the population. Wherever possible, the recommendations made in this paper therefore take into account the wider domestic (Scottish and UK) funding picture to pinpoint where the European Social Fund would add greatest value.

The paper is a collaborative piece of work between policy and analytical teams in the Scottish Government, and has been prepared without prejudice to Partnership discussions with stakeholders who are likely to benefit from Structural Funds as a result of some of these recommendations. It should be read alongside the baseline analysis for the European Regional Development Fund.

1.1 Note on NUTS regions in Scotland

There are four NUTS 2 regions and 23 NUTS 3 regions in Scotland. The NUTS regions in Scotland are only partially aligned to the 32 local authority areas. The NUTS 2 regions and corresponding local authorities are:

North Eastern Scotland: Aberdeenshire and Aberdeen City

Eastern Scotland: Angus, Clackmannanshire, Dundee City, City of Edinburgh, East Lothian, Falkirk, Fife, Midlothian, Perth and Kinross, Scottish Borders, Stirling and West Lothian

South Western Scotland: Part of Argyll & Bute, Dumfries and Galloway, East Ayrshire, East Dunbartonshire, East Renfrewshire, Glasgow City, Inverclyde, most of North Ayrshire,

North Lanarkshire, Renfrewshire, South Ayrshire, South Lanarkshire and West Dunbartonshire

Highlands and Islands: Most of Argyll & Bute, Eilean Siar, Highland, Moray, part of North Ayrshire, Orkney Islands, Shetland Islands

1.2 Summary of economic context data

The Scottish economy continues to face significant challenges in recovering from the financial crisis. The unemployment rate, at 7.2 per cent over the 3-month period between April and June, is substantially above its pre-crisis level in 2008. Real GDP in 2013 Q1 remained below its pre-crisis peak level.

The most recent GDP data for Scotland showed growth of 0.4 per cent in the first quarter of 2013. On an annual basis, comparing the first quarter of 2013 with the same quarter in the previous year (2012 Q1), GDP grew by 1.2 per cent.

The Fraser of Allander Institute forecast an annual GDP growth rate of 0.9 per cent for Scotland in 2013. This will increase to 1.6 per cent in 2014. The Scottish ITEM Club forecast an annual GDP growth rate of 0.8 per cent in 2013. This will increase to 1.4 per cent in 2014.

As a result of the improvement in GDP growth rates for 2013 and forecasts for 2014, alongside more upbeat business survey responses, the Scottish Government expects the economy to return to near trend growth by the end of 2014 as well as returning to pre-recession levels of output close to the end of that year.

1.2.1 Gross value added and productivity

- By international standards Scotland is a wealthy and productive country.

  The index for Scotland's GDP per hour worked[1] in 2011 was 78.4, the same as the level for the UK as a whole. Scotland's GDP per hour worked compares favourably with total OECD countries (74.0) but is lower than the level for the Euro area (84.5).
- Scotland's gross value added per head index, stated as a percentage of the average for the UK less extra-regio, increased from 94.5 in 2001 to 98.6 in 2011. The index increased over this period in each of Scotland's four NUTS 2 regions. There was, however, considerable variation at NUTS 3 level, with GVA per head in some of Scotland's more deprived regions decreasing relative to the UK average.

  Scotland's GVA per head in 2011 was $35,036, compared with the UK level of $35,642. Scotland's GVA per head is the same as the average of total OECD member nations ($35,058) but is lower than the level for the Euro area ($35,431).
- The overall Scottish picture masks some significant local differences. For example, the GDP per capita index for the Highlands and Islands as a percentage of the EU-27 average reached 92 in 2004, but has since fallen below 90. In 2010, the index for the region was at 87.
- Some NUTS 3 regions (North Ayrshire, Dundee) are also significantly worse off than their host NUTS 2 region. This is particularly relevant for the ESF thematic objective of social inclusion; and the EU 2020 target of decreasing the number of people at risk of or living in poverty. A range of interventions is needed both from Structural and

[1] GDP per hour worked as a percentage of USA (USA=100). Data obtained from OECD and ONS.

domestic funding to address the complex and inter-related issues from decades of heavy industrial decline.

1.3 Summary of data related to Thematic Objective 8: Promoting employment and supporting labour mobility

1.3.1 Labour market

- Over the past decade, the Scottish employment and unemployment rates have generally tracked the UK rates and have compared favourably to the EU-27 rates.
- The Highlands and Islands and North Eastern Scotland NUTS 2 regions have lower unemployment rates and higher employment rates than Scotland as a whole. By contrast, South Western Scotland underperforms Scotland as a whole on these measures, again reflecting the decline of the heavy industries concentrated in that region. The unemployment rates in Clackmannanshire and Dundee City, at around 10 per cent, are also substantially higher than in Scotland as a whole.
- The number of people in Scotland who were unemployed for 12 months or more increased from 24,000 in 2008 to 70,100 in 2012.
- The youth (16-24) unemployment rate in Scotland increased from 12.4 per cent in 2007 to 21.5 per cent in 2011, and fell to 20.7 per cent in 2012.
- The unemployment rate for men in Scotland was 2.0 percentage points higher than the rate for women in 2012.
- In the final quarter of 2012, around 10 per cent of working people in Scotland were underemployed.[2]
- The gender pay gap in 2012, as measured by the difference between men's and women's median full-time hourly earnings excluding overtime, was 8.4 per cent in Scotland and 9.6 per cent in the UK as a whole.

1.3.2 Population and migration

- The population of Scotland grew by just under four per cent over the past decade, due to an increase in net inward migration. The most recent projections indicate that the population will grow by a further 10 per cent over the next 25 years. The number of people of working age[3] is projected to increase from 3.27 million in 2010 to 3.45 million in 2020 (an increase of 6 per cent).
- Perth and Kinross and Edinburgh had the highest population growth rates over the decade 2001-2011, at over 10 per cent. By contrast, Eilean Siar and several local authority areas in the South West of Scotland had negative population growth over the decade.

[2] Working people in the following groups are counted as underemployed: those looking for more hours in their current role at same rate of pay; those looking for an additional job; those looking for a replacement job with more hours than their current job.

[3] Working age is 16-59 for women and 16-64 for men until 2010; between 2010 and 2020 working age becomes 16-64 for women. Between 2024 and 2026 working age for both men and women becomes 16-65, and changes again to 16-67 by 2046.

- In many rural areas across Scotland including the Highlands and Islands NUTS 2 region, the proportion of people in the 20-29 and 30-39 age groups is lower than in Scotland as a whole, while the proportion in older age groups is higher than in Scotland as a whole. This pattern is largely due to the migration of school leavers to urban places for work or education, with some returning to rural areas later in life.

1.3.3 Entrepreneurship

- In 2011, the VAT/PAYE registration rate stood at 39 per 10,000 adult residents in Scotland. In recent years, the rate in Scotland has been lower than the rate in the UK as a whole, which was 51 per 10,000 adults in 2011.
- The proportion of people in employment who are self-employed has risen fairly steadily in recent years in both Scotland and the UK. The rate of self-employment is substantially higher in the Highlands and Islands than in Scotland as a whole, reflecting a mixture of remoteness (lack of significant business and population concentrations), and historical self-employment patterns in farming and fishing.
- The rate of self-employment in Scotland is consistently higher among men than among women. In the year ending March 2012, 15.9 per cent of employed men in Scotland were self-employed. This was more than twice the rate for women, 7.5 per cent.

1.4 Summary of data related to Thematic Objective 9: Promoting social inclusion and combating poverty

1.4.1 Disabilities and long-term health conditions

- Data for 2008-11 from the Scottish Health Survey shows that 27 per cent of adults in Scotland had a limiting long-term health condition. Limiting long-term conditions were more prevalent among women (29 per cent) than among men (24 per cent). Greater Glasgow & Clyde had a significantly higher proportion of adults with a limiting long-term condition (29 per cent) than the national average.
- Slightly over half (52.3 per cent) of all disabled people aged 16-64 in Scotland were economically active in the year ending September 2012. This was substantially lower than the economic activity rate for all people aged 16-64 (77.0 per cent)

1.4.2 Health and labour market outcomes

- Waddell and Burton (2006)[4] find that employment and socio-economic status are crucial in attaining both physical and mental health.
- Conversely, there is a strong association between worklessness and poor health.
- There is strong evidence that re-employment leads to improved self-esteem, improved general and mental health, and reduced psychological distress.

[4] Waddell and Burton (2006) “Is work good for your health and well-being?” https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/138008/hwwb-is-work-good-for-you.pdf.pdf

- A review of the health of Britain's working age population[5] found that health inequalities often go hand-in-hand with other socio-economic inequalities such as lower educational and income attainment.

1.4.3 Ethnicity and labour market outcomes

- The employment rate for ethnic minorities[6] in 2012 was 60 per cent. This was below the rate for all people aged 16-64, at 71 per cent. However, significant variations exist between different ethnic minorities (see section 4.3).

1.4.4 Scottish Index of Multiple Deprivation

- The Scottish Index of Multiple Deprivation (SIMD) 2012 identifies small area[7] concentrations of multiple deprivation across all of Scotland in a consistent way, using a combination of indicators. The term "deprivation" is used to capture, not only poverty, but also a range of other closely related issues such as health, safety, education, employment, housing and access to services. Data from the SIMD indicates that the local authority areas with the highest proportion of deprived areas are Glasgow, Inverclyde, and Dundee City.

1.4.5 Poverty and Income Inequality: Scotland 2011-12

- There were 710 thousand individuals living in relative poverty in Scotland in 2011/12. This compares with a figure of 780 thousand in 2010/11.
- The number of children living in relative poverty in Scotland fell from 170 thousand in 2010/11 to 150 thousand in 2011/12.
- The percentage of income received by the lowest 3 deciles in 2011/12 was 14 per cent. This percentage is unchanged from 2010/11 and has remained at 13 or 14 per cent since 1998/99.

1.4.6 Europe 2020 headline indicators on Fighting Poverty and Social Exclusion

- Poverty and social exclusion are major obstacles to the achievement of the Europe 2020 objective of inclusive growth. As such, the Europe 2020 headline target for Fighting Poverty and Social Exclusion is for there to be at least 20 million fewer people in or at risk of poverty and social exclusion across the whole EU. To help achieve this aim, The Scottish Government has put forward its "Solidarity" target – to increase overall income and the proportion of income earned by the three lowest income deciles as a group by 2017. Alongside their own national targets, the Scottish Government has also signed up to the UK Child Poverty Act 2010 and have committed to doing all they can to eradicate child poverty by 2020.

[5] Dame Carol Black (2008) "Working for a healthier tomorrow" http://www.dwp.gov.uk/docs/hwwb-working-for-a-healthier-tomorrow.pdf

[6] Asian or Asian Scottish/British were the largest ethnic minority group at 2.1% of the population of Scotland, followed by Mixed/Multiple ethnic groups (0.5%), Other ethnic group (0.5%), African (0.4%), Arab (0.1%) and those of Caribbean or Black (0.1%) ethnicity.

[7] Small areas are measured as data zones and can be as small as just a few streets in a large urban setting to a relatively large geographical expanse in a low populated rural area.

1.5 Summary Policy Context for Social Fund Interventions

One of the most significant factors shaping Scotland's success or failure in reaching Europe 2020 targets relevant to the European Social Fund will be understanding and dealing with the policy responses required in different areas of Scotland. Whilst the overall economic picture remains reasonably strong, there are pockets within Scotland which were worse off before the recession; and which have been hit harder by it, in terms of unemployment (including youth and long-term), income and social equality and inclusion.

That these areas are in many cases the same areas which have been economically and socially difficult for decades (Greater Glasgow, Clyde valley and the Ayrshires were identified as a 'special area' in UK legislation as far back as 1934) reveals the complexity of the issue. These areas have been the focus of regeneration, poverty, welfare reform, education, industry and skills policies for decades, but remain fragile enough to take the first hit when the economy falters.

These areas are likely to be extremely vulnerable to the coming changes in welfare policy at a UK level as well[8], with the real and perceived barriers to employment and social inclusion (level of lone parent households, child care, health and disability, former industries and lack of retraining) more likely to increase than to decrease unless significant numbers of jobs can be created locally and with a reasonable skills match. This is unlikely to be a rapid solution, and means that interventions will need to both address short-term needs such as employability support (including health and childcare) and long-term options such as retraining and workforce development to support alternative industries to those which have declined.

The Highlands and Islands and parts of the Borders and Dumfries and Galloway have different but equally difficult issues to address, particularly remoteness and permanent geographical handicaps. Although these areas are capitalising on their natural assets (with the Highlands the second most visited tourist destination in Scotland, and the South rebuilding its reputation for high quality foods and textiles), employment is more seasonal and more part-time than in the rest of Scotland; and the costs of living higher through fuel and transport costs. These areas of course still have localised issues with employability; and would benefit from better linkages between industry and skills and training options, including specific options for the development of the territorial use of the university of the Highlands and Islands as a combined further and higher education institution.

Skills contribute to both social inclusion, labour market mobility and ultimately the competitiveness and innovativeness of the economy, and are therefore a key focus for the Social Fund. The Social Fund has a specific role to play here, raising the level of ambition in the educational system, and aiding the response to both the regionalisation of Scotland's colleges and the current Wood Commission looking at vocational and technical education for Scotland. If Scotland is to improve its competitiveness, the Fund should also seek to support the development of the existing workforce through better employer-supported life-long learning.

1.5.1 Previous Use of Structural Funds and Institutional Landscape

The lessons learned report compiled for the 2007-13 programme highlights that small and fragmented interventions are not achieving the results desired; and are unlikely to make a measurable contribution to Europe 2020. The intended programme design for both ESF and

[8] http://www.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/hitting-poorest-places-hardest_0.pdf

ERDF is therefore based on lead partners taking responsibility for significant programmes of work to deliver outcomes; with smaller organisations involved through procurement or transparent project selection as delivery agents.

On employability and labour market mobility, Scottish Government moved within the 2007 programme to a strategic model, funding the 13 most deprived CPPs for additional interventions linking social inclusion to moving closer to the labour market. This reflects the strong correlation between income inequality and every other factor in the Scottish Index of Multiple Deprivation, and allows local areas to tailor interventions to their particular circumstances.

CPPs remain the primary vehicle for local and spatial policy delivery in Scotland, and each has recently refreshed their Single Outcome Agreement, setting out what they will deliver towards overall Scottish performance. This makes CPPs, and the local authorities as the legal vehicle underpinning them, natural lead partners for labour market mobility and a range of social inclusion interventions. The evaluation of the CPPs show both good results and where there is room for improvement, and this should be borne in mind when designing future interventions aimed at these thematic objectives.

The CPPs also took a leading role in the 2012 refocusing of the ESF and ERDF programmes towards tackling youth unemployment. With local authorities in charge of Business Gateway services, this allows a blending of ESF support for recruitment incentives with business advice and support. This approach is likely to need to bed in through the 2014 programme to show effectiveness over the long-term.

Skills and workforce interventions need to undergo this same strategic refocusing for the 2014-20 programme, becoming more of a spectrum of skills – from basic support through to world class industrial and innovative skills. This will mean an increased role for Scottish Funding Council, co-ordinating delivery through Scotland's colleges and universities, and making the links to ERDF through innovation and its joint work with the enterprise agencies on alignment of services and links to Horizon 2020.

It is also likely to mean a significant continuing role for Skills Development Scotland, developing and delivering apprenticeship and vocational training programmes at national level; as well as responding to skills and training requirements coming through the CPP pipelines at a local level.

In all areas of Scotland, interventions under the Social Fund must be linked more closely to those under the European Regional Development Fund to have a real impact. It is difficult, for example, to imagine an employability intervention being effective without a parallel ERDF intervention which supports the creation and retention of jobs locally; or skills interventions which don't support the future needs of the industries which will help Scotland become more competitive and innovative.

1.5.2 Summary Policy recommendations

- Skills spending needs to cover a wider spectrum – from basic employability and engagement through to industry-specific and world class training – to address both social inclusion; and to build on interventions under ERDF aimed at supporting the innovativeness and competitiveness of the Scottish economy.
- Youth education is likely to be a continued focus, but should be clearly linked to the skills opportunities above, and responses to the Wood Commisison and the recent

regionalisation of Scotland's colleges. The aim should be to head off at the pass unemployment for the next generation leaving school and education.

- The evaluation of Strategic Delivery models shows CPPs work well as a delivery vehicle for combining social inclusion and progression towards labour market mobility. These models could be streamlined for easier audit and management, and strengthened in respect of up-skilling for longer-term sustainable employment; and addressing specific barriers to employment such as health and childcare availability and affordability
- To increase effectiveness, training and employability initiatives should be linked to actual local growth and jobs and initiatives which secure employment for those being trained

2 Economic context

2.1 Summary of GVA and unemployment indicators

By international standards Scotland is a wealthy and productive country. Figure 1 shows, Scotland's GDP per capita index is 107 per cent of the EU average.9 The unemployment rate in Scotland is lower than the rate for the EU as a whole: 7.9 per cent and 10.4 per cent respectively. However, the Highlands and Islands region and South Western Scotland both have a lower level of GDP per capita than the EU average. All four of the NUTS 2 regions of Scotland have lower unemployment rates than the EU average.

Figure 1: Summary of GDP index and unemployment data

Source: Eurostat

NUTS code	NUTS name	GDP per capita index, % of EU average, 2010	Unemployment rate, %, 2012
EU27	European Union (27 countries)	100	10.4
UK	United Kingdom	111	7.9
UKM	Scotland	107	7.9
NUTS 2 regions in Scotland:			
UKM2	Eastern Scotland	109	7.5
UKM3	South Western Scotland	99	9.8
UKM5	North Eastern Scotland	162	4.7
UKM6	Highlands and Islands	87	4.6
NUTS 2 regions in rest of UK:			
UKC1	Tees Valley and Durham	77	11.6
UKC2	Northumberland and Tyne and Wear	88	9.1
UKD1	Cumbria	94	6.4
UKD3	Greater Manchester	96	10.2
UKD4	Lancashire	83	7.8
UKD6	Cheshire	118	5.9
UKD7	Merseyside	81	9.8
UKE1	East Yorkshire and Northern Lincolnshire	82	9.8
UKE2	North Yorkshire	93	5.1
UKE3	South Yorkshire	81	10.5
UKE4	West Yorkshire	95	9.5
UKF1	Derbyshire and Nottinghamshire	92	8.3
UKF2	Leicestershire, Rutland and Northamptonshire	104	6.9
UKF3	Lincolnshire	78	8.5
UKG1	Herefordshire, Worcestershire and Warwickshire	94	4.9
UKG2	Shropshire and Staffordshire	81	6.6
UKG3	West Midlands	95	11.7

[9] Eurostat allocates extra-regio data (i.e. value added created in other national regions than on national territory, e.g. in embassies, foreign army bases, offshore energy production, etc.) proportionally to the regions of a country.

UKH1	East Anglia	100	6.4
UKH2	Bedfordshire and Hertfordshire	113	6.3
UKH3	Essex	89	7.4
UKI1	Inner London	328	9.1
UKI2	Outer London	95	8.6
UKJ1	Berkshire, Buckinghamshire and Oxfordshire	143	5.6
UKJ2	Surrey, East and West Sussex	114	5.8
UKJ3	Hampshire and Isle of Wight	109	6.3
UKJ4	Kent	90	8.0
UKK1	Gloucestershire, Wiltshire and Bristol/Bath area	115	6.1
UKK2	Dorset and Somerset	92	5.1
UKK3	Cornwall and Isles of Scilly	72	5.6
UKK4	Devon	87	5.9
UKL1	West Wales and The Valleys	70	9.2
UKL2	East Wales	100	7.6
UKN0	Northern Ireland (UK)	86	7.4

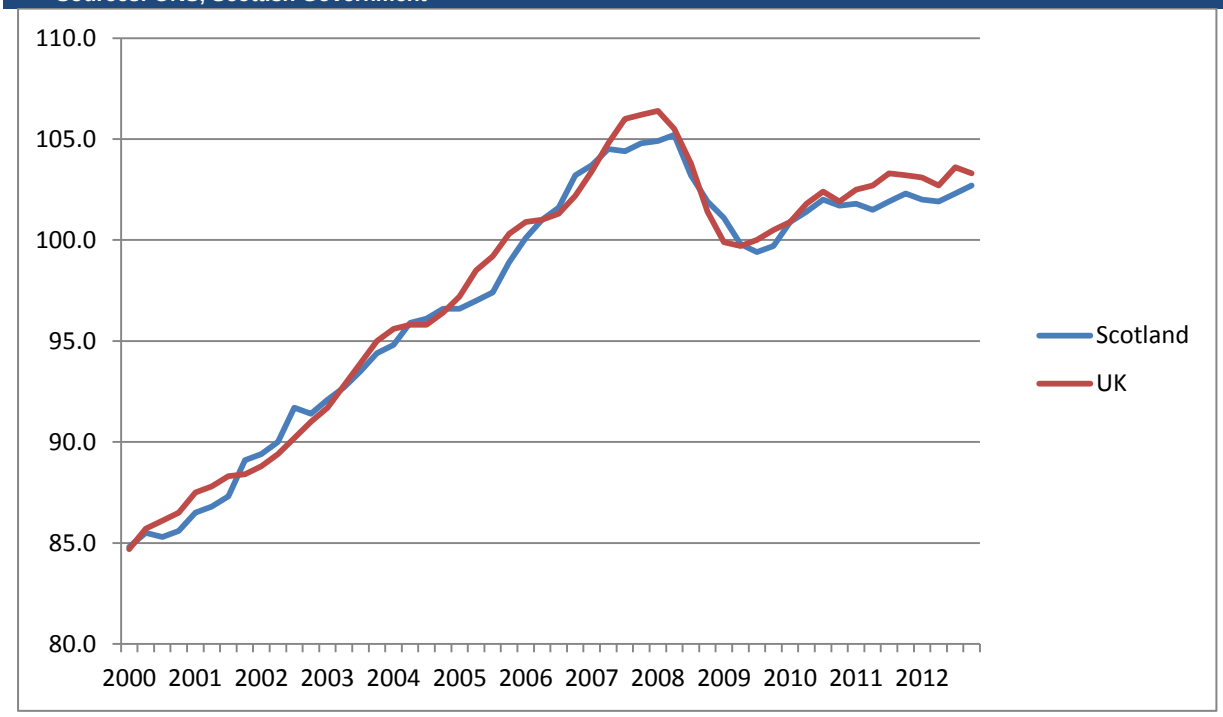
2.2 Gross value added

2.2.1 Gross value added time series: chained volume measures[10] at basic prices

The rate of growth in gross value added (GVA) since 2000 has been similar in Scotland and the UK as a whole, as Figure 2 shows. In both Scotland and the UK, GVA in 2012 Q4 remained around 3 per cent below the pre-recession peak (2008 Q2 in Scotland, 2008 Q1 in the UK).

[10] Changes in GVA over time can either be attributed to changes in prices or to change in production volume. The chained volume measure removes the effects of inflation/deflation and thus provides a measure of only volumes changes over time. These volumes changes serve as a measure of GVA changes.

Figure 2: Gross value added, chained volume measures at basic prices
2007=100, quarterly
Sources: ONS, Scottish Government



Gross value added at current basic prices in Scotland in 2011 is provisionally estimated at £108.1 billion. In the same year, gross value added per head was £20,571. Scotland's performance on this measure has been relatively strong over the past decade, with GVA per head as a percentage of the average for the UK less extra-regio[11] increasing from 95 in 2001 to 99 in 2011. However, since the recent recessionary period, both Scotland and the UK are now below their peak level. Adding Scotland's illustrative geographical share of North Sea output increases Scottish GDP per head to around 115 per cent of the UK average.[12]

GVA per head index figures at NUTS 1, 2, and 3 levels for 2001 and 2011 are shown in Figure 3. The index increased over this period in all four NUTS 2 regions. There was, however, considerable variation at NUTS 3 level. While the index increased over the ten-year period for all six NUTS 3 regions in the Highlands and Islands, it decreased in a number of NUTS 3 regions elsewhere in Scotland. The three regions with the highest GVA per head in 2001 – Edinburgh, Glasgow, and Aberdeen City and Aberdeenshire – have strengthened their performance relative to the UK average.

[11] Extra-regio activity consists mainly of offshore oil and gas extraction activity.
[12] Scottish Government, 2013, Fiscal Commission Working Group - First Report - Macroeconomic Framework. http://www.scotland.gov.uk/Publications/2013/02/3017/downloads

2.2.2 Gross value added: UK=100 index

Figure 3: GVA per head index

UK less extra-regio=100

Source: ONS. Index numbers are rounded from data published to one decimal place. Data for 2011 is provisional.

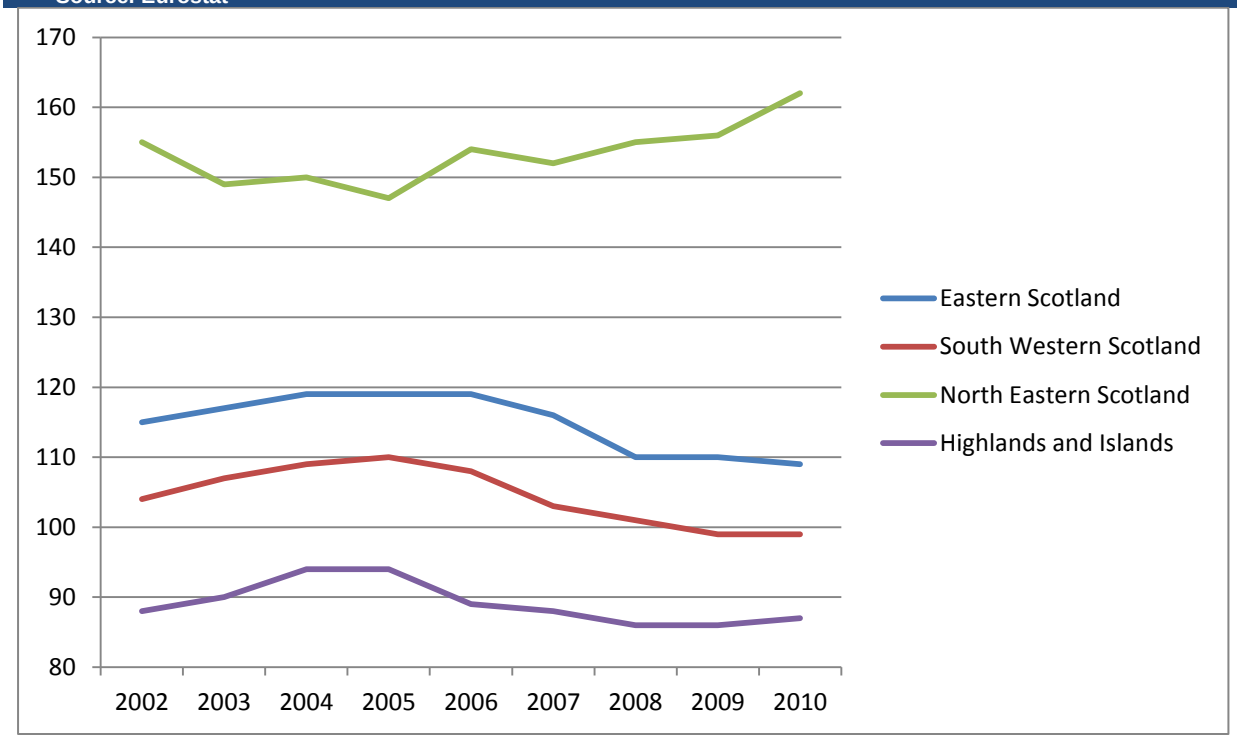
	2001	2011
Scotland	95	99
Eastern Scotland	97	98
Angus and Dundee City	85	85
Clackmannanshire and Fife	70	66
East Lothian and Midlothian	62	61
Scottish Borders	68	64
Edinburgh, City of	159	164
Falkirk	77	87
Perth & Kinross and Stirling	84	86
West Lothian	103	98
South Western Scotland	89	91
E Dunbartonshire, W Dunbartonshire and Helensburgh & Lomond	61	63
Dumfries & Galloway	75	75
East Ayrshire and North Ayrshire Mainland	64	62
Glasgow City	138	144
Inverclyde, East Renfrewshire and Renfrewshire	80	77
North Lanarkshire	67	75
South Ayrshire	89	91
South Lanarkshire	79	74
North Eastern Scotland	132	153
Aberdeen City and Aberdeenshire	132	153
Highlands and Islands	74	81
Caithness & Sutherland and Ross & Cromarty	69	74
Inverness & Nairn and Moray, Badenoch & Strathspey	77	84
Lochaber, Skye & Lochalsh, Arran & Cumbrae and Argyll & Bute	72	76
Eilean Siar (Western Isles)	70	73
Orkney Islands	71	82
Shetland Islands	94	115

2.2.3 Gross domestic product: EU index

Data from Eurostat shows that the GDP per capita index in the Highlands and Islands increased to 94 per cent of the EU-27 average in 2004, but has since fallen below 90 (Figure 4). In 2010, the index for the region was at 87. The other three NUTS 2 regions in Scotland have typically had GDP per capita indices of 100 or higher, however, South Western Scotland has fallen to 99 in 2009 and 2010. The indices for South Western Scotland and Eastern Scotland have had a decreasing trend since 2005 and 2006 respectively.

Figure 4: GDP per capita index (PPS per inhabitant in % of the EU-27 average)

Source: Eurostat



2.3 Government Economic Strategy

The Scottish Government's Purpose *is to focus the Government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth*. The Government Economic Strategy sets out seven Purpose Targets[13]:

Sustainable Economic Growth

- To match the growth rate of small independent EU countries by 2017.

  Progress on this target has worsened, although this can party be explained by the deeper recessions in the UK and Small EU resulting in a lower starting position. Since these are cyclical changes in short-term performance, the effect on the underlying growth gap remains unclear.

  In 2012, the real growth rate of GDP in Scotland was 0.3 per cent, compared with a negative growth rate of -0.4 per cent for the EU-27. Scotland's growth rate compares favourably with some other small European nations – Demark and Finland had a growth rate of -0.4 and -0.8 in 2012, respectively[14].

- To raise the GDP growth rate to the UK level by 2011.

[13] A statement of the targets and information on performance is available here - http://www.scotland.gov.uk/About/Performance/scotPerforms/purpose

[14] Scottish figure is from Ernest and Young Scottish ITEM Club Summer Forecast 2013. European figures are from Eurostat.

Progress has been made on this target. Between 2012 Q4 and 2013 Q1, the gap between annual GDP growth rates in Scotland and the UK improved by 0.4 percentage points in favour of Scotland[15].

Productivity

- To rank in the top quartile for productivity amongst our key trading partners in the OECD by 2017.

  Performance in this area is based on changes between the level of productivity in Scotland and that of the lowest ranked country in the top quartile (Germany). The latest figures show there was no change in this gap in 2011.

  Scotland had the same level of productivity, measured as GDP per hour worked, as the UK in 2011[16]. However, in this same year, Scotland was outperformed by other small European nations such as Denmark, Sweden, Norway and Finland. Scotland's level of productivity was also lower than the EU-15[17].

Participation

- To maintain our position on labour market participation as the top performing country in the UK.

  Between 2010 Q1 and 2013 Q1, Scotland has been the top performing country in 8 of the 13 calendar quarter releases. In 2013 Q1, Scotland's employment rate was 71.8 per cent – this was the highest across all UK countries.

- To close the gap with the top five OECD economies by 2017.

  When compared against the 34 OECD member states, Scotland had the 14th highest employment rate in 2012. The gap between Scotland and the 5th highest has increased over the year and now stands at 4.4 percentage points.

  Scotland's employment rate lagged behind that of Norway, Sweden, Denmark and Finland in 2012[18].

Population

- To match average European (EU 15) population growth over the period from 2007 to 2017.

  The population of Scotland has continually increased over the past nine years and is now at its highest ever. For the past two years population growth has been greater than that of the EU-15 countries.

- Supported by increased healthy life expectancy over the period 2007 to 2017.

[15] Annual Gross Domestic Product (GDP) growth rates for Scotland and the UK for the purposes of measuring progress against this indicator are published on a rolling four quarter on four quarters basis. The quarterly Scottish GDP publication for 2013 Q1 presents annual growth rates calculated by comparing the latest quarter with the same quarter of the previous year. As a result, the Scottish and UK annual GDP growth rates published on Scotland Performs may not be the same as that published in the official Scottish Government GDP Quarterly release.

[16] Productivity is measured here as the level of GDP per hour worked as a proportion of the USA (USA=100). Scotland and UK figures are obtained from ONS. Proportion for Scotland and UK is 78.

[17] European figures were obtained from OECD. Proportion for European nations are; Denmark – 89; Finland – 80; Norway – 138; Sweden – 86.

[18] Employment rates for these nations were 75.8, 73.8, 72.6 and 69.5, respectively.

There was a slight decrease in average levels of healthy life expectancy between 2009 and 2010. However, levels of healthy life expectancy for women and men have been gradually increasing since 1980. There was an increase of 3.1% between the baseline year of 2003 and 2010.

Solidarity

- To increase overall income and the proportion of income earned by the three lowest income deciles as a group by 2017.

  Between 2010-11 and 2011-12 total income received by Scottish households increased. Over this period the proportion of income received by those at the bottom of the income distribution decreased from 14.5% to 14.1%

Cohesion

- To narrow the gap in participation between Scotland's best and worst performing regions by 2017.

  The gap in employment rates between the top three and bottom three local authorities increased by 2.8 percentage points between 2011 and 2012. Over the longer term the difference in employment rates between the best and worst performing areas was reducing until 2009 when there was a sharp increase of 5.2 percentage points. The gap had reduced slightly between 2009 and 2011, but has increased again in 2012.

Sustainability

- To reduce Greenhouse emissions by 80 per cent by 2050.

  Scotland's performance in this area has been improving. In 2011, Scotland's greenhouse gas emissions (including international aviation and shipping and adjusted to take account of trading in the EU Emissions Trading System) were 54.3 million tonnes of carbon dioxide equivalent. This is 25.7 per cent lower than in the 1990 base year (for the long term target) and 9.8 per cent lower than in 2006 (for the short term target).

  On 25th November 2012, the Scottish Government announced that it is placed top of the European league table for greenhouse gas emissions reductions[19]. With emissions falling by 22.8 per cent between 1990 and 2010, Scotland's reduction has been greater than any of the other EU-15 member states.

As well as focusing on the achievement of these specific targets, with economic conditions remaining challenging, the Scottish Government is focusing extra resource and effort on the priority areas to support output and employment now, with particular focus on:

- boosting public sector capital investment
- taking direct action to tackle unemployment, in particular youth unemployment
- enhancing economic confidence by encouraging private sector investment and providing security to Scottish households

[19] http://www.scotland.gov.uk/News/Releases/2012/11/climate25112012

The Government Economic Strategy identifies the six strategic priorities which will accelerate recovery, drive sustainable economic growth and develop a more resilient and adaptable economy.[20] These are:

- Supportive Business Environment
- Transition to a Low Carbon Economy
- Learning, Skills and Well-being
- Infrastructure Development and Place
- Effective Government
- Equity

The following sub-sections summarise the Scottish Government's strategy for the three strategic priorities that are most relevant to the European Social Funds programmes: learning, skills and well-being; effective government; and equity.

2.3.1 Learning, Skills and Well-being

- Supporting a skilled, educated and healthy workforce, to build on Scotland's comparative advantages and deliver sustainable economic growth;
- Investing in early years, school, further and higher education to boost employability and enhance skill levels;
- Expanding Scotland's Schools for the Future programme to deliver 67 new or refurbished schools, 12 more than originally planned;
- Ensuring that post-16 learning is structured with a system-wide focus on jobs and growth;
- Taking forward a wide-ranging package of support to help young people toward and into work.

2.3.2 Effective Government

- Delivering financially sustainable, efficient public services that help support Scotland's people and businesses to realise their potential;
- Prioritising prevention rather than reaction and promoting much closer integration and partnership at local levels;
- Delivering value for money from our public-sector infrastructure, with £131 million of savings and benefits released by the Scottish Futures Trust during 2011/12; and
- Maximising the contribution of procurement to the economy through the introduction of a Sustainable Procurement Bill.

2.3.3 Equity

- Providing £500 million of funding to implement the shift towards preventative spending through three change funds over the three year period to 2014-15;
- Expanding early learning and childcare provision and introducing more flexibility on how provision can be offered;

[20] http://www.scotland.gov.uk/Publications/2011/09/13091128/0

- Introducing the Children and Young People Bill in 2013;
- Taking forward a range of actions to support the development of an enterprising third sector in Scotland, including the £3 million Just Enterprise Programme; and
- Responding to the challenges faced by our most disadvantaged communities through our Regeneration Strategy to create a Scotland where all places are sustainable.

2.4 Summary of recent economic developments[21]

The Scottish economy continues to face significant challenges in recovering from the financial crisis. The unemployment rate, at 7.2 per cent over the 3-month period between April and June 2013, is substantially above its pre-crisis level in 2008. Real GDP in 2013 Q1 remained below its pre-crisis peak level.

The most recent GDP data for Scotland showed growth of 0.4 per cent in the first quarter of 2013. On an annual basis, comparing the first quarter of 2013 with the same quarter in the previous year (2012 Q1), GDP grew by 1.2 per cent.

Employment and inactivity levels have improved with more people in employment and seeking employment. The unemployment rate has decreased by 0.1 percentage points, in the 3-month period April to June 2013. The youth unemployment rate in Scotland over the 3-month period April to June 2013 was lower than the UK as a whole (19.1 per cent compared with 20.9 per cent). Over the year, the rate in Scotland decreased by 2.0 percentage points, while the UK rate decreased by 0.1 percentage points. The claimant count level in Scotland, at 4.6 per cent in July 2013, is 0.4 percentage points lower than it was in July 2012.

The Scottish economy has already experienced a significant period of deleveraging and in some parts of the corporate sector there are excess cash holdings. This means that in an environment of increased confidence and less short-term uncertainty, investment by business may be likely to pick-up.

Headwinds continue to exist for the Scottish economy, including the deleveraging process, inflation, unemployment and key export market weakness. The UK Spending Round 2013 confirmed that the UK government's programme of fiscal consolidation is now expected to last until 2017/18. This will continue to constrain the impact of Government demand in the economy.

However, signs of a recovery in the US and UK spell positive news for Scotland, as the two countries are Scotland's most important single-country trade partners. An improving and now more stable external environment, coupled with the full effects of the deleveraging process beginning to ease, has the potential to improve business confidence and investment. Such a cycle can drive a sustainable recovery in the medium term.

We still expect the Scottish economy to return to near trend growth by the end of 2014 as well as returning to pre-recession levels of output close to the end of that year.

The following information is based on business survey data which is compiled from replies sent to business managers in the relevant sectors of the economy. This information should be used alongside official statistics to provide a more holistic understanding of what is

[21] Further information on recent economic developments is available from the Scottish Government's *State of the Economy* publication (http://www.scotland.gov.uk/Topics/Economy/state-economy), which presents the Chief Economist's assessment of economic conditions and also from the Scottish Government's Monthly Economic Brief http://www.scotland.gov.uk/Topics/Economy/Monthly-Economic-Brief .

happening in the economy. The Bank of Scotland PMI indicated that the Scottish private sector expanded for the tenth consecutive month during July 2013 (56.7). Although strong, this is below the rate for the UK as a whole (59.8). The latest Lloyds TSB Business Monitor reported that the performance of the Scottish economy was broadly unchanged in Q2 2013, compared with the previous quarter. However, there were strong expectations for the next two quarters. The Scottish Chambers of Commerce reported that confidence in all sectors is stronger than a year ago. The Scottish Retail Sales Index reported that retail sales in Scotland increased by 0.5 per cent in volume terms during the second quarter of 2013.

The Fraser of Allander Institute forecast an annual GDP growth rate of 0.9 per cent for Scotland in 2013. This will increase to 1.6 per cent in 2014. The Scottish ITEM Club forecast an annual GDP growth rate of 0.8 per cent in 2013. This will increase to 1.4 per cent in 2014.

3 Thematic Objective 8: Promoting employment and supporting labour mobility

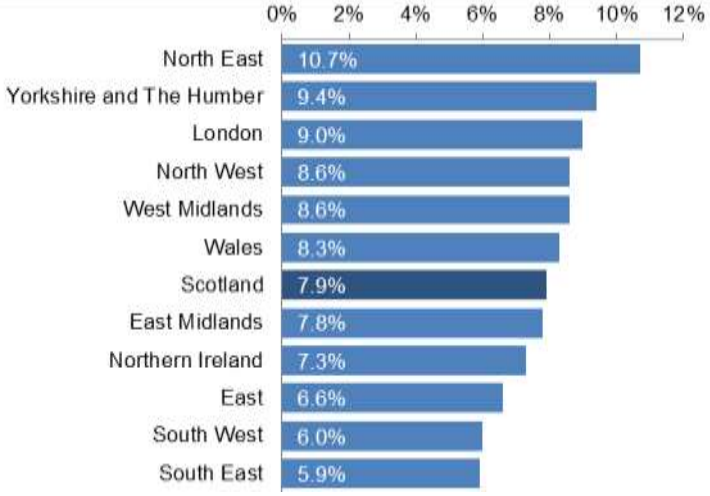
This section discusses employment, unemployment, earnings, population, migration, and entrepreneurship in Scotland and its regions.

3.1 Labour market

3.1.1 Unemployment and employment – overview

In 2012, the ILO unemployment rate (ages 16+) in Scotland was equal to the rate for the UK as a whole, at 7.9 per cent. As Figure 5 shows, the rate in Scotland was sixth lowest of the UK's twelve NUTS 1 regions.

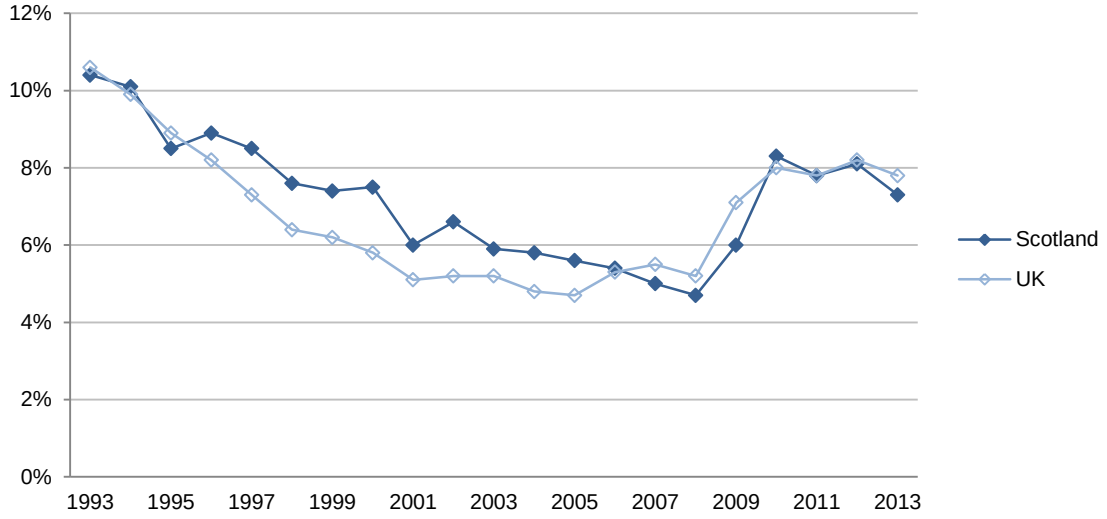
Figure 5: Unemployment rate (ages 16+), UK NUTS 1 regions, 2012
Source: Annual Population Survey (ONS)



As Figure 6, Figure 7, and Figure 10 show, the headline labour market indicators of unemployment rate, employment rate, and economic inactivity rate improved steadily during the 1990s and 2000s, until the start of the financial crisis. The unemployment rate in Scotland decreased from 10.4 per cent in 1993 Q1 to 4.7 per cent in 2008 Q1.

Scotland experienced a fall in employment and a rise in unemployment during the recession beginning in 2008. The unemployment rate stabilised at around 8 per cent during 2010-2012, but has shown some improvement in 2013, falling to 7.3 per cent in the first quarter.

Figure 6: Unemployment rate (ages 16+)
Source: Labour Force Survey, first quarter of each year (ONS)



The employment rate—the number of people in employment as a proportion of the population aged 16-64—has increased over the past three years from 70.0 per cent in 2010 Q1 to 71.8 per cent in 2013 Q1.

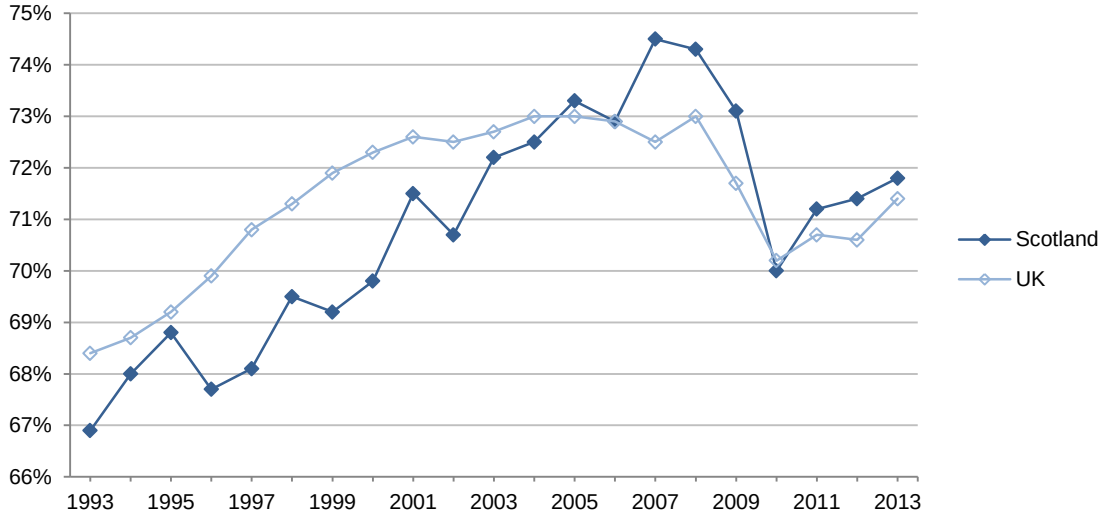
The Scottish employment and unemployment rates have broadly tracked the UK rates over the past two decades. However, the Scottish employment rate increased more rapidly than the UK rate in the decade prior the financial crisis, and fell faster than the UK rate during the recession.

Over the past decade, the Scottish employment rate has remained significantly higher than the rate for the EU-27 as a whole, while the Scottish unemployment rate has remained significantly lower than the rate for the EU-27.[22]

The number of people in employment in Scotland (aged 16+) in 2013 Q1 was 2.52 million. This was 80,000 higher than the employment level three years previously, in 2010 Q1. However, despite this recent progress in increasing the employment level, the number of people in employment in 2013 Q1 remained 28,000 lower than five years previously, in 2008 Q1.

[22] In 2012, the ILO unemployment rate was 7.9 per cent in Scotland and 10.4 per cent in the EU. The employment rate was 69.9 per cent in Scotland and 64.1 per cent in the EU. This Eurostat data is not directly comparable to ONS labour market data, due to differences in definitions and data sources. These differences include: (i) Eurostat uses the age range 15-64 for employment rate and 15-74 for unemployment rate. ONS uses 16-64 and 16+ respectively. (ii) Eurostat uses the Labour Force Survey for the UK and its regions; ONS uses the Annual Population Survey, which has larger sample sizes. There are a number of other minor conceptual differences. See Kate Bishop, 2004, International Comparisons of Labour Market Data Sources, in *Labour Market Trends*, December 2004 (Office for National Statistics).

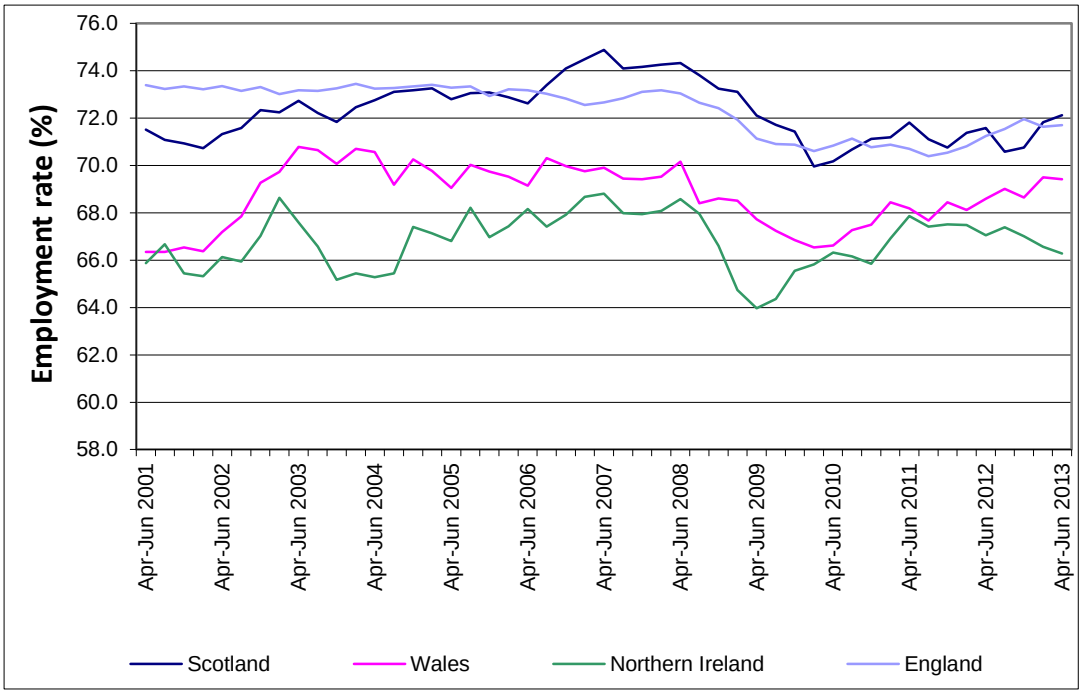
Figure 7: Employment rate (ages 16-64)
Source: Labour Force Survey, first quarter of each year (ONS)



The Scottish Government's Purpose Targets include two targets for participation:

- **To maintain our position on labour market participation as the top performing country in the UK.** In 2013 Q2, Scotland had an employment rate of 72.1 per cent, making it the highest of all UK countries (Figure 8). This compares to an employment rate of 71.7 per cent in England for the same quarter. From the mid-1990s, Scotland's employment rate was steadily increasing, reaching a peak of 74.9 per cent during the second calendar quarter of 2007 (Apr-Jun), although over the past three years, Scotland's employment rate, along with the other countries of the UK, has been at a lower level as a result of the economic conditions.

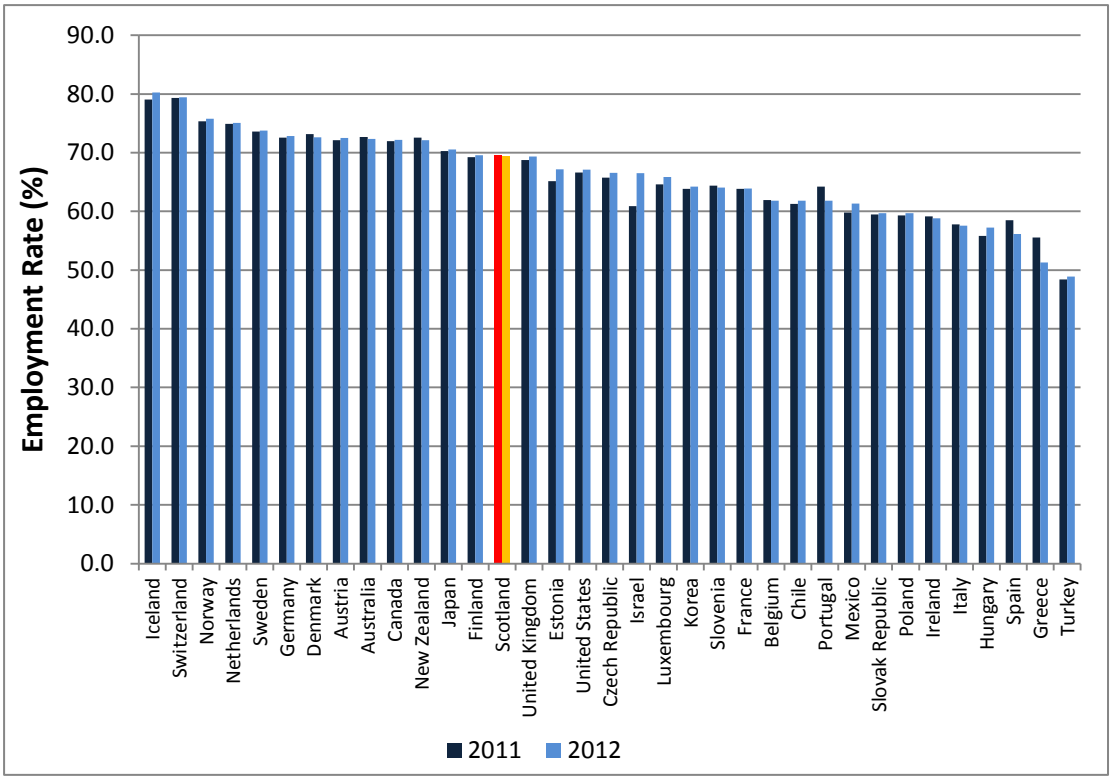
Figure 8: Employment rates (16-64) in the four Countries of the UK
(Q2 2001 to Q2 2013)



- **To close the gap with the top five OECD economies by 2017.** In 2012, Scotland had the 14th highest employment rate (69.4)[23] of the OECD countries (Figure 9). Between 2011 and 2012 the gap in employment rates between Scotland and the country with the 5th highest rate (Sweden in 2011 and 2012) increased from 4.1 percentage points in 2011 to 4.4 percentage points in 2012. The employment rate for Scotland is significantly lower than the leading countries, such as Iceland (80.2); Switzerland (79.4); and Norway (75.8).

[23] Using the European age definition (15-64).

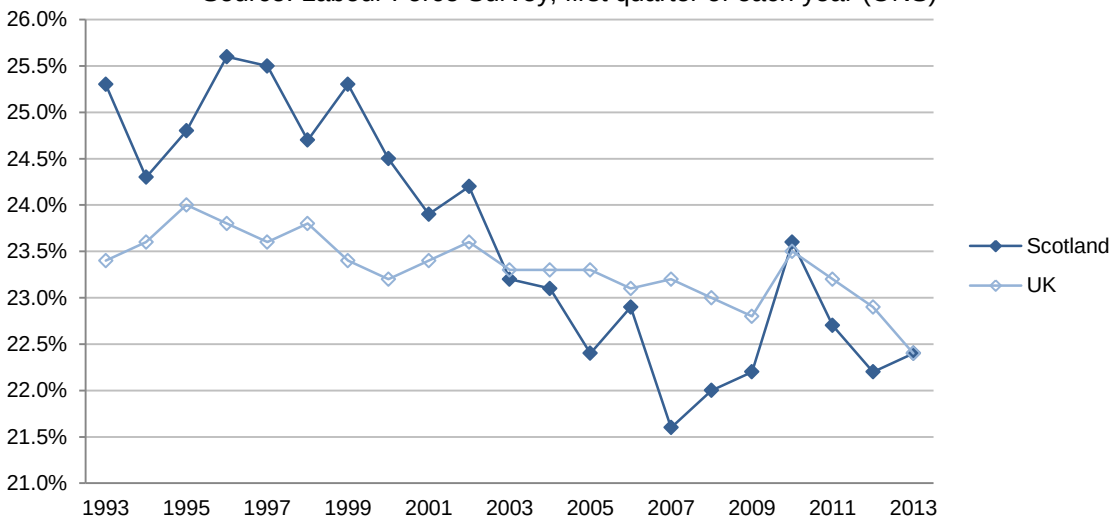
Figure 9: Employment Rate, International Comparison
(2009 and 2010)



* Data for 2010 not available.

The economic inactivity rate for people aged 16-64 in 2013 Q1 was 22.4 per cent in both Scotland and the UK as a whole.

Figure 10: Economic inactivity rate (ages 16-64)
Source: Labour Force Survey, first quarter of each year (ONS)



3.1.2 Long-term unemployment

UK data indicates that long-term unemployment is associated with lower life satisfaction.[24] Long-term unemployment can also lead to a loss of skill, reducing the economy's stock of human capital and reducing the individual's future employment prospects.

The number of people in Scotland who were unemployed for 12 months or more increased from 24,000 in 2008 to 70,100 in 2012, as Figure 11 shows. Those unemployed for 12 months or more accounted for 32.9 per cent of unemployed people in 2012; this was up from 18.5 per cent in 2008.

Figure 11: Number of people unemployed for 12 months or more, Scotland

Source: Annual Population Survey (ONS)

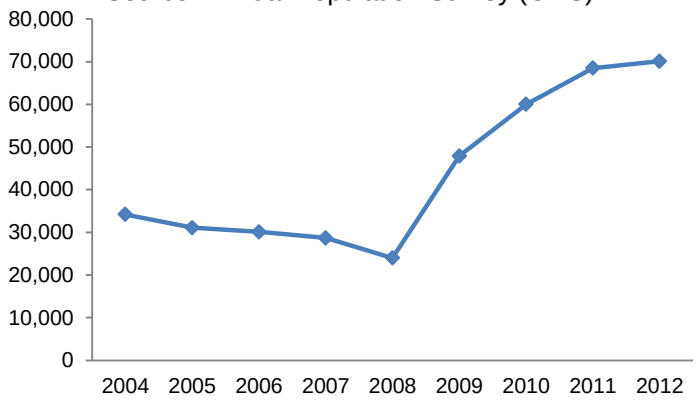


Figure 12 shows data from Eurostat on the long-term unemployment rate (the proportion of economically active adults who have been unemployed for more than one year) in 2012. The rate in Scotland (2.89 per cent) was slightly above the UK rate, but substantially below the rate for the European Union as a whole (4.64 per cent). With the exception of South Western Scotland, which had a long-term unemployment rate of 3.91 per cent (due to the decline of heavy industry and the associated hysteresis affects), all NUTS 2 regions in Scotland had a long-term unemployment rate below the UK average.

Figure 12: Long-term unemployment rate (12 months or more), 2012

Source: Eurostat

	%
European Union	4.64
United Kingdom	2.73
Scotland	2.89
NUTS 2:	
Eastern Scotland	2.53
South Western Scotland	3.91
North Eastern Scotland	0.87
Highlands and Islands	1.79

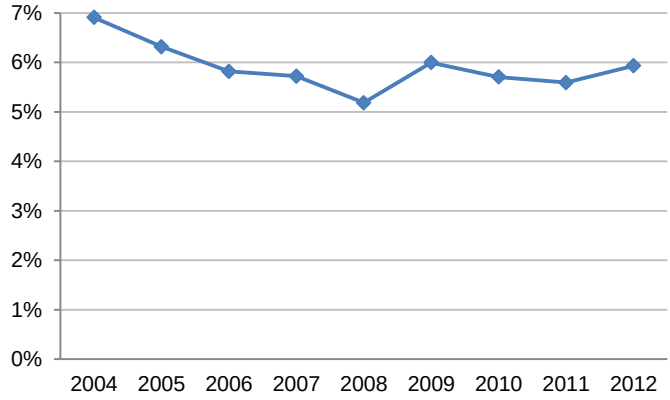
[24] Cabinet Office, 2012, Subjective Wellbeing and Employment: Analysis of Annual Population Survey (APS) Wellbeing Data, Apr-Oct 2011.

3.1.3 Temporary employment and zero-hours contracts

As Figure 13 shows, the proportion of employees in Scotland who were temporary employees decreased from 6.9 per cent in 2004 to 5.2 per cent in 2008. The rate increased to 6.0 per cent in 2009, and has remained broadly stable since 2009.

Longer time-series data on temporary employment is published at UK level. This shows that the proportion of employees in the UK who were temporary employees decreased from 7.7 per cent in 1997 to 5.6 per cent in 2008, and has subsequently risen steadily to 6.4 per cent in 2013.[25]

Figure 13: Proportion of employees who are temporary employees, Scotland
Source: ONS (Annual Population Survey)



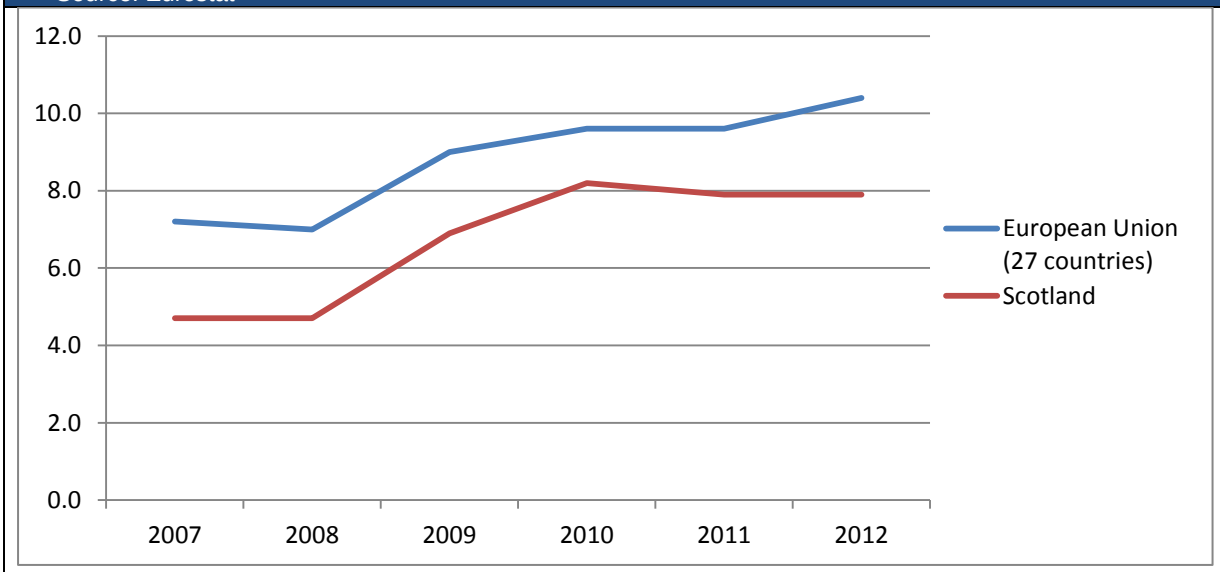
The prevalence of zero-hours contracts, under which employers are not required to provide a fixed number of working hours per week, has increased at UK level in recent years. Reliable data on the number of zero-hours contracts does not exist for Scotland. Across the UK, in 2012, the number of people on zero hours contracts stood at 200,000; an increase of 63,000 since 2007. The number of young people (aged 16-24) on zero hour contracts across the UK was 76,000 in 2012; an increase of 42,000 since 2007.[26]

Figure 14 shows the unemployment rates over the recessionary period for Scotland and the EU 27. As is shown, Scotland has consistently had a lower level of unemployment than Europe over this period. One possible explanation for this lies in Scotland's relatively flexible labour market compared with that of continental Europe, which contains nations which tend to have greater union power. Although not without their disadvantages, zero-hour contracts may have contributed to Scotland's lower level of job losses over this period.

[25] Source: ONS (Labour Force Survey). January-March periods.
[26] Source: Labour Force Survey (Oct-Dec datasets), ONS

Figure 14: Unemployment rate for Scotland and EU27 (15-74 year olds)

Source: Eurostat

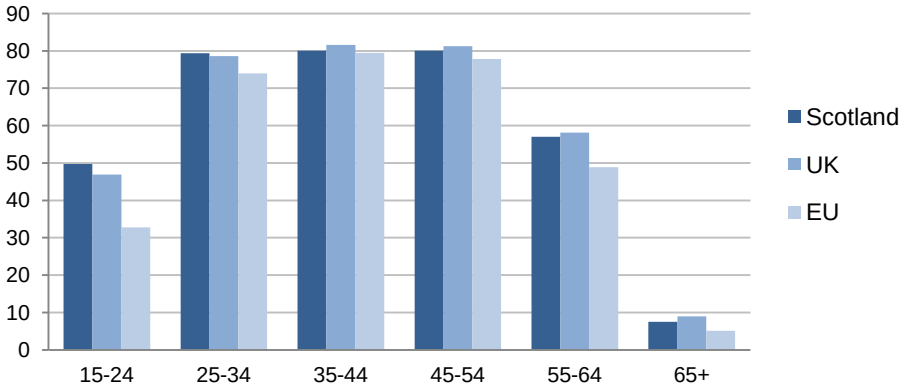


3.1.4 Employment rates by age

As the data for 2012 in Figure 15 shows, the gap between the Scottish and EU employment rates is most marked in the 15-24 and 55-64 age groups. In the 15-24 group, the Scottish rate is 16.9 percentage points higher than the EU rate. In the 55-64 group, the Scottish rate is 8.1 percentage points higher.

Figure 15: Employment rates by age group, 2012

Source: Eurostat



In the year ending March 2013, the number of employed people aged 16-24 in Scotland was 325,000. Of these, 92,000 were enrolled in full-timed education.[27]

3.1.5 Unemployment rates by age

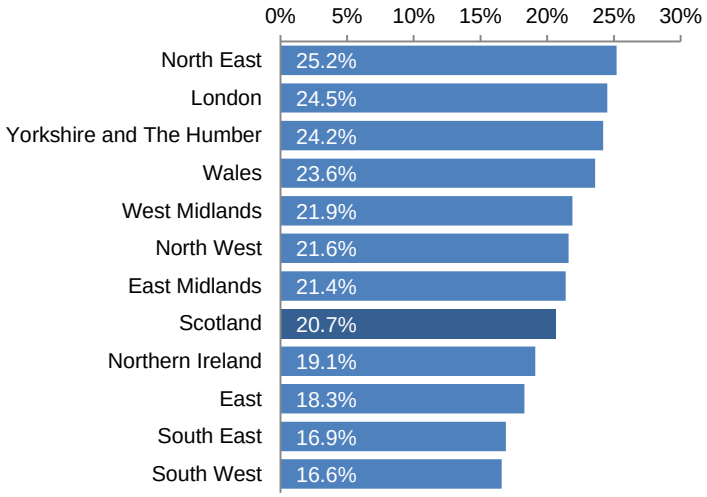
There is evidence that youth unemployment, particularly if it is of a long duration, can have a long-term impact on earnings and probability of employment. There is also evidence that

[27] Source: Annual Population Survey (ONS)

youth unemployment increases crime rates and has a long-term negative effect on life satisfaction.[28]

The youth (ages 16-24) unemployment rate in Scotland in 2012, at 20.7 per cent, was marginally lower than the rate for the UK as a whole (20.9 per cent). Scotland's youth unemployment rate is the fifth lowest among the twelve NUTS 1 regions in the UK (Figure 16).

Figure 16: Youth unemployment rate (ages 16-24), UK NUTS 1 regions, 2012
Source: Annual Population Survey (ONS)



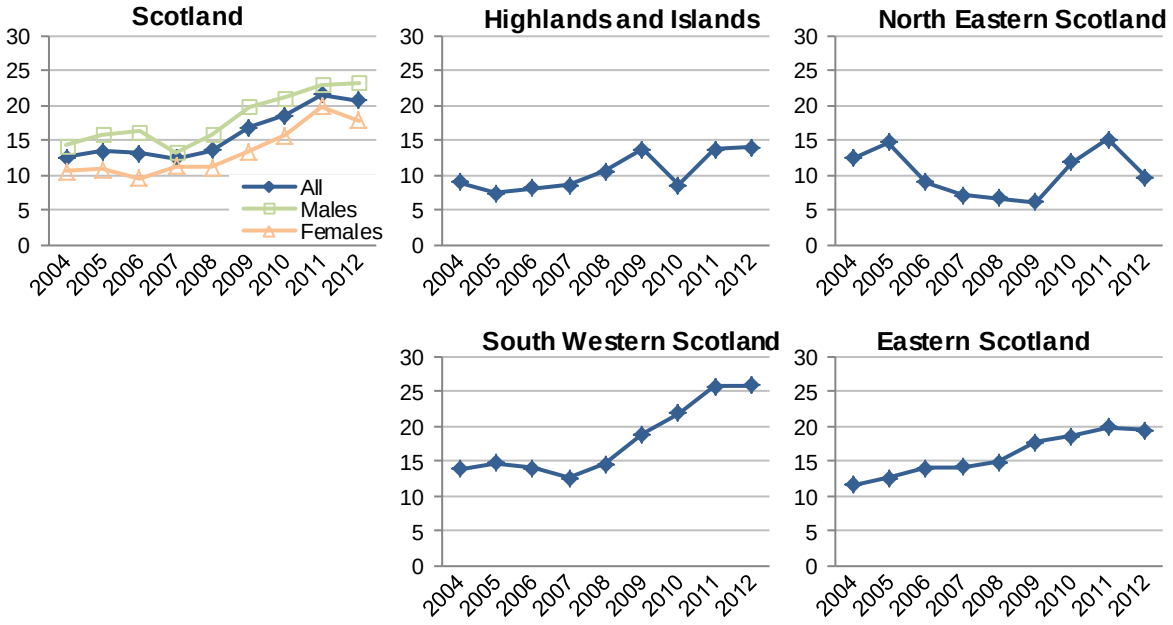
Scotland's youth unemployment rate increased from 12.4 per cent in 2007 to 21.5 per cent in 2011, and fell to 20.7 per cent in 2012, as Figure 17 shows. In 2012, the rate for men was 5.5 percentage points higher than the rate for women.

The Labour Force Survey provides more recent data on youth unemployment. The youth unemployment rate in Scotland in the first quarter of 2013 was 16.6 per cent. This was down by 6.4 percentage points from a year previously. The youth unemployment rate in 2013 Q1 was higher than the corresponding UK rate of 20.3 per cent. The youth employment rate in Scotland was lower than the UK rate: 56.3 per cent and 49.5 per cent respectively.[29]

Significant regional variation in youth unemployment rates have been generated by the period of recession beginning in 2008. Regional variations in youth unemployment follow the same pattern as variations in the overall (ages 16+) unemployment rate. The youth unemployment rates in North Eastern Scotland and the Highlands and Islands are substantially below the rate for Scotland as a whole. South Western Scotland has the highest rate of Scotland's four NUTS 2 regions, at 25.8 per cent in 2012. This has the potential to create problems for the future, and for the forthcoming programme period especially given the ageing population and workforce, and a particular focus on addressing unemployment through a mix of skills and direct employment support is likely to be needed.

[28] A summary of key results is provided in David Bell and David Blanchflower (2010), UK Unemployment in the Great Recession, *National Institute Economic Review* 214, October 2010.
[29] The data in this paragraph is not seasonally adjusted.

Figure 17: Youth unemployment rate (ages 16-24)
Source: Annual Population Survey (ONS)



Data from Eurostat indicates that the youth unemployment rate in 2012 was slightly lower in Scotland than in the EU as whole: 21.7 per cent and 22.9 per cent respectively. However, the increase in the youth unemployment rate over the period 2007-2012 was greater in Scotland (8.5 percentage points) than in the EU (7.4 percentage points).

3.1.6 Young people year olds not in employment, education or training (NEET)

The proportion of 16 to 19 year olds not in employment, education or training in 2011 was 13.3 per cent. As Figure 18 shows, this proportion was up from 11.0 per cent in 2007.

Figure 18: 16 to 19 year olds not in employment, education or training, Scotland
Source: Annual Population Survey (ONS)

	Proportion	Level
2004	11.7%	31,000
2005	13.9%	36,000
2006	11.7%	30,000
2007	11.0%	29,000
2008	11.4%	30,000
2009	12.8%	33,000
2010	13.7%	36,000
2011	12.4%	32,000
2012	13.3%	33,000

Data from Eurostat shows that the NEET rate for people aged 18-24 in Scotland was 18.3 per cent. This was higher than the rate for the EU as a whole (17.0 per cent), and was also slightly higher than the UK rate (18.1 per cent).

One of the Scottish Government's fifty National Indicators is "Increase the proportion of young people in learning, training or work". This indicator measures the proportion of school leavers from Scotland's publicly funded sector who are in a positive destination

approximately 9 months after leaving school.[30] Eighty-nine per cent of school leavers were in positive destinations in 2012/13, compared with 87 per cent the previous year. Following a fall in 2008/09, the proportion of school leavers in positive destinations has increased in each of the last four years.

3.1.7 Policies to improve post-16 transitions for young people

Providing More Choices and More Chances for young people is central to the Scottish Government's overall purpose of creating more sustainable economic growth with opportunities for all to flourish. Our targets on participation, solidarity and cohesion demand that we pay particular attention to society's more vulnerable groups, whilst those on growth and productivity will require a focus on a higher range of skills better matched to the needs of future growth industries. The Scottish Government is taking action to improve post-16 transitions for young people through:

- More Choices, More Chances (MCMC), our robust strategy for reducing the number of young people not in education, employment or training.
- 16+ Learning Choices, our guaranteed offer of post-16 learning for every young person who wants it.
- The Wood Commission, which is currently investigating options for vocational and technical education in Scotland.

MCMC is located in a cross-Government, strategic framework that aims to deliver better outcomes for all young people, with more choices and chances for those who need them. It works across Getting it Right for Every Child[31], Curriculum for Excellence (CfE)[32] and our Skills Strategies - *Skills for Scotland: A Lifelong Skills Strategy*[33] and *Skills for Scotland: Accelerating Recovery and Sustainable Economic Growth*[34] - and underpins our commitment to improve outcomes for all young people – with more choices and chances for those who need them.

Given the composition of this group of young people , MCMC is inextricably linked to the Scottish Government's early years[35], health inequalities[36] and anti-poverty frameworks[37]. These strategies are crucial in reducing the underlying causes of 'NEET' (not in employment, education or training) whilst the causal, two-way links between 'NEET' and, for example, teenage pregnancy puts our work at the front line of early intervention.

16+ Learning Choices offers guaranteed post-16 learning for every young person who wants it. For some young people, this will mean staying in school for S5 and S6; for others it will mean further or higher education, work-based learning, volunteering, or learning in a community or third sector setting.

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[30] Positive destination is defined as undertaking FE or HE courses or in employment or training in the March / April after leaving school, divided by the population of school leavers. People who are volunteering or on activity agreements will also be included in the positive destination category. For further details, see http://www.scotland.gov.uk/About/Performance/scotPerforms/indicator/youngpeople.

[31] http://www.scotland.gov.uk/Publications/2008/09/22091734/0

[32] http://www.ltscotland.org.uk/curriculumforexcellence/index.asp

[33] http://www.scotland.gov.uk/Publications/2007/09/06091114/0

[34] http://www.scotland.gov.uk/Publications/2010/10/04125111/0

[35] http://www.scotland.gov.uk/Publications/2009/01/13095148/0

[36] http://www.scotland.gov.uk/Publications/2008/06/09160103/0

[37] http://www.scotland.gov.uk/Publications/2008/11/20103815/0

The Wood Commission involves Sir Ian Wood and experts with business, further education, schools and trade union backgrounds joining forces with the Scottish Government to improve the readiness of young people for work. The Commission for Developing Scotland's Young Workforce will explore how Scotland's training system can be even better linked with Curriculum for Excellence, further education and labour market need, to truly address youth unemployment. They will look at routes into work after school and the success of programmes such as modern apprenticeships before making recommendations to enhance the current reform programmes next year.

3.1.8 Unemployment and employment by region

As Figure 19 shows, the Highlands and Islands and North Eastern Scotland NUTS 2 regions have lower unemployment rates and higher employment rates than Scotland as a whole. By contrast, South Western Scotland has a higher unemployment rate and lower employment rate than Scotland as a whole.

Figure 19: Unemployment rate, Scotland and NUTS 2 regions

Source: Annual Population Survey (ONS). Note that vertical axes do not start at zero.

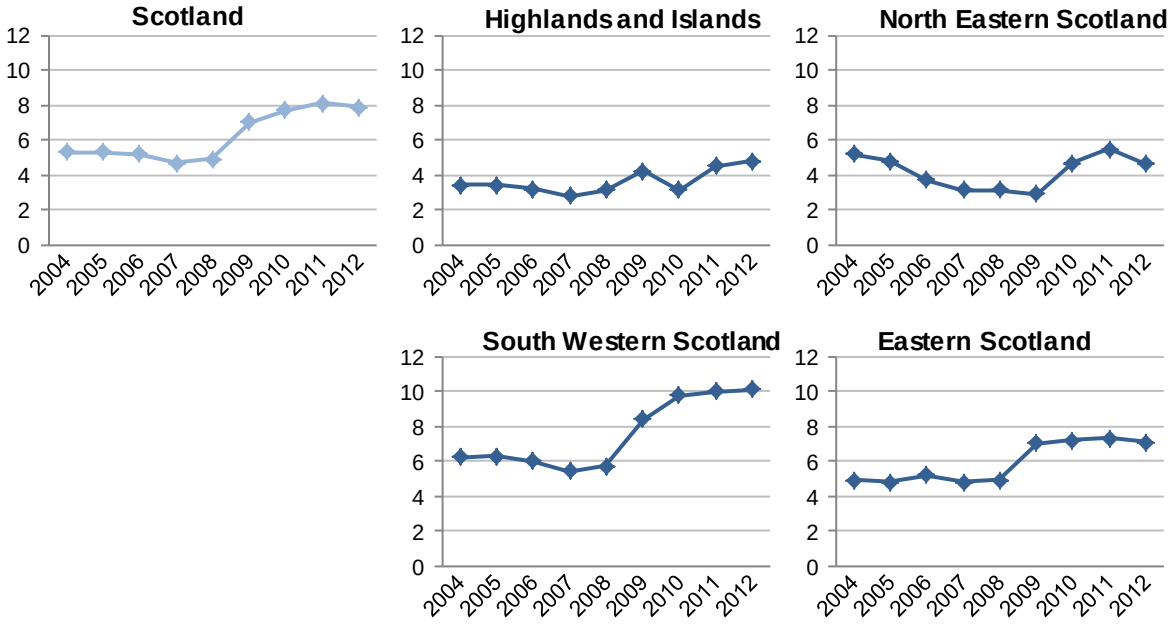


Figure 20: Employment rate, Scotland and NUTS 2 regions

Source: Annual Population Survey (ONS). Note that vertical axes do not start at zero.

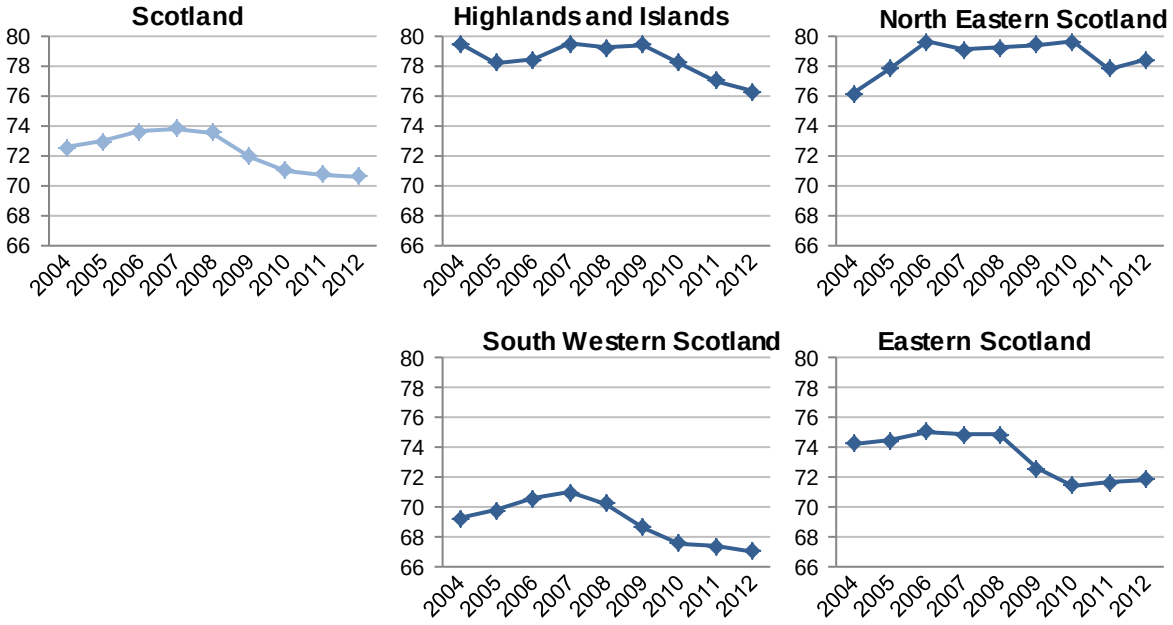
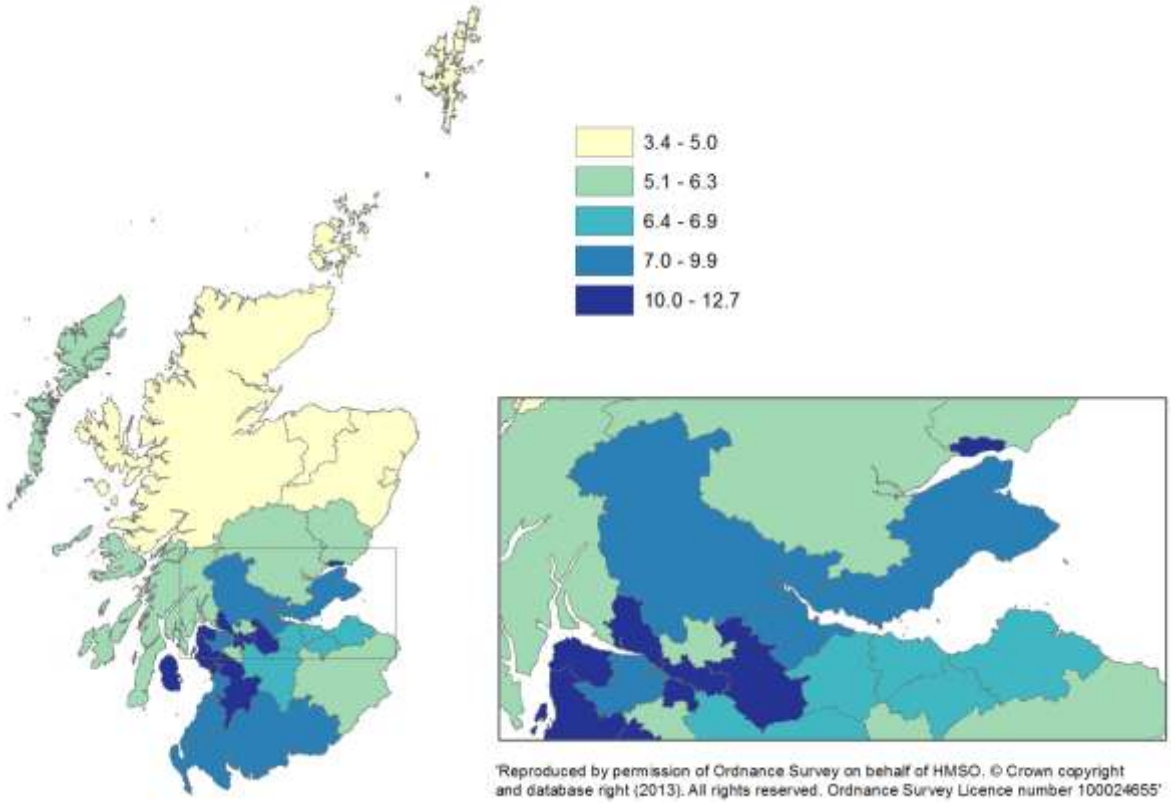


Figure 21 highlights the concentration of unemployment in the south west of Scotland using data at local authority level. This reflects a long-term pattern of deindustrialisation in the region.

In 2012, two local authority areas in the South West of Scotland had lower unemployment rates than the Scotland as a whole: East Dunbartonshire (6.1 per cent) and East Renfrewshire (5.8 per cent). These relatively prosperous areas benefit from close proximity to the City of Glasgow.

The unemployment rates in Clackmannanshire and Dundee City, at 9.9 per cent and 10.6 per cent, are also substantially higher than in Scotland as a whole.

Figure 21: Unemployment rates (%, model-based), 2012
Source: Annual Population Survey (ONS)

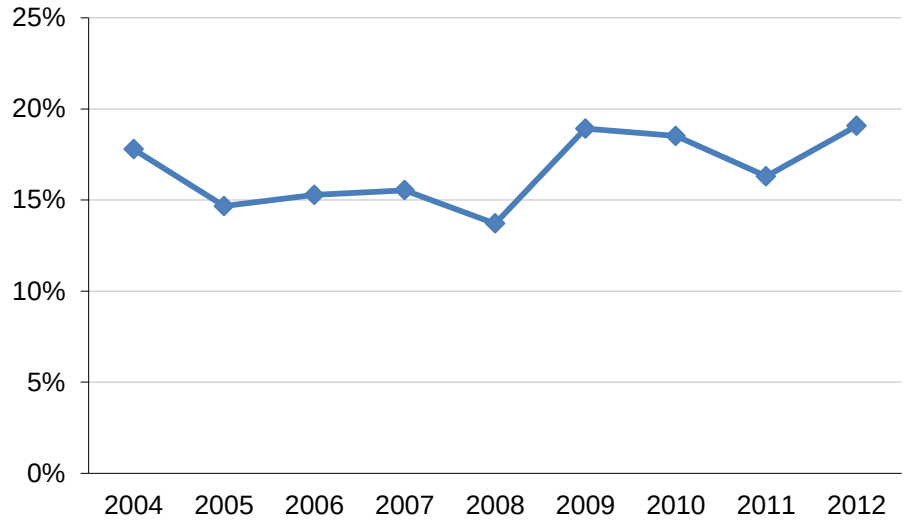


- The Scottish Government has a Purpose Target to narrow the gap in employment rates between the top three and bottom three local authorities by 2017. This gap increased by 2.8 percentage points between 2011 and 2012 (Figure 22), driven by a reduction in the employment rate of the three worst performing areas. The employment rate in the three best performing areas increased by 0.3 percentage points over the year.

Over the longer term the difference in employment rates between the best and worst performing areas was reducing until 2009 when there was a sharp increase of 5.2 percentage points. The gap had reduced slightly between 2009 and 2011, but has increased again in 2012.

Figure 22: Percentage point difference between the employment rates in the best-performing three local authority areas and the worst-performing three local authority areas

Source: Annual Population Survey



In 2011, the economic activity and employment rates were higher, and the unemployment rate lower, in rural areas of Scotland than in urban areas.[38] The relatively low unemployment rate in the Highlands and Islands and other rural areas of Scotland is due in part to net outward migration of young adults to urban centres for employment and education.

3.1.9 Unemployment and employment rates by sex

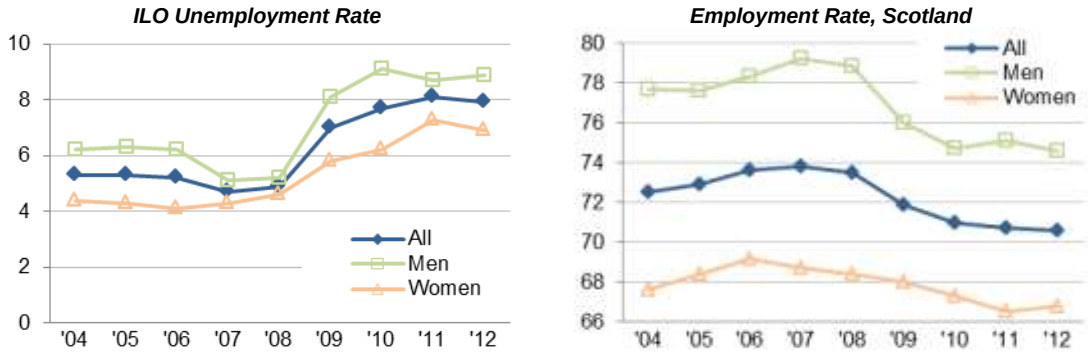
The unemployment rate for men in Scotland is higher than the rate for women (Figure 23). The gap between male and female rates increased at the start of the financial crisis, reaching 2.9 percentage points in 2010. In 2012, the gap between male and female rates was 2.0 percentage points.

The employment rate for men in 2012 was 7.8 percentage points higher than the rate for women.

[38] Rural Scotland Key Facts 2012, page 45. http://www.scotland.gov.uk/Publications/2012/09/7993/downloads

Figure 23: Unemployment and employment rates, Scotland, by sex

Source: Annual Population Survey (ONS)



In February-April 2013, 77.9 per cent of people aged 16-64 in Scotland were economically active. As Figure 24 shows, the economic activity rates in the UK and Scotland have stayed fairly stable since 2004. The rate for males in Scotland in February-April 2013, at 82.9 per cent, was 10 percentage points higher than the rate for females

The male and female rates are substantially higher in Scotland and the UK than in the EU as a whole.[39]

Figure 24: Economic activity rates, ages 16-64, Scotland and UK

Sources: Labour Force Survey (ONS), February-April periods

	All (males and females)		Males		Females	
	UK	Scot-land	UK	Scot-land	UK	Scot-land
2004	76.7	77.2	83.7	83.2	69.8	71.4
2005	76.5	77.3	83.4	83.2	69.8	71.6
2006	77.0	77.4	83.7	83.5	70.4	71.5
2007	76.8	78.4	83.6	84.2	70.0	72.8
2008	77.1	77.9	83.8	83.4	70.5	72.5
2009	77.1	77.9	83.8	83.9	70.4	72.2
2010	76.4	76.2	82.6	80.9	70.4	71.7
2011	76.7	77.1	82.9	81.6	70.4	72.7
2012	77.1	77.7	83.2	83.2	71.1	72.4
2013	77.6	77.9	83.3	82.9	72.1	72.9

As Figure 25 shows, long-term sickness was the most common reason for inactivity in the 16-64 age group in 2012, at around 29 per cent of the total. Students accounted for 23 per cent of the total, and those looking after family/home accounted for a further 20 per cent.

[39] In 2011, the rate for males was 80.9 per cent in Scotland and 77.6 per cent in the EU. The rate for females was 72.3 per cent in Scotland and 64.8 per cent in the EU. Note that Eurostat data is not directly comparable to ONS labour market data, due to differences in definitions and data sources.

Figure 25: Reasons for economic inactivity (ages 16-64), Scotland, 2012
Source: Annual Population Survey (ONS)

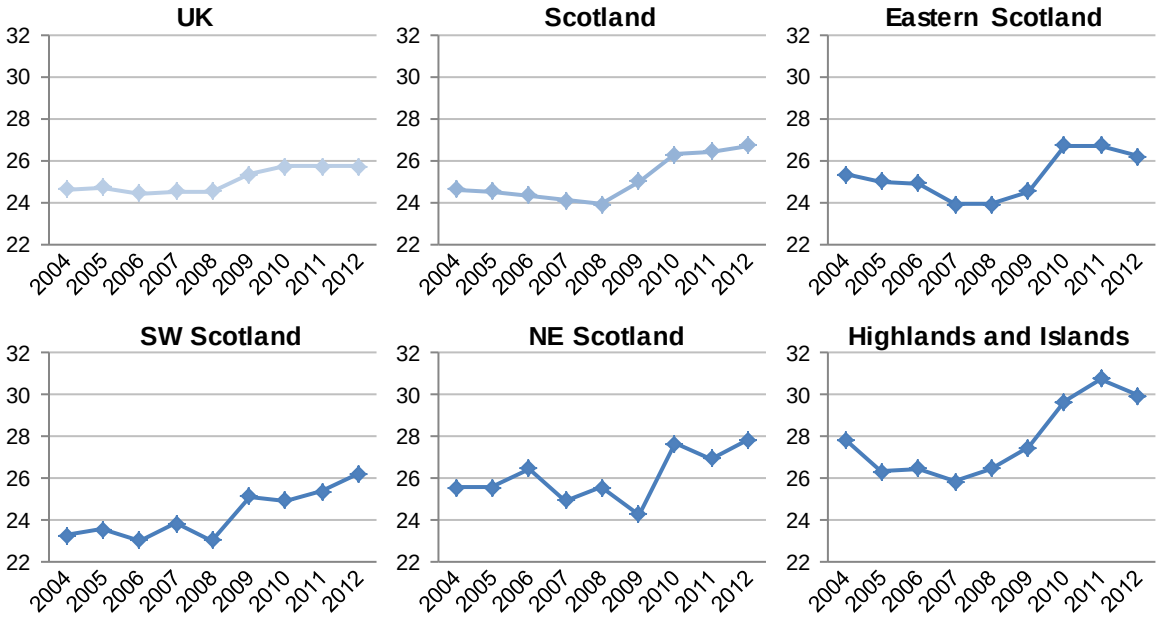
	Number (thousands)			Proportion of all economically inactive (ages 16-64)		
	All	Male	Female	All	Male	Female
Long-term sick	224	107	117	29%	36%	24%
Student	183	88	95	23%	29%	20%
Looking after family/home	158	20	138	20%	7%	28%
Retired	139	45	94	18%	15%	19%
Other	56	27	29	7%	9%	6%
Temporary sick	20	10	10	3%	3%	2%
Discouraged	7	2	5	1%	1%	1%
	785	299	486	100%	100%	100%

Among males aged 16-64, long-term sickness was the most common reason for economic inactivity (36 per cent of economically inactive males). Among females in this age group, looking after family/home was the most common reason (28 per cent of economically inactive females).

3.1.10 Part-time work

Over the past four years, the proportion of people in employment who work part-time has increased more rapidly in Scotland than in the UK as a whole, as Figure 26 shows. Of the four NUTS 2 regions in Scotland, Highlands and Islands has the highest rate of part-time work. This high overall rate is due to the high rate of part-time work among women in the region: 50.6 per cent in 2012.

Figure 26: Percentage of people aged 16-64 in employment working part-time
Source: Annual Population Survey (ONS)



3.1.11 Underemployment

Figure 27 shows the proportion of working people in Scotland and the UK who were underemployed. Working people in the following groups are counted as underemployed:

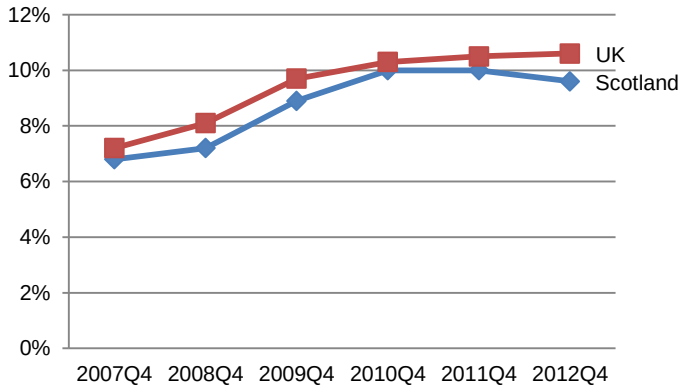
- those looking for more hours in their current role at same rate of pay
- those looking for an additional job
- those looking for a replacement job with more hours than their current job

As the chart shows, the underemployment rate was slightly lower in Scotland than in the UK as a whole in the final quarter of each of the past five years.

From 2011 Q4 to 2012 Q4, the rate in Scotland decreased slightly from 10.0 per cent to 9.6 per cent. However, the underemployment rate in Scotland remains substantially higher than in the final quarter of 2007.

In the final quarter of 2012, the number of underemployed people in Scotland was 233,000.

Figure 27: Underemployment rate, % of working population aged 16 and over
Source: Labour Force Survey (ONS), Oct-Dec periods, not seasonally adjusted



Data for the year ending September 2012 indicates that 5.0 per cent of full-time workers and 22.6 per cent of part-time workers in Scotland were underemployed. The numbers of underemployed full-time and part-time workers were 89,600 and 154,800.[40]

Part-time and female workers are more likely to be unemployed than other workers. Again using data from the Annual Population Survey for the year ending September 2012, 8.7 per cent of male workers and 11.3 per cent of female workers were underemployed. In the age group 16-24, 22.0 per cent of male workers and 22.5 per cent of female workers were underemployed.

In both Scotland and the UK, the underemployment rate is higher in services – particularly distribution and hospitality and “other services” – than in production sectors.[41]

In the UK Employer Skill Survey 2011, employers in Scotland reported that 17 per cent of their staff were over-qualified and over-skilled. The corresponding proportion in the UK as a whole was 16 per cent. While this “skills underemployment” is due in some circumstances to lifestyle choices, it provides evidence that some workers are unable to find work that fully utilises their skills.

[40] Source: Annual Population Survey
[41] Data provided by Professor David Bell in Scottish Parliament Economy, Energy and Tourism Committee (2013), Underemployment in Scotland, 6th report, 2013 (Session 4).

3.1.12 Industry of employment

A breakdown of employment by industry in Scotland, the UK, and Scotland's NUTS 2 regions is shown in Figure 28.

The industry breakdown in Scotland is broadly similar to that of the UK. At NUTS 2 level, the major differences include:

- Agriculture, forestry and fishing accounts for 4.5 per cent of people in employment in the Highlands and Islands. This is higher than the corresponding proportion in Scotland as a whole (1.8 per cent). At NUTS 3 level, agriculture, forestry and fishing accounts for a substantial proportion of employment in the South of Scotland regions of Dumfries and Galloway and the Scottish Borders.
- The *banking, finance and insurance etc.* sector accounts for a smaller proportion of people in employment in the Highlands and Islands than in Scotland as a whole: 8.9 per cent and 14.9 per cent respectively. This sector encompasses a broad range of activities including: Financial and Insurance Activies, Real Estate Activities, Professional, Scientific and Technical Activities, and Administrative and Support Service Activities.
- The oil and gas industry plays a very important role in the economy of North Eastern Scotland. The energy and water sectors account for 10.3 per cent of people in employment in North Eastern Scotland, compared to 3.2 per cent in Scotland as a whole.

Figure 28: Industry breakdown of employment, 2012, % of all in employment (aged 16+)

Source: Annual Population Survey (ONS). Columns sum to slightly less than 100 per cent due to missing answers.

	E Scot.	SW Scot.	NE Scot.	H&I	Scotland	UK
Agriculture, forestry and fishing	1.7	1.1	2.5	4.5	1.8	1.2
Energy and water	2.0	2.3	10.3	5.5	3.2	1.7
Manufacturing	7.7	8.9	9.0	8.5	8.4	9.8
Construction	6.8	7.1	6.2	8.0	7.0	7.1
Distribution, hotels and restaurants	19.7	18.6	18.0	21.5	19.2	18.5
Transport and communications	7.7	8.5	7.8	7.3	8.0	8.9
Banking, finance and insurance etc.	16.6	14.6	15.2	8.9	14.9	16.3
Public admin., education and health	31.5	32.1	24.4	30.5	30.9	30.1
Other services	5.7	5.6	5.9	4.7	5.6	5.5

Over the period from 2004 to 2012, the manufacturing sector's share of total employment in Scotland has decreased from 11.4 per cent to 8.4 per cent, as Figure 29 shows. This decline in manufacturing employment continues a long-term trend which has had a particularly marked impact on the South of Scotland and the industrial regions of central Scotland.

The construction sector's share of employment fell from 8.5 per cent to 7.0 per cent from 2004 to 2012. An alternative data source, Workforce Jobs, shows that the number of jobs in the construction sector in Scotland in 2012 Q4 was 168,000; this was 44,000 fewer than four years previously.

From 2004 to 2012, the *banking, finance and insurance etc.* sector increased its proportion of total employment in Scotland from 12.8 per cent to 14.9 per cent.

Figure 29: Industry breakdown of employment in Scotland, % of all in employment (aged 16+)

Source: Annual Population Survey (ONS). Columns sum to slightly less than 100 per cent due to missing answers.

	2004	2012
Agriculture, forestry and fishing	1.5	1.8
Energy and water	3.0	3.2
Manufacturing	11.4	8.4
Construction	8.5	7.0
Distribution, hotels and restaurants	19.2	19.2
Transport and communications	7.9	8.0
Banking, finance and insurance etc.	12.8	14.9
Public admin., education and health	30.2	30.9
Other services	5.2	5.6

Employment in the public sector, excluding public sector financial institutions,[42] decreased from 604,000 in 2009 Q1 to 552,000 in 2013 Q1, as Figure 30 shows. Private sector employment, including public sector financial institutions, decreased by around 145,000 from 2008 Q1 to 2010 Q1, almost all of this decline in private sector employment had been reversed by 2013 Q1.

Figure 30: Public and private sector employment, thousands

Source: Quarterly Public Sector Employment series, Scottish Government, ONS

	Private Sector inc. public sector financial institutions	Public Sector exc. public sector financial institutions
2004 Q1	1 834	584
2005 Q1	1 832	594
2006 Q1	1 858	603
2007 Q1	1 941	599
2008 Q1	1 958	596
2009 Q1	1 904	604
2010 Q1	1 813	595
2011 Q1	1 888	584
2012 Q1	1 894	558
2013 Q1	1 953	552

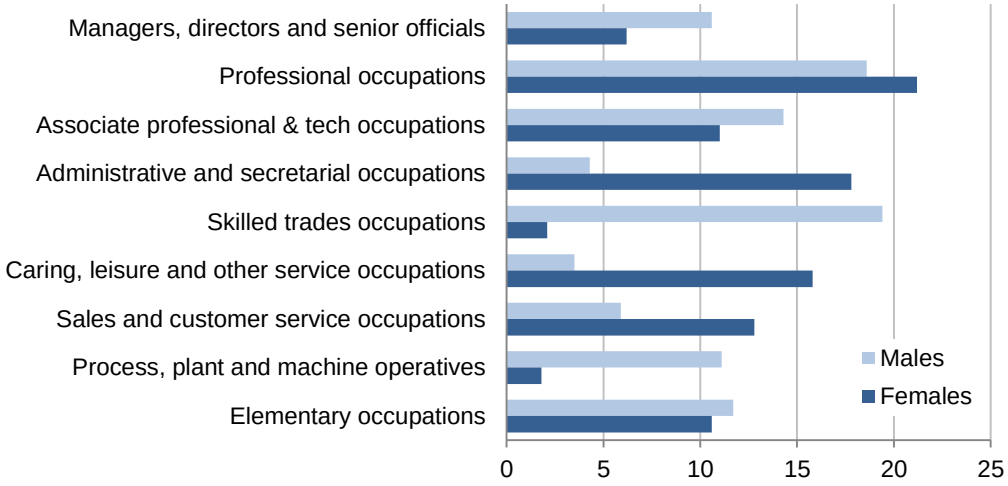
3.1.13 Occupations

The breakdown of the workforce in Scotland by major occupation group differs markedly between males and females, as shown in Figure 31. Males are more likely than females to

[42] Public sector financial institutions are Northern Rock (classified to the public sector from Q4 2007), Royal Bank of Scotland Group plc and Lloyds Banking Group plc (both classified to the public sector from Q4 2008). Public sector financial institutions have been included with private sector employment to aid comparison over time.

work in skilled trades or as process, plant and machinery operatives. Females are more likely than males to work in administrative and secretarial occupations or caring, leisure and other service occupations. Around 10.6 per cent of males in employment and 6.2 per cent of females in employment are in the *managers, directors and senior officials* occupation group.

Figure 31: Occupational split: % of all in employment, Scotland, 2012
Source: Annual Population Survey (ONS)



Data from the Small Business Survey shows that in 2012, 43 per cent of SMEs in Scotland (businesses with fewer than 250 employees) had at least 50 per cent female leadership. As Figure 32 shows, this figure was unchanged from the 2007 survey.[43] A breakdown of the figures by size to investigate the types of businesses which have at least 50 per cent female leadership highlights some concerns. At least 50 per cent female leadership is much more common in micro businesses (51 per cent) or when the women is self-employed (40 per cent). This suggests that progress on gender inequality in SME leadership may not have come as far as the headline figure would suggest. When it comes to medium sized businesses (50-249 employees), female leadership of at least 50 per cent occurs in only 23 per cent of businesses.

Figure 32: SME leadership in Scotland by gender, 2012 and 2007
Source: Small Business Survey

	Self-employed (0)	Micro (1-9)	Small (10-49)	Medium (50-249)	Total
Majority-led by women	21%	22%	12%	6%	21%
Equally-led	20%	29%	25%	17%	22%
At least 50 per cent female leadership (majority-led by women & equally led)	40%	51%	37%	23%	43%
Women in a minority	2%	7%	20%	28%	4%
Entirely male-led	57%	42%	43%	49%	53%

[43] Scottish Government, 2012, Small Business Survey Report 2012.
http://www.scotland.gov.uk/Topics/Economy/ASBS/Report2012

3.1.14 Earnings

Median weekly earnings of full-time workers resident in Scotland stood at £498.30 in 2012. This was 2 per cent below the UK median (£505.90).

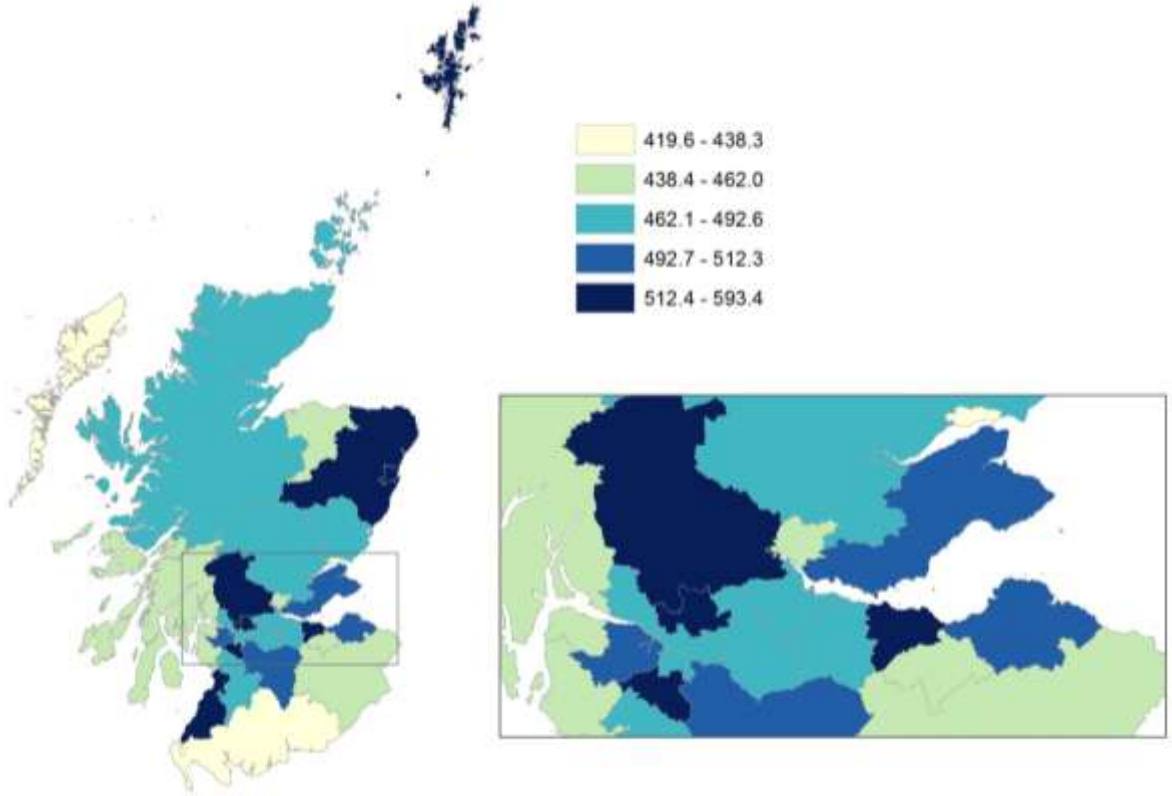
At NUTS 2 level, median earnings in Eastern Scotland and South Western Scotland are similar to the Scottish median. The median in the Highlands and Islands is lower, and the median in North Eastern Scotland is higher, than the Scottish median. In each of the four NUTS 2 regions, weekly full-time earnings are substantially higher for males than for females.

Figure 33: Median weekly earnings of full-time workers (£), residence-based, 2012
Source: Annual Survey of Hours and Earnings (ONS)

	Male	Female	All
Eastern Scotland	529.40	443.10	498.00
South Western Scotland	529.50	439.60	495.90
North Eastern Scotland	587.20	481.60	548.00
Highlands & Islands	521.80	393.60	470.90
Scotland	535.40	439.70	498.30

Across local authority areas, median weekly earnings range from £420 in Dumfries and Galloway to £593 in East Renfrewshire (Figure 34). The overall pattern is of relatively high median wages in areas close to the major cities, and lower median earnings in more remote, predominantly rural areas.

Figure 34: Median weekly earnings of full-time workers resident in each local authority area, 2012
Source: Annual Survey of Hours and Earnings (ONS)



3.1.15 Earnings by gender and full/part-time

The gender pay gap in 2012, as measured by the difference between men's and women's median full-time hourly earnings excluding overtime, was 8.4 per cent in Scotland and 9.6 per cent in the UK as a whole.

Comparing mean rather than the median pay, the gap was 13.5 per cent in Scotland and 14.8 per cent in the UK.

As Figure 35 shows, median hourly earnings in Scotland in 2012 were £12.67 for full-time workers and £8.18 for part-time workers. The gap between full-time and part-time hourly earnings is greater for men than for women.

Figure 35: Median hourly earnings (£), Scotland, 2012, residence-based

Source: Annual Survey of Hours and Earnings (ONS)

Hours	Sex		
	All	Male	Female
All	11.15	12.46	10.08
Full Time	12.67	13.17	11.91
Part Time	8.18	7.66	8.31

3.1.16 In-work poverty

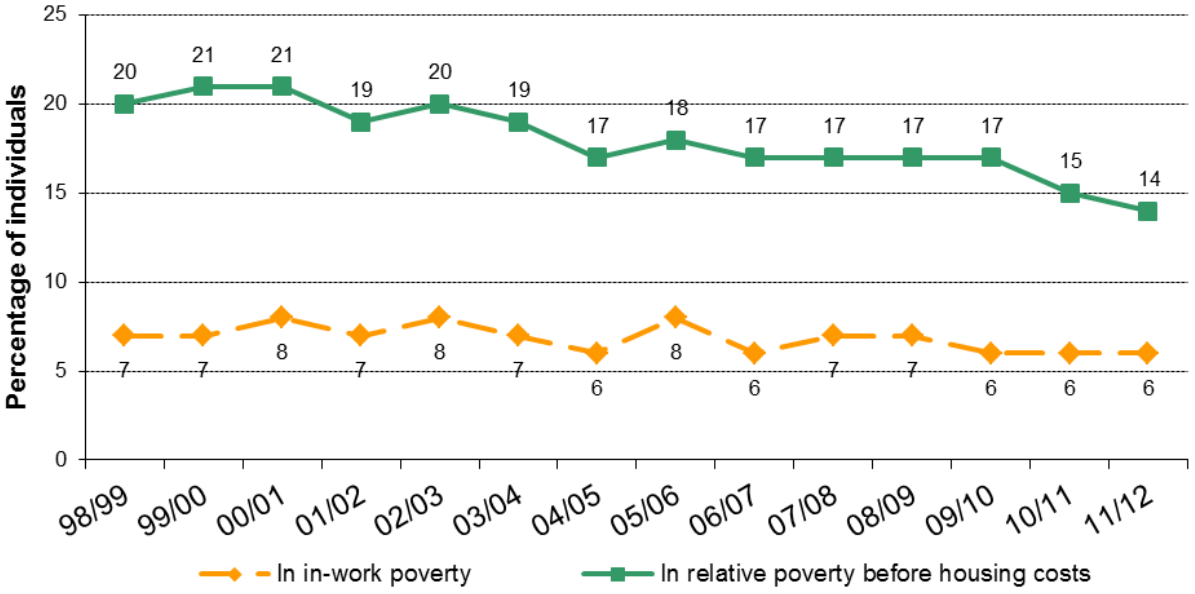
'In-work poverty' refers to those individuals living in households where at least one member of the household is working (either full or part time) but where the household income is below the poverty threshold. This group contains non-working household members such as children and non-working partners.

During 2011/12, 6 per cent of people in Scotland were in relative in-work poverty. This was the same as in each of the previous two years. In 2011/12, this represents 280 thousand people living in households in relative poverty (before housing costs), despite the fact that these households contain a working member.

In-work poverty trends have remained flat over the years since 1998/99, at between 6 and 8 per cent of the population.

Figure 36: Proportion of individuals in in-work poverty (relative poverty before housing costs): 1998/99-2011/12

Source: HBAI dataset, DWP. Presented in Scottish Government, 2013, Poverty and income inequality in Scotland: 2011-12



3.1.17 Income received by the lowest income deciles

The Scottish Government has a Purpose Target to increase overall income and the proportion of income earned by the three lowest income deciles as a group by 2017. Total income received by Scottish households increased every year from 1999 to 2011. Between 2010-11 and 2011-12 it increased from £79.8 billion to £82.3 billion (in 2011 prices). During this period the proportion of income received by those at the bottom of the income distribution remained broadly unchanged. Between 2004-05 and 2011-12 the proportion of income received by those in the bottom three deciles remained at 13-14%.

3.1.18 Labour market projections

The Scottish Government does not produce projections for future skills requirements. The UK Commission for Employment and Skills' (UKCES) Working Futures projections[44] provide an indication of what Scotland's labour market might look like over the period 2010-2020 if past trends and patterns of behaviour continue. Their analysis suggests the following trends:

- **A substantial shift in employment from less-skilled to more skilled occupations.** The greatest percentage increases in employment over 2010-2020 are projected to be seen in: managers, directors and senior officials; professional occupations; and associate professional and technical occupations. Caring, leisure and other service occupations, and elementary occupations to a much lesser extent, are also projected to see an increase. The greatest percentage falls in employment over the period are projected to be seen in process, plant and machine operatives and administrative and secretarial occupations. Skilled trades and sales and customer service occupations are also projected to see a decline in employment. It is important to note that this analysis refers only to job opportunities created by the

[44] http://www.ukces.org.uk/publications/working-futures-scotland

expansion of the economy (expansion demand). Job openings resulting from replacement demands (the demand for new employees resulting from retirements or other withdrawals from the labour force) are projected to be many times greater than those arising from net growth in employment in Scotland over the period. Replacement demands are expected to result in job openings in all occupational groups.

- **A marked increase in the educational qualification level of the workforce.** The proportion of jobs held by people with level 4 or above qualifications is projected to reach almost 50 per cent by 2020 (higher than any other UK nation). Conversely, the proportion of jobs held by people with no formal qualifications or low level qualifications below level 2 is projected to fall to around a fifth by 2020.

The UKCES projections present a picture of what the labour market might look like in the future if past trends and patterns of behaviour continue. They are not flexible enough to pick up changes in sectoral or occupational employment arising from future government interventions or unforeseen events. Given the continuing volatile nature of the current economic climate, where there is uncertainty about the path to recovery and how it will affect different geographical areas and sectors, the past may not be a good indicator of the future. The results should therefore be regarded as indicative of possible developments rather than precise predictions.

3.2 Population and migration

3.2.1 Population of Scotland

The population of Scotland in 2011 was 5.25 million. As Figure 37 shows, the population was fairly stable between 1991 and 2001, but grew by from 5.06 million in 2001 to 5.25 million in 2011: growth of 3.8 per cent over the decade.

Figure 37: Population of Scotland, 1991-2011

Year	Population (millions)
1991	5.08
1996	5.09
2001	5.06
2006	5.12
2011	5.25

This recent increase in Scotland's population is explained by an increase in net migration; natural change (births minus deaths) was very close to zero. Flows of migrant workers from the A8 nations have been an important factor in Scotland's population growth since 2004.[45] Figures from the Worker Registration Scheme show that between May 2004 and March

[45] The A8 "Accession eight" nations are the eight Eastern European countries that joined the EU in May 2004. These are: Poland, Czech Republic, Latvia, Lithuania, Estonia, Hungary, Slovakia and Slovenia. Cyprus and Malta, which joined the EU at the same time, already had arrangements with the UK permitting movement of labour.

2011, over 94,000 individuals from the A8 counties registered to work in Scotland.[46] The Worker Registration Scheme closed on 30 April 2011.

The Scottish Government has a Purpose Target to match average European (EU15) population growth over the period from 2007 to 2017, supported by increased healthy life expectancy in Scotland over the period from 2007 to 2017. For the two years to 2011, population growth has been greater than that of the EU15 countries. There was a slight decrease in average levels of healthy life expectancy between 2009 and 2010. However, levels of healthy life expectancy for women and men have been gradually increasing since 1980. There was an increase of 3.1% between the baseline year of 2003 and 2010.

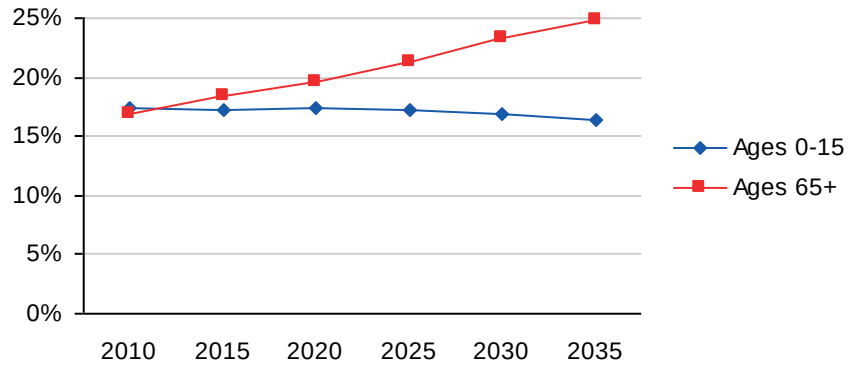
3.2.2 Population projections

Scotland's population is projected to grow to 5.76 million in 2035; this is 10 per cent higher than in 2010 (the base year for the projections).

The number of people of working age[47] is projected to increase from 3.27 million in 2010 to 3.45 million in 2020 (an increase of 6 per cent). Following a small dip, the projected working age population then increases to 3.50 million by 2035 (an increase of 7 per cent from 2010).

As Figure 38 shows, the proportion of the population aged 65 and over is projected to grow steadily from 17 per cent in 2010 to 25 per cent in 2035. The proportion aged below 16 is projected to decrease slightly over this period, from 17 per cent to 16 per cent. The projected number of people above and below working age per 100 people of working age is projected to grow from 60 in 2010 to 67 in 2035.[48]

Figure 38: Population projections for Scotland: percentage aged 0-15 and 65+
Source: National Records of Scotland



[46] Local Government Association, Worker Registration Scheme data, downloaded from http://new.lga.gov.uk/lga/core/page.do?pageId=1095225. Worker Registration Scheme data are based on Management Information, are provisional and may be subject to change. The data are not National Statistics. Figures are for registered workers rather than the number of applications made. The figures are for initial applications only.

[47] Working age is 16-59 for women and 16-64 for men until 2010; between 2010 and 2020 working age becomes 16-64 for women. Between 2024 and 2026 working age for both men and women becomes 16-65, and changes again to 16-67 by 2046.

[48] In the NRS projections, working age is defined as 16 to the state pension age. The pension age is 65 for men, 60 for women until 2010; between 2010 and 2020 the pension age for women increases to 65. Between 2024 and 2046, the pension age will increase from 65 years to 68 years for both sexes.

3.2.3 Regional population

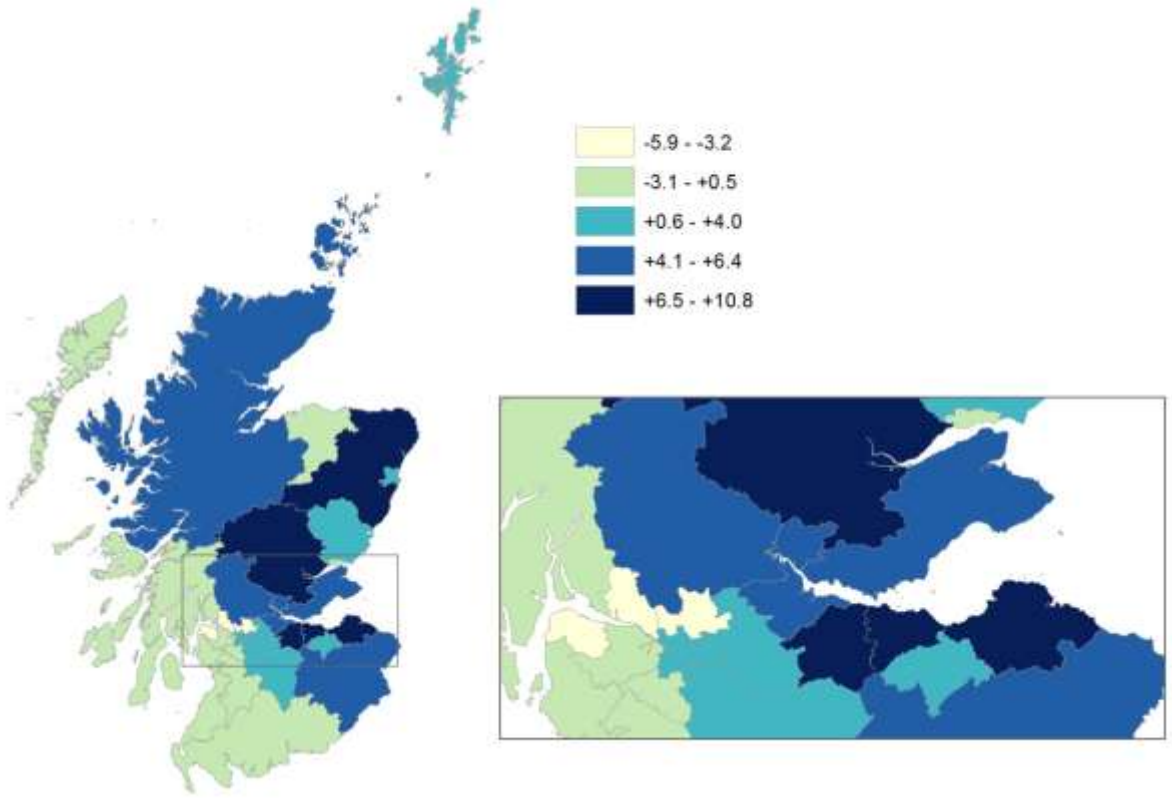
Figure 39 shows the population of the four NUTS 2 regions in Scotland. The Highlands and Islands region accounts for over half of Scotland's land area, but only 9 per cent of the total population. Of the 270 NUTS 2 regions in the EU, Highlands and Islands has the fifth-lowest population density. This low population density presents economic challenges to the region, including relatively high transport and construction costs and reduced opportunities to achieve external economies of scale.

Figure 39: Population, NUTS 2 regions, 2011
Source: National Records of Scotland

	Population
Eastern Scotland	2,031,050
South Western Scotland	2,307,059
North Eastern Scotland	468,020
Highlands and Islands	448,671
Scotland total	**5,254,800**

Figure 40 shows population growth over the period 2001-2011 for Scotland's 32 local authority areas. Perth and Kinross and Edinburgh had the highest population growth rates over this period, at over 10 per cent. Eilean Siar and several local authority areas in the South West of Scotland had negative population growth over the decade.

Figure 40: Percentage change in population, 2001-2011, by local authority area
Source: National Records of Scotland



3.2.4 Age breakdown of population

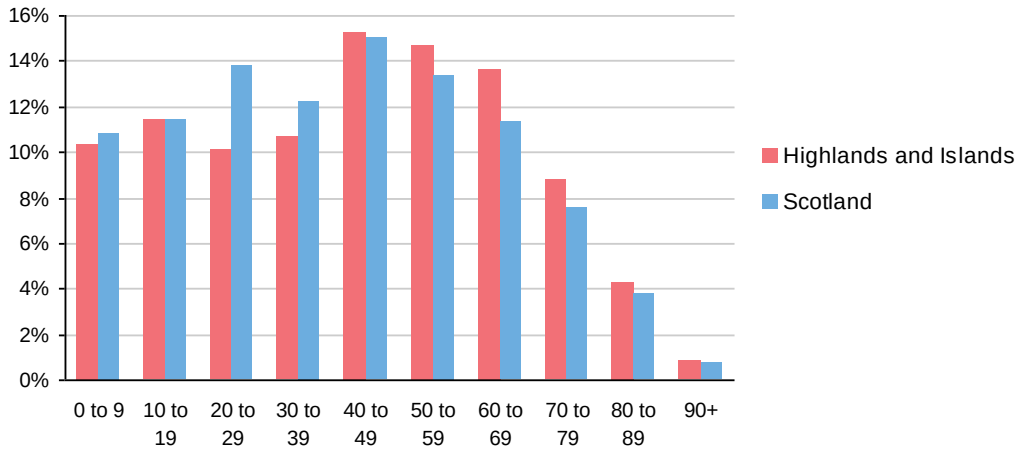
In each of the three Lowlands and Uplands NUTS 2 regions (Eastern Scotland, South Western Scotland and North Eastern Scotland), the breakdown of the population by age is

similar to the breakdown in Scotland as a whole. In the Highlands and Islands, however, the proportion of people in the 20-29 and 30-39 age groups is lower than in Scotland as a whole, while the proportion in older age groups is higher than in Scotland as a whole (Figure 41). This pattern is largely due to the migration of school leavers to urban places of work and study.

A similar age distribution is evident for other rural areas of Scotland. Annex A presents population pyramids for Scottish local authority areas, ordered by population density.

Figure 41: Age breakdown of population, 2011, Highlands and Islands NUTS 2 and Scotland

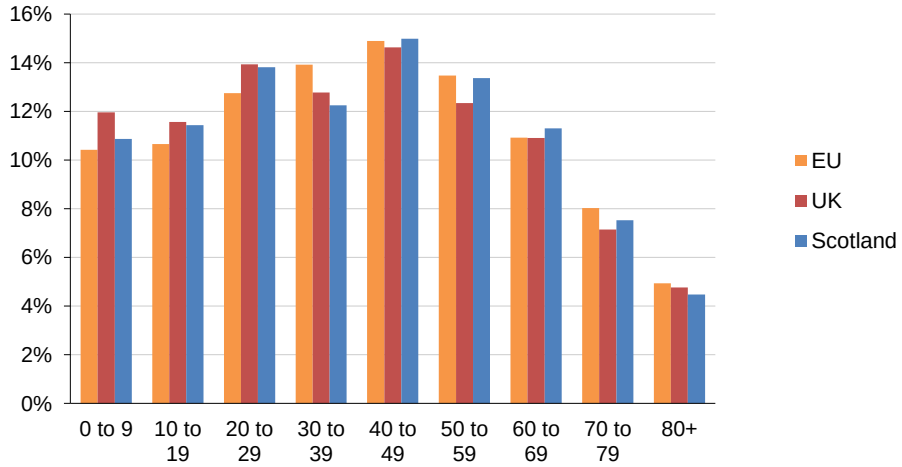
Source: National Records of Scotland



As Figure 42 shows, the age profile of the Scottish population is broadly the same as those of the UK and EU. Scotland has a slightly older age profile than the UK as a whole: people over the age of 50 account for 37 per cent the Scottish population and 35 per cent of the UK population.

Figure 42: Age breakdown of population, 2012

Source: Eurostat



3.3 Entrepreneurship

3.3.1 Business start-ups

The number of VAT/PAYE registrations per 10,000 resident adults (16+) gives an indication of the rate of business start-ups in an area. It should be noted that VAT/PAYE registrations exclude the smallest businesses.[49]

In 2011, the VAT/PAYE registration rate stood at 39 per 10,000 adult residents in Scotland. In recent years, the rate in Scotland has been lower than the rate in the UK as a whole, which was 51 per 10,000 adults in 2011.

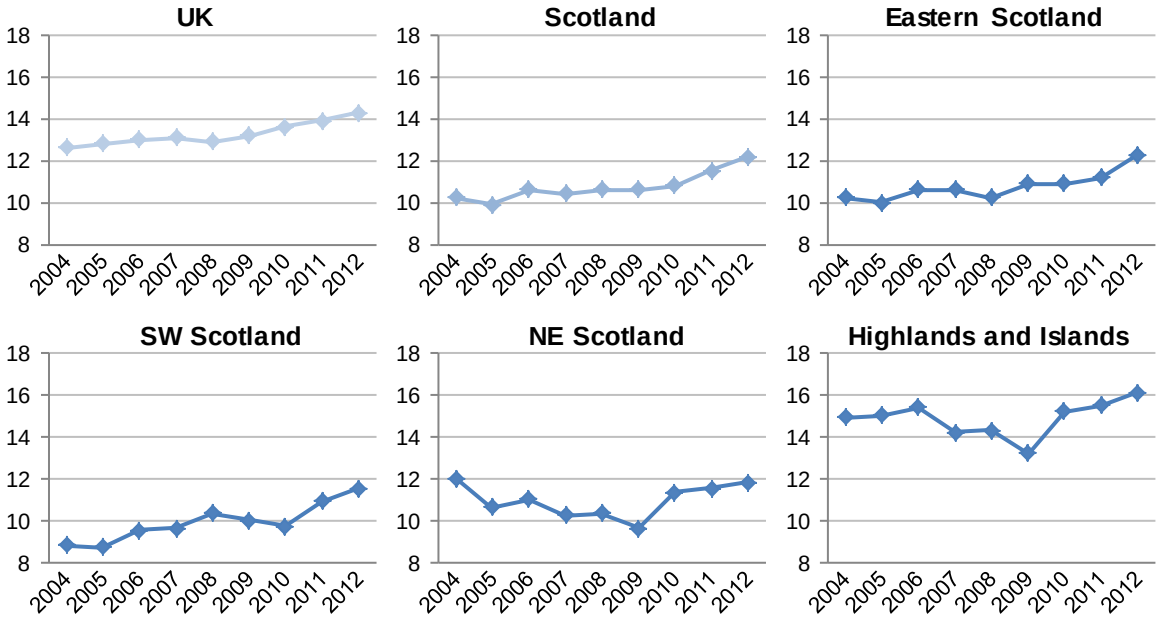
The registration rate varies widely between local authority areas in Scotland, from 25 per 10,000 adults in West Dunbartonshire to 65 per 10,000 adults in Aberdeen City.

There is some econometric evidence at Great Britain level to indicate that purchasing a house reduces the likelihood of starting a business by 20-25%[50]

3.3.2 Self-employment

The proportion of people in employment who are self-employed has risen fairly steadily in recent years in both Scotland and the UK, as Figure 43 shows. The proportion is lower in Scotland than in the UK as a whole.

Figure 43: Percentage of people aged 16+ in employment who are self-employed
UK, Scotland, and NUTS 2 regions in Scotland. Note that vertical axis does not start at zero.
Source: Annual Population Survey (ONS)



[49] More than half of all businesses in Scotland are unregistered (181,775 of a total of 341,360 in 2012). However, UK-level data indicates that unregistered enterprises account for only 1 per cent of economic activity. Sources: Scottish Government, Businesses in Scotland 2012; Office for National Statistics.
[50] Philippe Bracke, Christial Hilber, and Olmo Silva, 2012, Homeownership and Enterpreneurship. SERC Discussion Paper 103.

The rate of self-employment is substantially higher in the Highlands and Islands than in Scotland as a whole. This is the case for both men and women, and is in common with many other rural areas of the EU.

The rate of self-employment in Scotland is consistently higher among men than among women. In the year ending March 2012, 15.9 per cent of employed men in Scotland were self-employed. This was more than twice the rate for women, 7.5 per cent.

Self-employment is around twice as common in rural Scotland as in the rest of Scotland. In 2011, 22 per cent of workers in remote rural areas and 18 per cent of workers in accessible rural areas were self-employed. In the rest of Scotland, 10 per cent of people were self-employed.[51]

A major reason for the recent rise in self-employment is a reduction in opportunities for employment in existing firms and public-sector bodies since the onset of the financial crisis. In the Small Business Survey 2012, SMEs that had been trading for less than four years were asked whether they started up to take advantage of a business opportunity or because there were no better choices for work. Of these new-start SMEs, 46 per cent were motivated to start up in business to take advantage of a business opportunity. A further 29 per cent reported that it was because there were no other choices for work. The remaining 25 per cent of new-start SMEs reported that they were motivated to start up in response to a combination of both opportunity and no other choice for work.[52]

3.3.3 Total Entrepreneurial Activity

Total Entrepreneurial Activity (TEA) – the percentage of adults either actively starting an enterprise or running a new enterprise (less than 3.5 years old) – provides another measure of entrepreneurship. The Scottish TEA rate has risen steadily since 2009, reaching 6.9 per cent in 2012. In 2012, for the first time in the GEM series, the Scottish estimate for TEA was almost identical to the average for a comparator group of 20 innovation-driven economies (7.0 per cent). However, the Scottish TEA rate remains below the rate of the UK as a whole (9.8 per cent in 2012).[53]

The TEA rates for age groups 18-29 and 50-64 in Scotland are almost 90 per cent of the corresponding rates for the UK as a whole. In the 30-49 age group, by contrast, the TEA rate in Scotland is less than 75 per cent of the UK rate. Nevertheless, the Scottish TEA rate is higher for the 30-49 age group than for either the younger or older group.

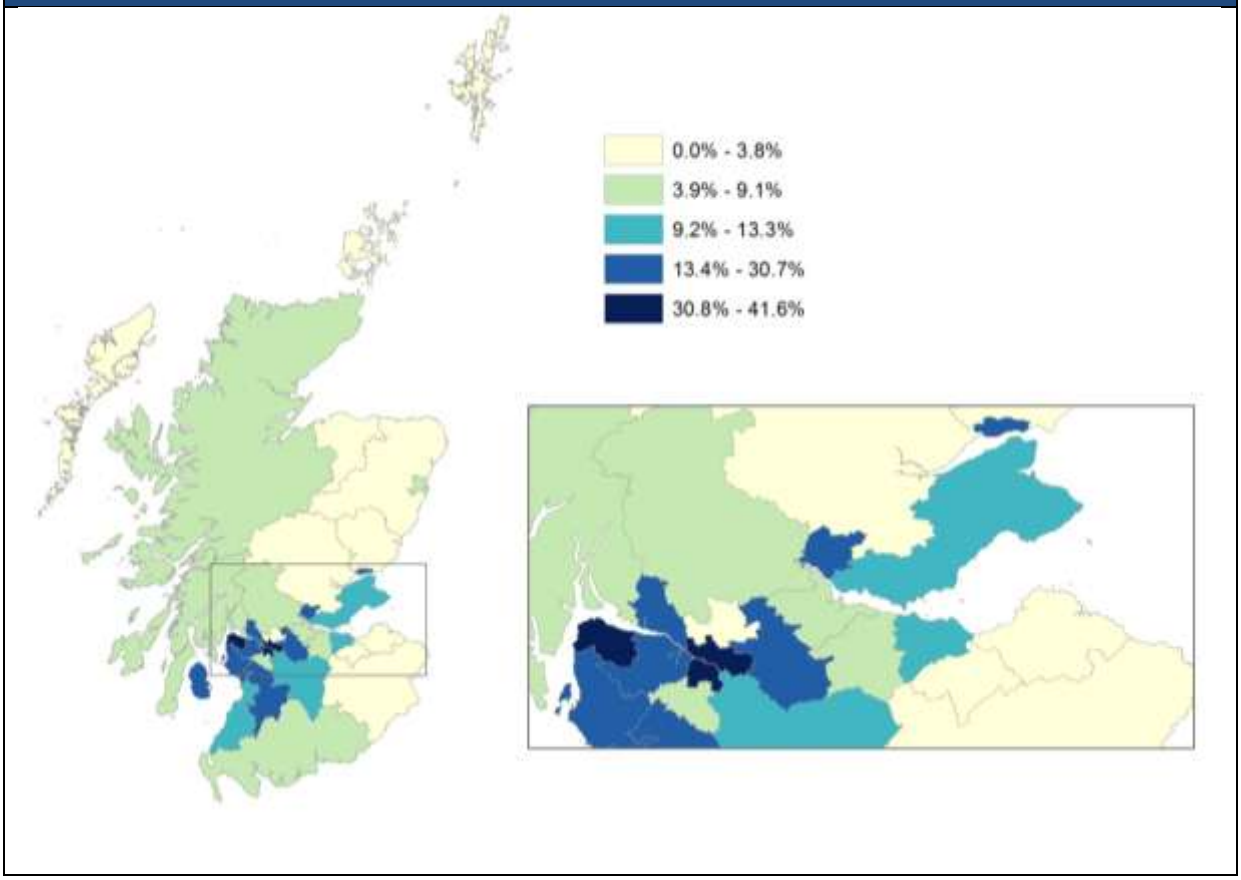
A fuller discussion of entrepreneurship and small business creation can be found in the ERDF baseline review.

[51] Source: Scottish Government, Rural Scotland Key Facts 2012. http://www.scotland.gov.uk/Publications/2012/09/7993/downloads. Data from Annual Population Survey (ONS).
[52] Scottish Government, 2012, Small Business Survey Report 2012. http://www.scotland.gov.uk/Topics/Economy/ASBS/Report2012
[53] Jonathan Levie, 2012, Global Entrepreneur Monitor Scotland 2011, University of Strathclyde Business School. http://www.strath.ac.uk/huntercentre/research/gem/

4 Thematic Objective 9: Promoting social inclusion and combating poverty

4.1 Scottish Index of Multiple Deprivation

Figure 44: Proportion of data zones in local authority area that are in Scotland's 15% most deprived data zones
Source: Scottish Index of Multiple Deprivation 2012



The Scottish Index of Multiple Deprivation (SIMD) 2012 identifies small area concentrations of multiple deprivation across all of Scotland in a consistent way (Figure 44). The index is a combination of indicators in seven domains: Employment; Income; Health; Education, Skills, and Training; Geographic Access to Services; Crime; and Housing. Data is collected relating to each of these domains and combined to give an overall measure of how deprived an area is in relation to other areas in Scotland.

Figure 44 shows the proportion of data zones in each local authority area that are among the 15 per cent most deprived data zones in Scotland. The most deprived local authority areas by this measure are Glasgow (41.6 per cent), Inverclyde (40.0 per cent), and Dundee City (30.7 per cent).

The Scottish Index of Multiple Deprivation (SIMD) 2012 shows that, in 2011, the employment rate (aged 16-64) in the 15 per cent most deprived areas in Scotland was 58 per cent compared with a rate of 73 per cent for the rest of Scotland. Furthermore, in 2011, there was a difference of around 9 percentage points in the economic inactivity rates

between the 15 per cent most deprived areas and the rest of Scotland (31 per cent compared with 22 per cent).

Separating Scotland into quintiles, SIMD 2012 shows that the reasons for economic inactivity vary greatly depending on deprivation levels. The number of people in the most deprived quintile who reported “sickness” as their reason for economic inactivity was 47 per cent compared with a level of ten per cent for the least deprived quintile. The number of people who reported “being a student” as their reason for economic inactivity was 14 per cent in the most deprived quintile compared with 31 per cent in the least deprived.

Educational attainment also varies greatly depending on the deprivation level of an area. Separating Scotland into quintiles, showed that, in 2011, the proportion of individuals in the most deprived region with low or no qualifications (SVQ level 1 or below) was 27 per cent compared with 5 per cent in the least deprived area. The proportion of those living in the most deprived region who had a degree level or above qualification (SVQ level 5) was nine per cent compared with 39 per cent for the least deprived area.

Self-assessed health is also significantly associated with SIMD quintile. The proportion of people reporting good or very good health increases as deprivation decreases. SIMD 2012 showed that 60 per cent of people living in the most deprived quintile assess their general health as good or very good. This increases to 86 per cent for people living in the least deprived quintile.

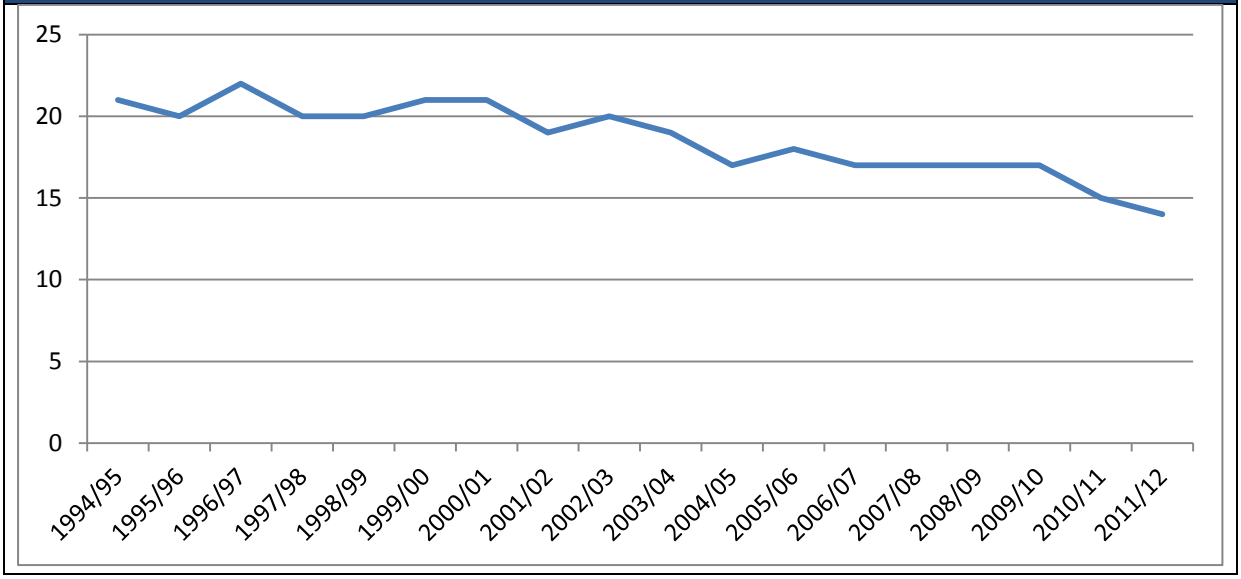
However, a problem with using this measure is that, due to the significant population differences between areas such as Glasgow and Highland, it will be the case that Glasgow reports more data zones which are classed as “most deprived”. Although it would be fair to say that Highland doesn’t have the same magnitude of problem that Glasgow does, it may be the case that the people living in the Highland’s “most deprived” data zones are facing the same challenges as those living in Glasgow’s “most deprived” – the only difference is that there are more in Glasgow.

4.1.1 Poverty and Income Inequality: Scotland 2011-12

The Poverty and Income Inequality: Scotland 2011-12 report showed that there were 710 thousand individuals (14 per cent of the population) living in relative poverty in Scotland in 2011/12, as shown in Figure 45. This compares with a figure of 780 thousand individuals (15 per cent of the population) in 2010/11. The number of individuals living in poverty fell from 15 per cent to 14 per cent between 2010/11 and 2011/12, although this change is not statistically significant.

Figure 45: Proportion of population living in relative poverty in Scotland, 1994/95 – 2011/12

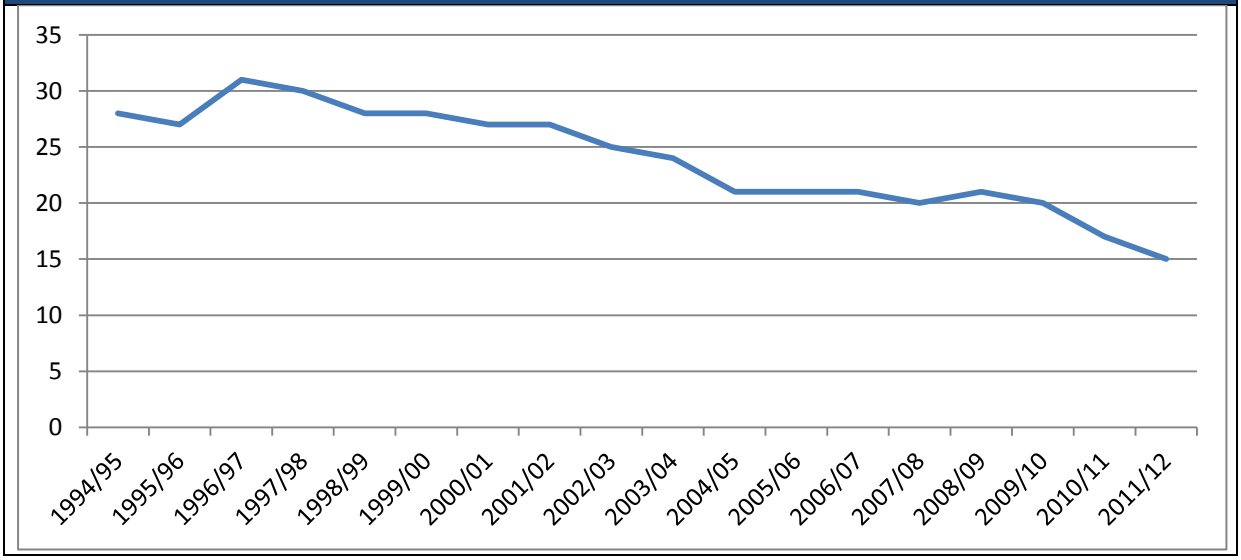
Source: Poverty and Income Inequality 2011-12



As shown in Figure 46, the level of children living in relative poverty fell from 170 thousand children in 2010/11 to 150 thousand in 2011/12. This represents a fall in the number of children living in relative poverty from 17 per cent to 15 per cent, although this change is not statistically significant. This follows a decrease in the number of children living in relative poverty in 2010/11, with little change in the 6 year period prior to that.

Figure 46: Proportion of children living in relative poverty in Scotland, 1994/95 – 2011/12

Source: Poverty and Income Inequality 2011-12



The percentage of income received by the lowest 3 deciles in 2011/12 was 14 per cent. This percentage is unchanged from 2010/11. After falling from 54 per cent in 2009/10 to 51 per cent in 2010/11, the percentage of income received by those in the top three income deciles increased in 2011/12 to 52 per cent. Overall, there has been no significant change in income inequality between 2010/11 and 2011/12. In fact, there has been very little change in income

inequality since 1998/99, with the percentage of income received by the bottom 3 deciles remaining between 13 and 14 per cent. .

4.1.2 Health and labour market outcomes

Waddell and Burton (2006) carried out a review of the evidence relating to health and labour market outcomes on behalf of the Department for Work and Pensions. They find that, not only is work central to individual identity and social status, but that employment and socio-economic status are crucial to the attainment of physical and mental health.

Unemployment was found to have a strong association with poor health. Although this may be partly a health selection effect, the authors suggest it is also to a large extent cause and effect.

Importantly, the is strong evidence to suggest that re-employment leads to improved self-esteem and improved physical and mental health. Furthermore, the magnitude of this improvement is more or less comparable to the adverse effects of job loss.

A review into the health of Britain's working age population[54] found that there is a fundamental link between health and other socio-economic indicators such as educational qualifications, job status and income. As a result, health inequalities often go hand-in-hand with other socio-economic inequalities.

The review also finds that having a high income is likely to improve a person's health status, while being in good health increases a person's earning potential. There appears to be a self-sustaining cycle of good health and high wealth, and also a similar cycle of poor health and low wealth.

4.1.3 Europe 2020 headline indicators on Fighting Poverty and Social Exclusion

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

To help achieve this aim, the Scottish Government has put forward its "Solidarity" target – to increase overall income and the proportion of income earned by the three lowest income deciles as a group by 2017. Between 1997/98 and 2008/09 total income increased almost every year. However, the proportion of total income received by those in the bottom three deciles has remained fairly constant: about 13-14 per cent of overall income.

The Scottish Government has a national indicator to monitor progress on decreasing the proportion of individuals living in poverty (this is measured in terms of the percentage of people living in relative poverty – below 60 per cent of median income before housing costs). Poverty in Scotland has fallen since 1997/98 – from 20 per cent to 17 per cent in relative poverty. However, this figure has been unchanged since 2006/07.

The Scottish Government also has a national indicator to monitor progress on reducing children's deprivations. In 2011/12, the percentage of children who were in combined material deprivation was 8.2 per cent. This compares with 11.9 per cent in 2010/11.

[54] Dame Carol Black (2008) "Working for a healthier tomorrow" http://www.dwp.gov.uk/docs/hwwb-working-for-a-healthier-tomorrow.pdf

The Scottish Government has also signed up to the UK Child Poverty Act 2010 and have committed to doing all they can to eradicate child poverty by 2020. Some of the specific policy measures designed to support this aim are the following:

- Alleviating the effects of rising energy prices. A target has been set to ensure, as far as reasonably possible, that no-one is living in fuel poverty by 2016.
- Free school meals for children in low income households. Free school meal entitlement criteria has been extended to all parents who are in receipt of both maximum child tax credit and maximum working tax credit.
- Providing financial support to young people from low income families who wish to remain in education, through Educational Maintenance Allowance. The aim of this policy is to reduce financial barriers to remaining in formal education.
- Reducing the number of working people in poverty. Although the statutory minimum wage is an issue reserved for the UK, the Scottish Government is supportive of a "Living Wage" – an amount that allows workers to provide for themselves and their families. The Scottish Government Public Sector Wage Policy currently ensures that the lowest hourly pay rate for all bodies cover by this policy is above the minimum wage.

4.2 Disabilities and long-term health conditions

4.2.1 Limiting long-term conditions

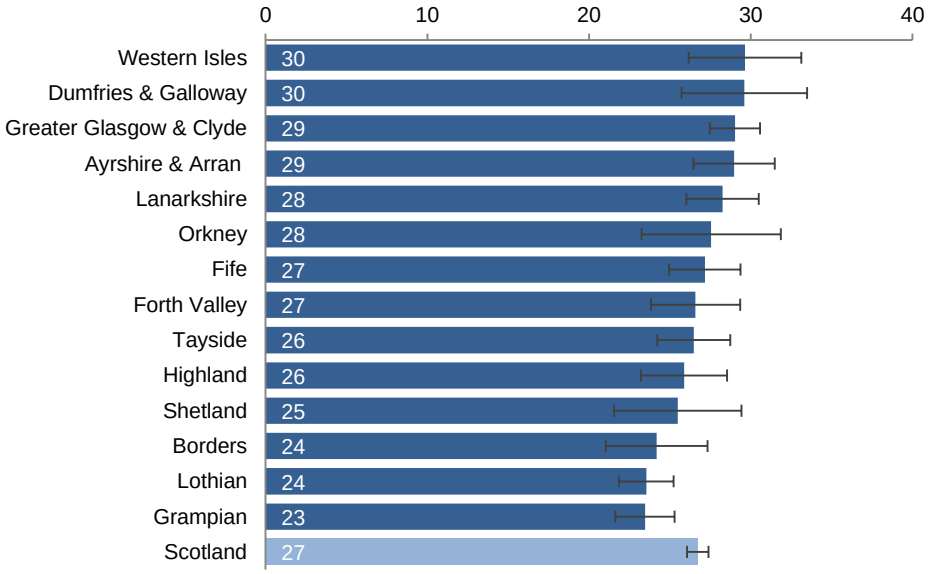
Data regarding disabilities and long-term health conditions for 2008-11 were obtained from the Scottish Health Survey[55] (Figure 47). The results found that 27 per cent of adults in Scotland had a limiting long-term health condition. Limiting long-term conditions were more prevalent among women (29 per cent) than among men (24 per cent). Categorising Scotland's regions in terms of Health Board areas, Greater Glasgow & Clyde had a significantly higher proportion of adults with a limiting long-term condition (29 per cent) than the national average. Grampian (23 per cent) and Lothian (24 per cent) had significantly lower than average prevalence.

[55] The Scottish Health Survey is based on geographical regions known as Health Boards. Current provision of NHS healthcare in Scotland is the responsibility of 14 geographically-based local NHS Boards.

Figure 47: Proportion of people aged 16 and over with limiting long-term health conditions, %, 2008-2011

Source: Scottish Health Survey.

Note: Error bars show 95 per cent confidence interval.



4.2.2 Disability and labour market outcomes

Based on the Annual Population Survey for the year ending March 2013, there were 769,000 disabled people aged 16-64 in Scotland, comprising 22.7 per cent of the total population aged 16-64[56] (Figure 48). Slightly over half (51.9 per cent) of disabled people aged 16-64 were economically active. The employment rate for disabled people aged 16-64 was 45.2 per cent. Both of these rates compare unfavourably to the corresponding UK rates, and are substantially below the rates in Scotland for all people aged 16-64.

Figure 48: Proportion of working-age people who are disabled; economic activity and employment rates, year ending September 2012

Source: Annual Population Survey (ONS)

	Scotland	UK
% of people aged 16-64 who are disabled	22.7	20.8
Economic activity rate - people aged 16-64 with a disability	51.9	55.7
Economic activity rate - all people aged 16-64	76.9	77.0
Employment rate - people aged 16-64 with a disability	45.2	49.0
Employment rate - all people aged 16-64	70.7	70.8

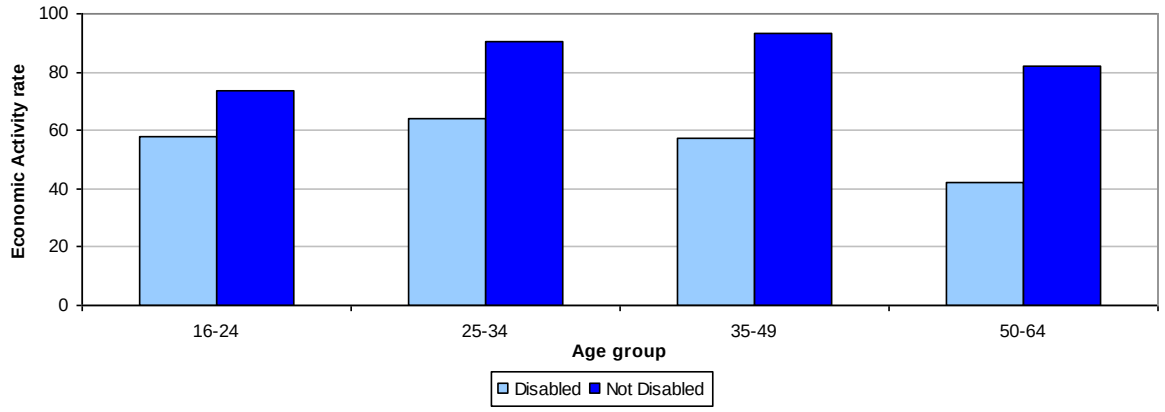
The economic activity rates of both the disabled and non-disabled groups vary considerably across age groups. Figure 49 shows the economic activity rates by disabled status and age

[56] Disabled people are defined in the Labour Force Survey as being those who are DDA disabled and / or work-limiting disabled. DDA disabled includes those who have a long-term disability which substantially limits their day-to-day activities. Work-limiting disabled includes those who have a long-term disability which affects the kind or amount of work they might do.

group for the population aged 16-64 in Scotland using data from the April-June 2012 Labour Force Survey. The economic activity rate for those with disabilities peaks in the 25-34 age group, at 64 per cent. The gap between disabled and non-disabled economic activity rates increases to over 30 percentage points for those aged 35-49 and 50-64. Survey evidence carried out by Beatty and Fothergill (2011)[57] asked individuals to identify the primary reason for leaving their last paid job. A key finding of their work was the importance played by illness or disability in triggering job losses. Indeed, 74 per cent of men and 70 per cent of woman indicated that this was the primary reason for their leaving the jobs market. Furthermore, Beatty and Fothergill suggest that, since those with illness or disability issues are more likely to have a background in low-skilled, manual labour, they may find that they are prejudiced against compared with fit and healthy individuals. This will be more pronounced in a weaker labour market and, knowing this, those will illness or disability are less likely to attempt to re-enter the workforce. This work suggests that the problems faced by disabled individuals are likely to increase with age.

Figure 49: Economic Activity rate for the population aged 16-64 by disability status, April-June 2012, Scotland

Source: Labour Force Survey (ONS)



4.3 Ethnicity and labour market outcomes

The Annual Population Survey can currently only provide limited information about the experiences of people from ethnic minorities in the labour market due to samples sizes.[58]

The employment rate for ethnic minorities in 2011 (61.7 per cent) was below the rate for all people aged 16-64 (70.7 per cent). Due to changes in the ethnicity questions on the Annual Population Survey in 2011, a comparison with previous years is not possible.

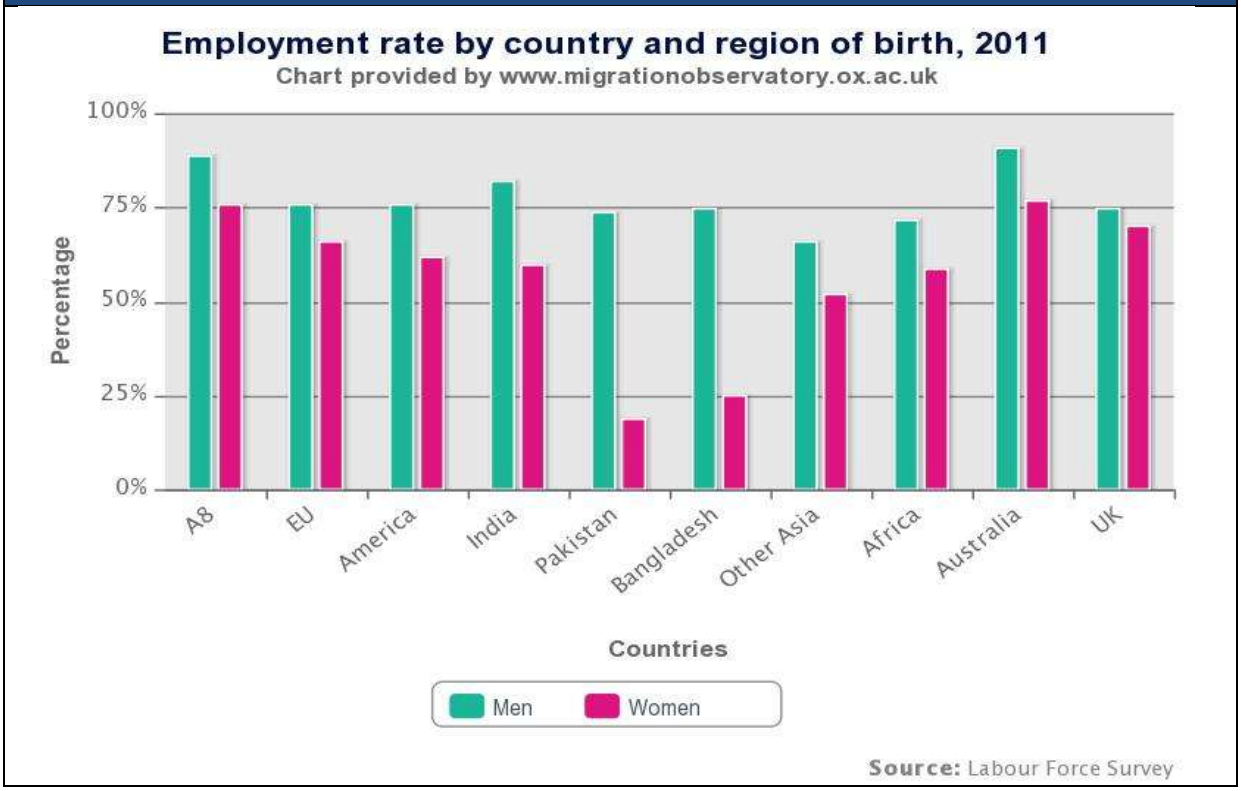
Data on employability rates for ethnic minorities is not available at the Scottish level, but, as data for the UK shows (Figure 50) that employment rates for ethnic minorities can vary significantly between groups. For example, in 2011, the employment rates for male migrants

[57] http://www.social-policy.org.uk/lincoln/Beatty.pdf

[58] The ethnic minority group, here, is defined as people who stated that they did not consider themselves to be of "White" ethnic background.

from Australia (91 per cent), the A8 countries (89 per cent) and India (82 per cent) were considerably higher than that of UK-born men (75 per cent). The employment rate for female migrants from the A8 countries (76 per cent) and Australia (77 per cent) were higher than that of UK-born females (70 per cent). However, female migrants from some countries such as Pakistan (19 per cent) and Bangladesh (25 per cent), had significantly lower employment rates than UK-born females (70 per cent).

Figure 50: Employment rate by country and region of birth, 2011
Source: The Migration Observatory[59]



[59] Migration Observatory publication – Characteristics and Outcomes of Migrants in the UK Labour Market. The findings are based on Labour Force Survey data. http://migrationobservatory.ox.ac.uk/briefings/characteristics-and-outcomes-migrants-uk-labour-market

5 Thematic Objective 10: Investing in education, skills and lifelong learning

5.1 Education and lifelong learning

An ambition of the Scottish Government is to improve Scotland's level of educational attainment, relative to the average for the OECD countries. To monitor this, the Government constructed a national indicator on educational attainment. This indicator shows that between 2000 and 2006, the gap between Scotland and the OECD fell, Scotland having been about 27 points ahead of the OECD average in 2000. There was no significant change between 2006 and 2009.

The Scottish Government has a national indicator to monitor young people's participation in learning, training or work. The Government recognises the strong association between under-achievement and unemployment. In improving the rate of participation across all 16-19 year olds, the Government will help to deliver improvements to the economy and also address a range of social issues central to improving the opportunities available to young people. 89 per cent of school leavers were in positive destinations in 2012/13, compared with 87 per cent the previous year. Despite a fall in 2008/09, the proportion of school leavers in positive destinations is now more than two percentage points above the its level in 2007/08, the baseline year.

5.1.1 Qualifications

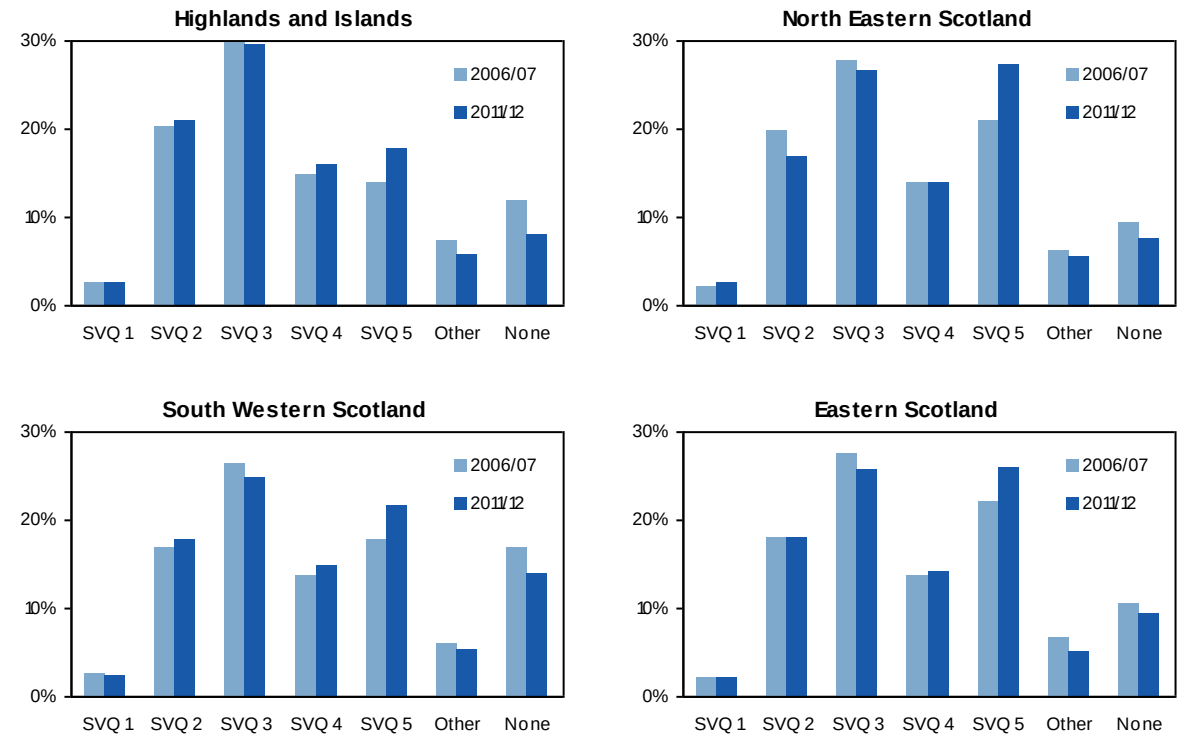
The qualifications profile in each of Scotland's NUTS 2 regions has improved over the five-year period to June 2012, as Figure 51 shows. The proportion of people aged 16-64 in Scotland who hold no qualifications decreased from 13.2 per cent in the year ending June 2007 to 11.0 per cent in the year ending June 2012. The proportion with a degree level qualification (or equivalent) increased over the same period from 19.2 per cent to 23.3 per cent.

Of the NUTS 2 regions, North Eastern Scotland and Eastern Scotland have the strongest qualifications profiles. In each of these regions, over one quarter of people aged 16-64 held a degree level qualification (or equivalent) in the year ending June 2012.

Figure 51: Highest level of qualification held by adults aged 16-64

Source: Annual Population Survey (ONS), July-June

Note: "Don't know" responses are excluded from the denominator



As Figure 52 shows, the employment rate for individuals aged 16-64 with no qualifications (41 per cent) is lower than the overall employment rate (71 per cent). The employment rate increases with qualification level reaching 84 per cent for those with a degree or professional qualification.

Figure 52: Employment rate by highest qualification, people aged 16-64, Scotland, 2012

Source: Annual Population Survey (ONS)

Highest qualification	*Emp. rate*
SVQ 5: Degree, Professional Qualification	84%
SVQ 4: HNC/HND or equivalent	79%
SVQ 3: Higher, A-Level or equivalent	72%
SVQ 2: Credit Standard Grade or equivalent	65%
SVQ 1: General Standard Grade or equivalent	57%
Other Qualifications	69%
No Qualifications	41%
Total	71%

The Scottish Government monitors the destinations of Scottish graduates through its national indicator - the Government aims to increase the proportion of graduates in positive destinations 6 months after graduating. In 2006/07, the percentage of Scottish graduates in

positive destinations 6 months after completing their course was 70.3 per cent. This percentage fell year on year to 62.3 per cent in 2001/11. Historically, the percentage of graduates in positive destinations after graduating has been higher for females than for males. In recent years, the gap had generally been between 5 and 8 percentage points. However, the gap decreased from 5.0 percentage points in 2009/10 to 2.1 percentage points in 2010/11.

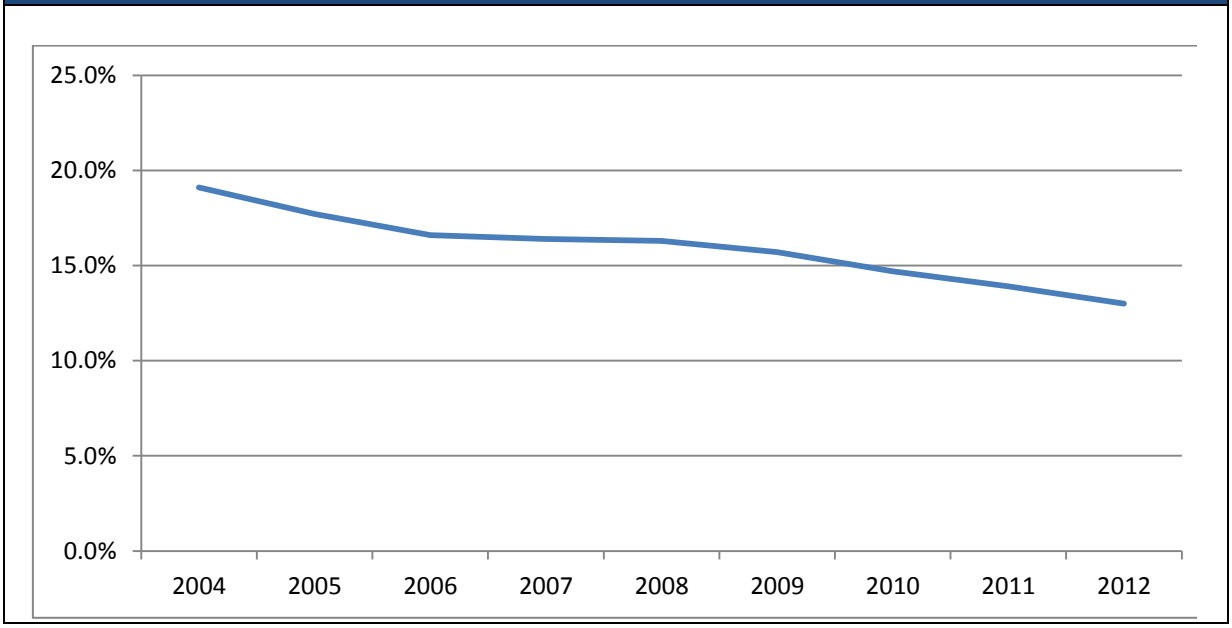
5.1.2 Adult literacy and numeracy

The Scottish Survey of Adult Literacies 2009 found that 73.3 per cent of the Scottish population have a level of skills that has been recognised internationally as appropriate for a contemporary society. Around one quarter of the Scottish population (26.7 per cent) may face occasional challenges and constrained opportunities due to their limited skills but will generally cope with their day-to-day lives. Within this quarter of the population, 3.6 per cent face serious challenges in their literacies practices.[60]

The Annual Population Survey has been used historically to provide a proxy measurement for the number of people with severe literacy and numeracy problems. The proxy indicator is the proportion of 16-64 year olds with qualifications of SCQF Level 4 or below (equivalent to General Standard Grade or Intermediate 1 level qualifications). This is used by the Scottish Government as a national indicator for monitoring the skills profile of the population. Figure 53 shows that there has been an overall reduction in the proportion of 16-64 year olds with qualifications of SCQF Level 4 or below, from 19 per cent in 2004 to 13 per cent in 2012.

Figure 53: Proportion of adults aged 16-64 whose highest qualification was SCQF level 4 and below, Scotland, 2012

Source: Annual Population Survey (ONS)



In 2012, the proportion of adults aged 16-64 with SCQF Level 4 qualifications or below varied by local authority from 6.7 per cent in City of Edinburgh to 20.8 per cent in East Ayrshire.

[60] http://www.scotland.gov.uk/Publications/2010/07/16144921/0

However, as the SIMD 2012 section (1.4.4) discusses, there are generally high levels of inequality within even relatively small regions such as local authorities.

5.1.3 School leaver destinations

The Scottish Government has a National Outcome aimed at increasing the proportion of school leavers (from Scottish publicly funded schools) in a positive and sustained destination. In 2011/12, the proportion of school leavers in positive destinations was 89.9 per cent. In 2009/10, the proportion was 86.8 per cent.

Figure 54 shows the breakdown of destinations as at 15 October 2012 of young people who left publicly funded secondary schools between 1 August 2011 and 31 July 2012. The data shows a number of differences between the Highlands and Islands and the rest of Scotland. The proportion of school leavers in employment was markedly higher in the Highlands and Islands (28.8 per cent) than in the Lowlands and Uplands (18.8 per cent). This is due in part to the relative tightness of the labour market in the Highlands and Islands, as evidenced by the region's comparatively low unemployment rate (see section 3.1.6).

It is a general problem for the rural communities of Scotland that a lack of high-skilled jobs prevents these regions from retaining many of their young population. A 2007 Report for Outer Hebrides Migration Study explained that the Outer Hebrides has a historically high level of educational attainment and that, with this, there is an inherent expectation that young people must leave the Islands to succeed. If we measure success in terms of qualifications obtained, and hence ability to gain high-skilled employment, then this does seem to be the case as 78 per cent of those who left Lewis gain university of college qualifications, compared with 29 per cent of those who stayed. The lack of skilled jobs available in rural communities means that those young people who have gained qualifications are unlikely to return after study.

The most significant difference between Highlands and Islands school leavers and those from the Lowlands and Uplands was the proportion of those which chose employment as their initial destination - 29 per cent compared with 19 per cent, respectively (Figure 54).The take-up of further and higher education by school leavers is lower in the Highlands and Islands than in the rest of Scotland. This is likely to be the result of several factors. Firstly, the Highlands and Island have a higher proportion of employment involved in the primary sector of the economy, which generally does not require the same level of formal education of its workforce. Also, there are less opportunities for further and higher education in the Highlands and Islands compared with the number of institutions within the Lowlands and Uplands area Research undertaken by Highland and Islands Enterprise in 2009[61] found that almost half (48%) felt there were insufficient opportunities to access further and higher education in their local areas.

[61] Highlands and Islands Enterprise 2009 - http://www.hie.co.uk/regional-information/economic-reports-and-research/archive/youth-migration.html

Figure 54: Initial destinations of school leavers from publicly funded secondary schools, 2011/12[62][63]

Source: Skills Development Scotland

	H&I	LUPS	Scotland
Higher Education	35.6%	37.5%	37.3%
Further Education	22.2%	27.3%	26.8%
Training	2.9%	4.8%	4.6%
Employment	28.8%	18.8%	19.8%
Voluntary Work	0.5%	0.4%	0.4%
Activity Agreements	1.3%	0.9%	0.9%
Unemployed Seeking	6.1%	8.6%	8.4%
Unemployed Not Seeking	1.9%	1.3%	1.3%
Not Known	0.9%	0.4%	0.4%
Total Positive	91.2%	89.7%	89.9%
Total Other	8.8%	10.3%	10.1%

5.1.4 Participation of adults aged 25-64 in education and training

Provisional data for 2011 from Eurostat shows that 15.4 per cent of people in Scotland aged 25-64 had participated in training in the previous four weeks. This is similar to proportion for the UK as a whole (15.8 per cent), and substantially higher than the proportion for the EU as a whole (8.9 per cent).

5.1.5 Europe 2020 headline indicators on education

The Europe 2020 headline targets for education are:[64]

- The share of early school leavers should be under 10 per cent.
- At least 40 per cent of 30-34 years old should have completed a tertiary or equivalent education (ISCED level 5/6).

The proportion of people aged 18-24 in Scotland who are early leavers from education and training (that is, who have attained at most lower secondary education and are not involved in further education or training) increased from 7.9 per cent in 2006 to 12.6 per cent in 2012, as Figure 55 shows. In 2012, the proportion in Scotland was below the corresponding proportion in the UK as a whole (13.5 per cent), and also below the proportion in the EU as a whole (12.8 per cent).

[62] The Highlands and Islands region has been approximated on a best-fit basis using the following local authority areas: Argyll & Bute, Eilean Siar, Highland, Moray, Orkney Islands and Shetland Islands. The Lowlands and Uplands region has been approximated using the remaining 26 local authority areas.

[63] These figures are based on young people who left school between the 1st August 2011 and the 31st July 2012. The age of the school leaver is not provided.

[64] http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/targets/index_en.htm

Figure 55: Early leavers from education and training: proportion of people aged 18-24[65], 2005-2012

Source: Eurostat

	Scotland	UK	EU 27
2005	9.9	11.6	15.8
2006	7.9	11.3	15.5
2007	12.4	16.6	15.0
2008	12.9	17.0	14.8
2009	12.9	15.7	14.3
2010	13.8	14.9	14.0
2011	14.5	15.0	13.5
2012	12.6	13.5	12.8

Scotland consistently outperformed the UK and EU27 on the tertiary education measure over the period 2003-2012 (Figure 56). In 2012, 52.9 per cent of people aged 30-34 in Scotland had attained tertiary education; this substantially exceeds the Europe 2020 target of 40 per cent. Between 2003 and 2012, the proportion of people aged 30-34 with tertiary educational attainment in Scotland has increased by 41 per cent.

Figure 56: Proportion of people aged 30-34 with tertiary educational attainment, 2003-2012

Source: Eurostat

	Scotland	UK	EU 27
2003	37.5	31.5	23.5
2004	40.8	33.6	25.0
2005	36.8	34.6	26.9
2006	41.9	36.5	28.0
2007	45.4	38.5	28.9
2008	46.8	39.7	30.0
2009	46.1	41.5	31.0
2010	46.6	43.0	32.2
2011	53.8	45.8	33.5
2012	52.9	47.1	34.6

5.1.6 Job Related Training

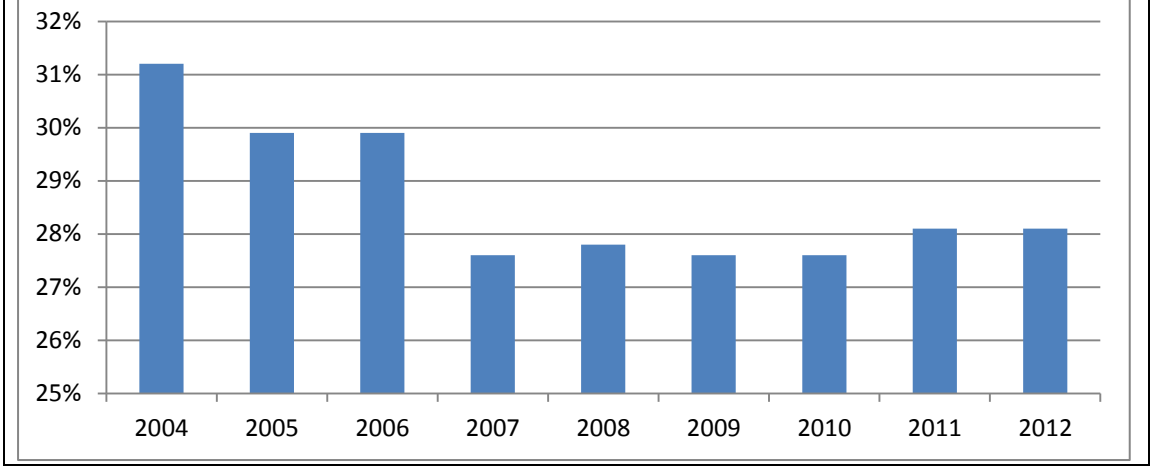
Labour Force Survey respondents aged 16-64, who are not still at school or on college-based government training programmes, are asked whether they received any job-related training or education in the last 3 months. Figure 57 shows that the percentage of people aged 16-64 in employment who received job-related training in the last 3 months remained

[65] Early leavers from education and training refers to persons aged 18 to 24 fulfilling the following two conditions: first, the highest level of education or training attained is ISCED 0, 1, 2 or 3c short, second, respondents declared not having received any education or training in the four weeks preceding the survey.

at around 28 per cent for the five years from 2007 to 2012, despite the economic downturn. Job-related training decreased from 2004 to 2012, but this was a result of decreases between 2004 and 2007, prior to the economic downturn.

Figure 57: Percentage of people aged 16-64 in employment receiving job-related training in the last 3 months, Scotland, 2004-2012

Source: Annual Population Survey (ONS)



The Small Business Survey indicates that there has been an increase in the percentage of SMEs who had funded or arranged training or development for employees in the past twelve months, between the 2007 survey (62 per cent) and the 2012 survey (73 per cent). Medium and small employers were more likely to have funded or arranged training or development for employees in the past twelve months than the micro employers (83 per cent, 92 per cent and 69 per cent respectively).[66]

5.1.7 Skill-shortage vacancies

A skill-shortage vacancy is a hard-to-fill vacancy which arises because the applicants who present do not have the necessary skills, qualifications or experience to do the job. Issues relating to the attitude, personality or motivation of applicants are not skills shortages. Similarly, if there is a lack of applicants because the advertised post is perceived as unattractive (low wages, poor terms and conditions, poor prospects etc.), this is not counted as a skill shortage.

Skill-shortage vacancies are uncommon, with only three per cent of establishments in Scotland reporting they have at least one skill-shortage vacancy.[67] Out of all vacancies, skill-shortage vacancies account for 17 per cent. This means that for the vast majority of employers, the labour market works well. Demand for applicants with suitable skills, qualifications and experience is generally met.

[66] Scottish Government, 2012, Small Business Survey Report 2012. http://www.scotland.gov.uk/Topics/Economy/ASBS/Report2012. Micro businesses have 1-9 employees, small 10-49, and medium 50-249.

[67] The data in this section is from the 2011 UKCES Employer Skill Survey (http://www.ukces.org.uk/publications/er65-employer-skills-survey-11-scotland). Results are not available for all sectors due to the relatively small number of interviews which were conducted in Scotland. A more comprehensive set of sectoral results should be available for Scotland after the 2013 UKCES Employer Skill Survey which will have a larger sample.

There is some variation in skill-shortage vacancies by sector. The sectors most likely to report a skill shortage vacancy are Manufacturing (7 per cent of establishments reported they had at least one skill shortage) and Community, Social and Personal Services (6 per cent of establishments).

In the last two to three years[68], 27 per cent of employers had recruited a leaver of Scottish education. As was found in previous reports, the findings show that employers who had recruited education leavers generally found them well prepared for work. Furthermore, this perceived work-readiness increased with the amount of time recruits had spent in education – with those from university best prepared.

The main skills or attributes that were lacking amongst education leavers were; a lack of world or life experience and their level of maturity, this was cited by 18 per cent of those who had recruited from this group; poor attitude or a lack of motivation, cited by 13 per cent of those who had recruited from this group. Poor education (6 per cent) and poor literacy or numeracy (1 per cent) were less commonly mentioned.

The number of vacancies experiencing hard-to-fill vacancies decreased from five per cent in 2010 to four per cent in 2011. There was also a drop in the proportion of all vacancies that are hard-to-fill – falling from 35 per cent in 2010 to 22 per cent in 2011. However, despite a decrease in the hard-to-fill vacancies, the proportion of employers with skill-shortage vacancies and the proportion of vacancies that are classed as skill-shortage vacancies remained consistent with 2010 levels. This suggests that the drop in hard-to-fill vacancies is not due to an increase in the skills level, qualifications or experience of the applicants, but rather, an increase in the number of applicants.

Understanding the causes of hard-to-fill vacancies is crucial for our ability to shape policy measures to address this problem. The Employer Skills Survey 2011 report[69] found that one third (33 per cent) of hard-to-fill vacancies are caused by a low number of applications with the skills required for the role. A quarter (25 per cent) are caused by a lack of work experience the company demands and 16 per cent are the result of poor terms and conditions offered for the post.

Almost all (98 per cent) of employers surveyed said that the problem of hard-to-fill vacancies had an impact on their business. 92 per cent of employers said that hard-to-fill vacancies resulted in an increased workload for other staff; 53 per cent said it caused them said it delayed their development of new products or services; 50 per cent said they had difficulties meeting customer service objectives and 36 per cent said it caused them to have increased operating costs.

The majority of establishment (71 per cent) had funded or arranged on-the-job or off-the-job training for at least one of their employees in the 12 months preceding the survey. 58 per cent of employers had provided on-the-job training, while 52 per cent had provided off-the-job training. 39 per cent of employers had provided at least one of their employees with both forms of training.

The likelihood that training is provided by an employer is closely related to the size of the establishment, with the exception of the largest establishment size (250+ staff). 60 per cent of employers with less than five staff provided any training in the previous 12 months; 82 per cent of employers with five to nine workers had provided any training; and 93 per cent of

[68] Reported in 2011 in the UK Commission's Employer Skills Survey 2011: Scotland Results.
[69] UK Commission's Employer Skills Survey 2011: Scotland Results

employers with 50-249 staff provided training. 87 per cent of employers with staff over 250 provided training.

6 SWOT Analysis

In this final section of the socio-economic analysis, on the basis of the statistical evidence presented above, a summary of the key issues to be addressed in the Programmes is presented: first, an analysis of the main strengths, weaknesses, opportunities and threats.

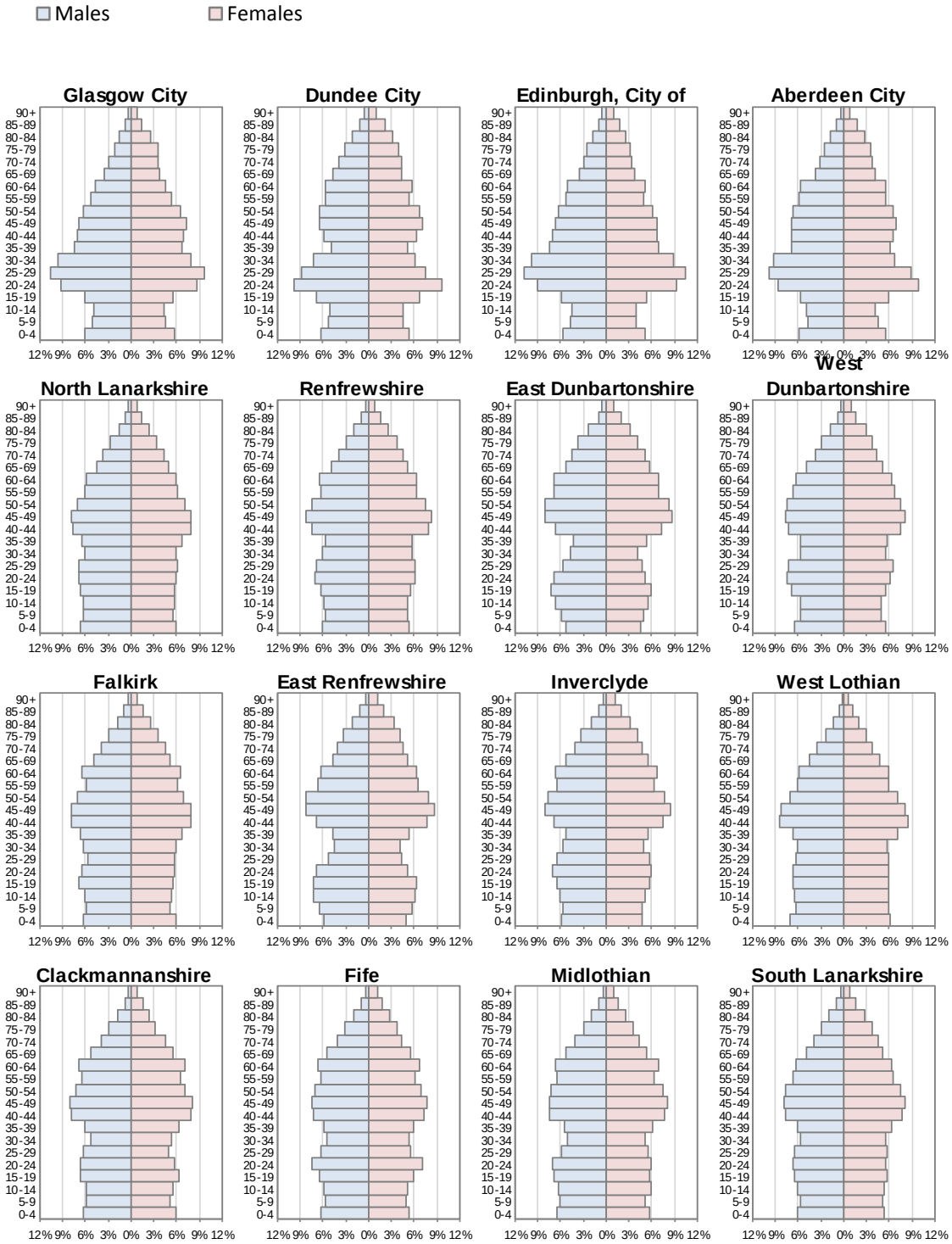
While the SWOT analysis drew on the baseline review, it also brought together existing knowledge of some of the key challenges known to be facing Scotland under the relevant thematic objectives. This reflects the fact that it would be disproportionate to try to capture every single indicator/factor within the baseline review and the fact that in some cases factors do not necessarily sit comfortably under one thematic objective (i.e. may be more cross-cutting). However, where possible additional sources of evidence to support issues raised in the SWOT analysis have been provided.

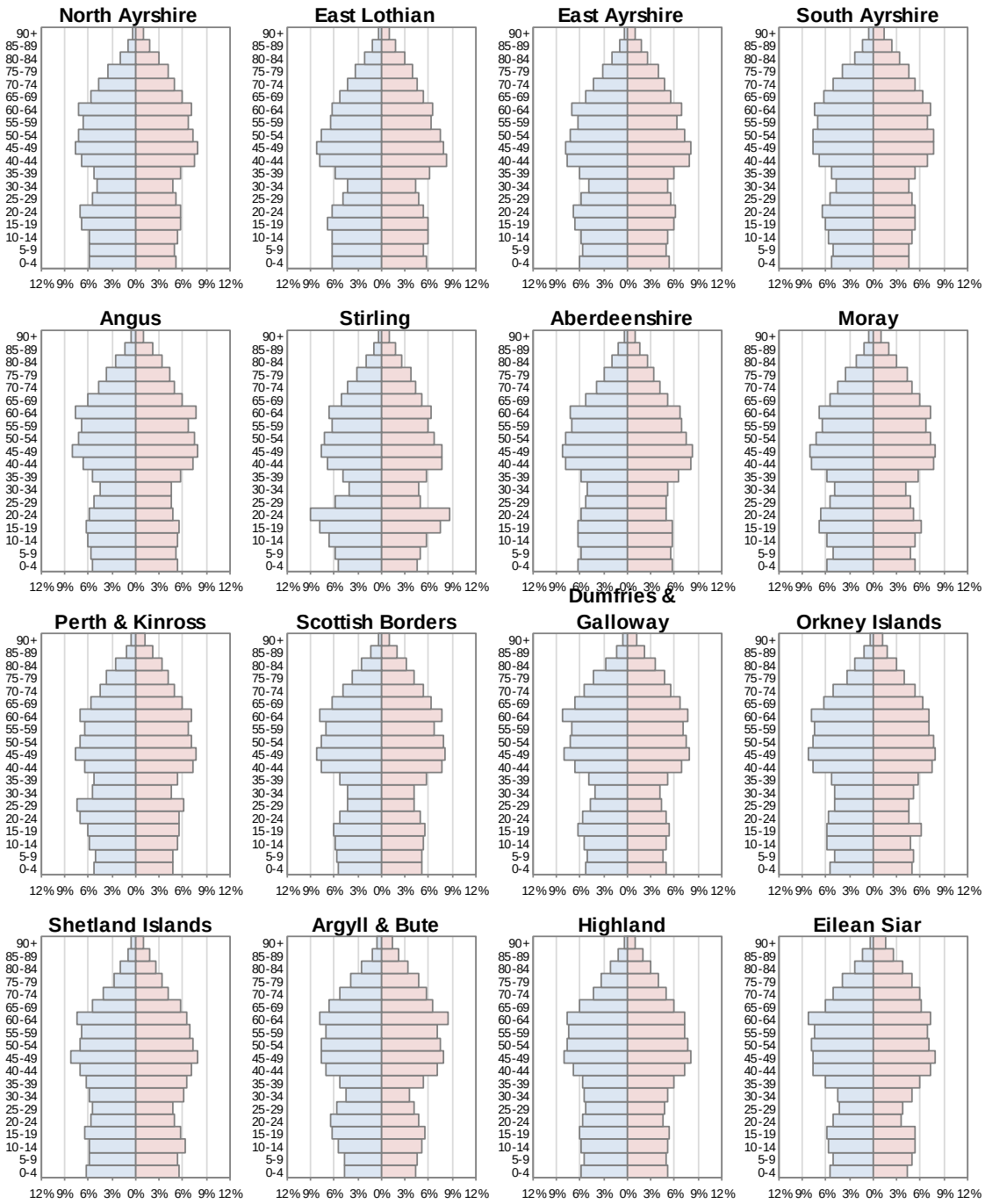
Strengths	**Weaknesses**
• High levels of employment compared with other UK regions. • Inward migration has contributed to Scotland recent population increase – a key driver of economic growth. • Scotland has a highly educated population. • Continual decline in the proportion of children living in relative poverty. • Recent increases in entrepreneurship.	• Significant income inequalities in certain parts of Scotland, particularly in the central belt; and strong correlation to both skills and social and health issues • Since the onset of the recession in 2008, there has been a steep rise in long term unemployment. • Isolated and sparely populated areas create problems in terms of cohesion, participation and access to services. • High levels of limiting life-long health conditions, especially in the areas of heavy industrial decline. • Those working part-time and who consider themselves underemployed has increased in recent years. • Significant increase in youth unemployment
Opportunities	**Threats**
• Regional disparities offer the ability to develop targeted support to tackle specific issues. • Targeted support for projects to improve employment opportunities in Scotland's most vulnerable areas could increase overall skills, employment and productivity levels and increase social cohesion • Better linkages between industry and skills and training options, including specific options for the development of the University of the Highlands and Islands to raise it above transition region status • Ability to raise the level of ambition in the	• The UK Government's programme of austerity is set to continue until 2017/18 undermining Scottish efforts to reduce inequality, especially for vulnerable groups. • Welfare reform may have an impact on ability to reduce poverty, particularly for those areas which were "worse-off" before the recession • Youth unemployment presents a serious threat to our economy. The lack of experience and skills being acquired by our youth has the potential to restrict growth and income levels. • Lack of high-skilled jobs in Highland & Island communities threatens their sustainability due to

educational system, particularly in relation vocational and technical education in Scotland.	outward migration of their youth. • Different priorities for public spending between Scottish and UK Governments.

Annex A: Population pyramids for local-authority areas, mid-2011

Source: National Registers of Scotland. Local authorities are in descending order of population density.




North Ayrshire
East Lothian
East Ayrshire
South Ayrshire
Angus
Stirling
Aberdeenshire
Moray
Perth & Kinross
Scottish Borders
Dumfries & Galloway
Orkney Islands
Shetland Islands
Argyll & Bute
Highland
Eilean Siar
90+
85-89
80-84
75-79
70-74
65-69
60-64
55-59
50-54
45-49
40-44
35-39
30-34
25-29
20-24
15-19
10-14
5-9
0-4
12% 9% 6% 3% 0% 3% 6% 9% 12%