

EUROPE 2020: SCOTLAND'S NATIONAL REFORM PROGRAMME 2018



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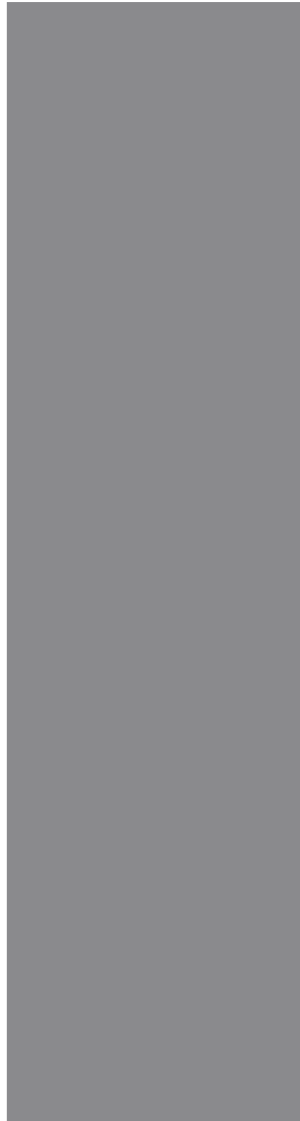
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FOREWORD



This document reports on the progress Scotland made over the last year towards meeting the targets set out in Europe 2020, the European Union's (EU) strategy for delivering, smart, sustainable and inclusive growth over the period to 2020. The UK Government's intention is to leave the EU in March 2019. If this proves to be Scotland's case then this report will be the last NRP report published while the UK remains a Member State of the EU.

The Europe 2020 targets relate to:

- Reducing youth unemployment
- Increasing research and development (R&D)
- Meeting climate change ambitions
- Improving education
- Reducing poverty

This document sets out the considerable progress made this year in Scotland in each of these important areas.

The overall purpose of Europe 2020 – to deliver, smart, sustainable and inclusive growth – is closely aligned with the Scottish Government's strategic purpose of focusing government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth. The document also illustrates the progress made toward this objective.

In setting out this progress the document makes plain the strong correlation between what we are trying to achieve in Scotland and the aims of the European Union, as expressed in Europe 2020. This may also help to explain why the people of Scotland voted decisively to remain in the EU. As the evidence in this report highlights, Scotland is in a stronger position to deliver the ambition

of achieving smart, sustainable and inclusive growth as part of the EU family.

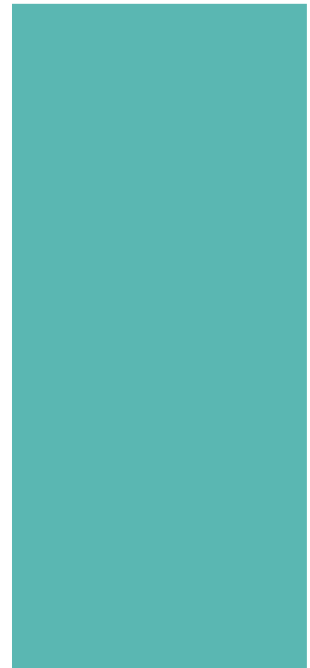
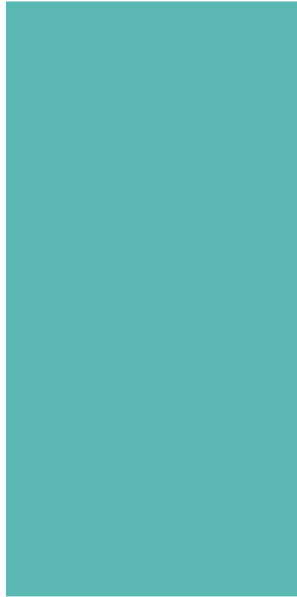
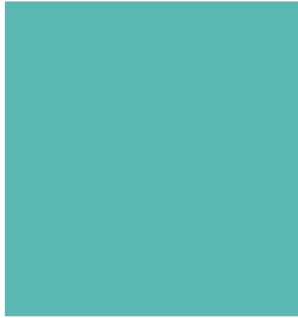
Since the UK's vote to leave the EU, the Scottish Government has been working to protect the interests of the people of Scotland and minimise the adverse impacts of Brexit. In December 2016 we published '*Scotland's Place in Europe*'¹, a set of compromise proposals which sought to maintain Scotland and the whole of the UK in the European Single Market and Customs Union. In January 2018 we published '*Scotland's place in Europe: People, jobs and investment*'² which provided detailed analysis on the economic, environmental and wider social benefits for Scotland of retaining membership of the Single Market, as well as the benefits of the free movement of people for Scotland's demographic needs and sustainable economic growth.

To emphasise the benefits of continuing European Single Market and Customs Union membership, we are also taking the opportunity of this report to outline some of the consequences for Scotland's economy and society of leaving the EU, and how the progress we have made towards achieving the targets of the Europe 2020 strategy could be undermined by Brexit.

1 Scottish Government (2016) *Scotland's Place in Europe* <http://www.gov.scot/Publications/2016/12/9234/downloads>

2 Scottish Government (2018) *Scotland's Place in Europe: People, Jobs and Investment* <http://www.gov.scot/Publications/2018/01/6407/downloads>

CHAPTER 1: THE EUROPE 2020 STRATEGY AND NATIONAL REFORM PROGRAMME



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

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

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

↓ Europe 2020 targets

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

National Reform Programmes

EU Member States inform the European Commission of the progress they are making in delivering on the ambitions of the Europe 2020 strategy by publishing an annual report known as a National Reform Programme (NRP). These reports provide context on the macroeconomic environment, outline how Member States intend to meet the targets set out in Europe 2020, and how they will overcome obstacles to economic growth. As part of this process, the Scottish Government has contributed to the development of the UK Government's NRP for 2018, which was published in April.

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

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

THE EUROPEAN SEMESTER

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

TABLE 1 - THE EUROPEAN SEMESTER

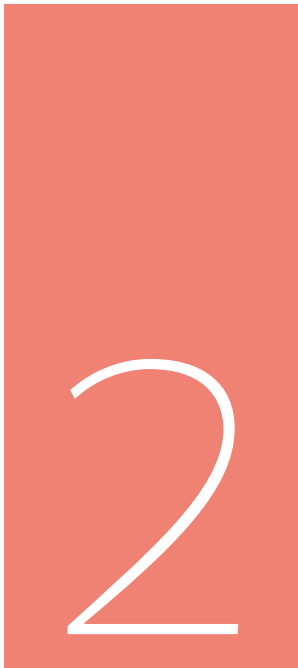
November	European Commission publishes its Annual Growth Survey, detailing policy priorities for the EU as a whole to boost growth and job creation over the year ahead.
February	European Commission publishes a Country Report for each Member State, analysing their economic situation, reform agendas, and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

COUNTRY-SPECIFIC RECOMMENDATIONS FOR THE UK

In addition to the five headline targets outlined above the European Commission also addresses country-specific recommendations (CSRs) to each member state. These recommendations are tailored specifically to each EU country and provide policy guidance on how to boost jobs and growth, whilst at the same time maintaining sound public finances. The European Commission provided the UK with an updated set of CSRs in July 2017. These recommendations were to:

1. Pursue its fiscal policy in line with the requirements of the preventive arm of the Stability and Growth Pact, which translates into a substantial fiscal effort for 2018. When taking policy action, consideration should be given to achieving a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of United Kingdom's public finances. This will be referenced in the report with the short hand **CSR1: Fiscal Outlook**
2. Take further steps to boost housing supply, including through reforms to planning rules and their implementation. This will be referenced in the report with the short hand **CSR2: Housing**
3. Address skills mismatches and provide for skills progression, including by continuing to strengthen the quality of apprenticeships and providing for other funded "Further Education" progression routes. This will be referenced in the document with the short hand **CSR3: Skills**

CHAPTER 2: SUSTAINABLE ECONOMIC GROWTH



The overall purpose of Europe 2020 is to deliver, smart, sustainable and inclusive growth. The Scottish economy strengthened in 2017 despite challenging economic conditions that continue to be dominated by heightened uncertainty relating to the UK's withdrawal from the EU.

Scotland's economy grew 0.8% in 2017, rising from 0.2% growth in 2016. While the pace of growth remains below its long run trend rate, the strengthening over the year was supported by continued growth in the services sector alongside a return to growth in the production sector. The construction sector contracted in 2017 as it continues to adjust back to its long run trend following exceptionally fast growth in 2015.

Scotland's employment, unemployment and inactivity rates are strong given the backdrop of Brexit and below trend economic growth. The latest data for February to April 2018 shows that the number of people in employment increased by 18,000 over the year to 2.64 million. This is 78,000 more than the pre-recession peak (March-May 2008).

The stronger economic performance over the past year has been supported by improving confidence in the oil and gas sector, while the pick-up in global growth alongside the lower value of Sterling signals that the international context is also more supportive for growth.

Independent forecasts present a slightly stronger outlook for growth over the next couple of years, however the pace of growth is expected to remain below its long run trend rate. GDP is forecast to grow by between 0.7% and 1.4% in 2018, with slightly higher growth in 2019 of between 0.9% and 1.6%.

Uncertainty surrounding Brexit is raised as a key factor affecting the economic outlook across all the forecasts. In the short term, there are signals from some business surveys that while business optimism has improved over the past year, business investment intentions are fragile during this period of heightened uncertainty.

Alongside this, pressure on household finances and on-going weaknesses in Scottish consumer sentiment also feature as risks to growth over the coming year.

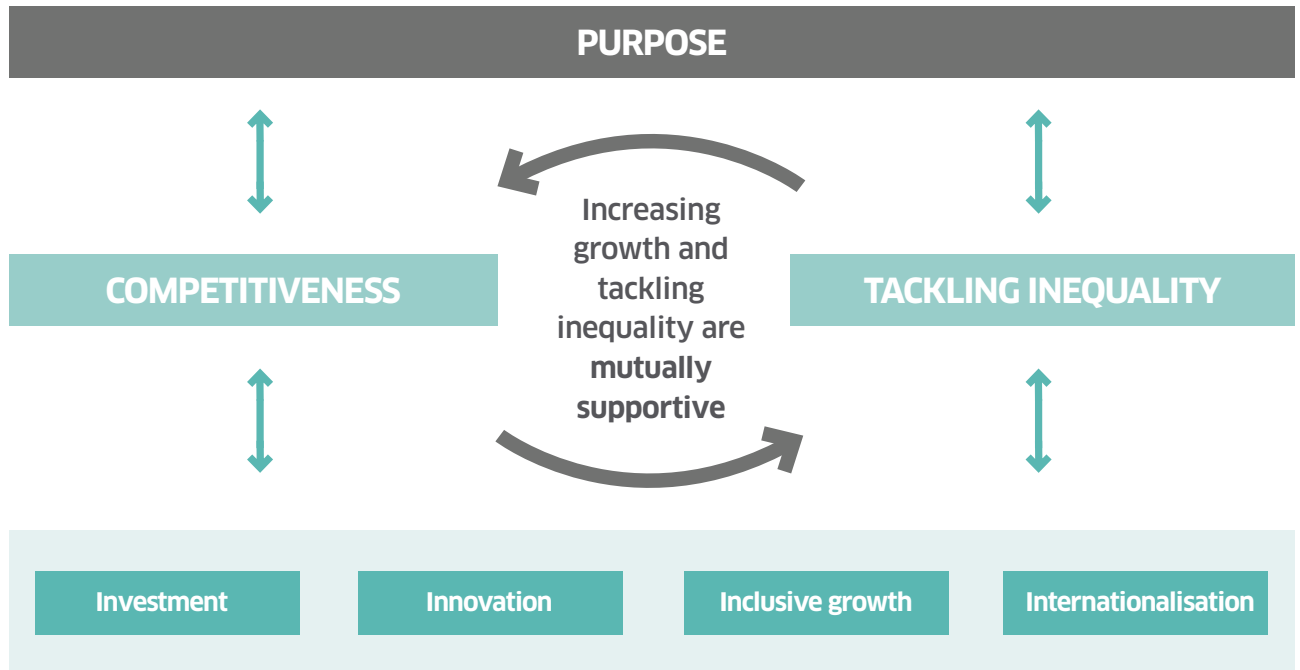
A regular assessment of conditions in the Scottish economy is provided in the Scottish Government's Chief Economist's State of the Economy publication.

SCOTLAND'S ECONOMIC STRATEGY

The top priority of the Scottish Government is to support Scotland's economic resilience, to protect jobs, investment, and long-term prosperity and growth prospects. Scotland's Economic Strategy³ sets out the ambition to create a more cohesive and resilient economy that improves the opportunities, life chances and wellbeing of every citizen in Scotland. At the core of the Strategy is the Government's Purpose, as outlined previously, which is underpinned by two key pillars – increasing competitiveness and tackling inequality.

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

3 <http://www.gov.scot/economicstrategy>

Figure 1: Scotland's Economic Framework

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

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

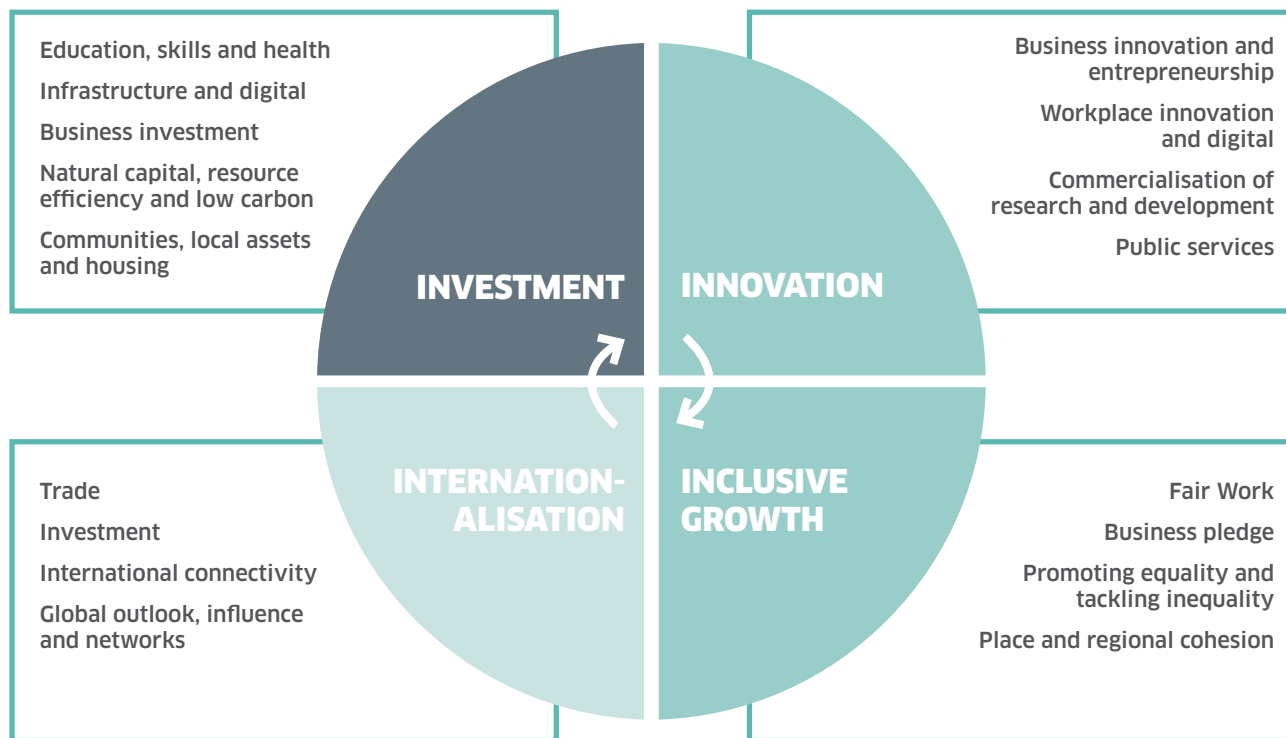
The four priorities and the policy areas which underpin them, are shown in Figure 2.

Progress across these four priority areas is measured through the National Performance Framework⁴ that includes 11 outcomes and a range of economic, social, and environmental indicators for Scotland. All 11 outcomes play a role in contributing to moving Scotland towards inclusive growth, and cover major themes of importance to the people of Scotland, including education, health, children, tackling poverty, human rights, and the environment. Outcomes include:

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

4 <http://nationalperformance.gov.scot/>

Figure 2: Four Priorities



CSR 1: Fiscal Outlook

With the first CSR, the European Commission has placed a focus on actions taken by the UK Government to reduce the budget deficit. Although responsibility for reducing the budget deficit is an issue reserved to the UK Government, the Scottish Government is taking a number of actions in Scotland that will support deficit reduction.

The Scotland Act 2012 granted Scotland limited borrowing powers. These came into effect in April 2015 and were subsequently updated in the Scotland Act 2016. Scottish Ministers have the ability to borrow up to £300 million annually to cover any shortfall between tax forecasts and tax receipts, but crucially not to support general expenditure. In the event of a Scotland-specific economic shock, the annual limit for resource borrowing will double to £600 million. There are also limited capital borrowing powers within an overall cap of £3 billion to borrow up to 15% (or £450 million) annually to support infrastructure investment – an area which remains a priority of Scottish Ministers.

In order to ensure choices are sustainable the Scottish Government has in place a 5% affordability cap, whereby annual revenue commitments will not exceed 5% of the total block grant from HM Treasury. Committed projects plus planned projects and planned borrowing currently peak at 4.3% in 2020-21 and therefore there is headroom within the 5% ceiling.

It should be noted that following the reclassification of Network Rail from a private to public sector organisation, the funding regime will change from 2019-20 and rail projects will become entirely grant-funded. HM Treasury will take on responsibility for debts accrued by Network Rail in Scotland. In the interests of maintaining comparability current modelling of commitments contain estimates of the Network Rail investment as if it had been RAB (Regulatory Asset Base) funded.

As set out in the budget plans for 2018-19, the Scottish Government will support infrastructure investment of £4 billion in 2018-19 through a combination of grant, borrowing powers, RAB and revenue financed methods.

To continue to prioritise capital investment the Scottish Government is pursuing a range of innovative financing approaches, including the £3.5 billion non-profit distribution (NPD) programme (extended in 2014, when a further £1 billion of support for infrastructure investment was announced) which takes the current NPD programme through to 2019-20.

The Scottish Government's Infrastructure Investment Plan 2015⁵ (IIP), which builds on the achievements delivered through previous infrastructure plans, was published in December 2015. The Plan sets out why there is a need to invest, how the Scottish Government will invest and what strategic, large-scale investments it intends to take forward within each sector over the next 20 years.

The IIP Progress Report, published in April 2018, highlights that significant progress has been made since the publication of the previous progress report in 2017. For example, over the course of last year and up to March 2018, infrastructure projects worth £3 billion opened to the public or completed construction.

WHY EU FUNDING MATTERS

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

EU funding is expected to benefit Scotland by around £5 billion over the current EU budget round (2014-20). European Structural Funds, in particular, play an important part in helping to grow Scotland's economy in support of sustainable economic growth and the five Europe 2020 targets.

EUROPEAN STRUCTURAL FUNDS IN SCOTLAND

- EU Membership has brought significant investment into Scotland since joining the European Union. European Structural Funds have helped build digital networks, roads, harbours and causeways; invested in urban regeneration and business premises; and supported skills and training.
- The benefits are not only monetary; the funds promote partnership working across sectors and Member States for the benefit of those in our communities who need it most.
- The European Regional Development Fund (ERDF) and the European Social Fund (ESF), invested €740 million between 2007-2013. This funding supported 96,000 people into work and helped create almost 50,000 jobs.
- Projects supported by EU funding improve transport and internet links to remote regions, boost SME growth, improve education and skills, tackle climate change, and reduce poverty and social exclusion.
- Target groups who will benefit from current EU Structural Funds include those in our communities facing multiple barriers due to poverty and lack of equal opportunity.

Current programmes for 2014-20 are worth over €944 million (£828 million) which together with match funding brings £1.9 billion of investment to Scotland. Over £383 million of funding is now approved under the 2014-20 ESF/ERDF programmes, providing welcome investment during continued austerity and the uncertainty caused by Brexit.

5 <http://www.gov.scot/Resource/0049/00491180.pdf>

Areas of focus which support the Scottish Government's Purpose and all five Europe 2020 targets include:

European Regional Development Fund	European Social Fund
<p>Helping SMEs to innovate and commercialise, supporting the development of new products, processes and services and strengthening links with academic centres</p> <p>Supporting Scotland's seven cities to create a 'smart city' using data to improve services and delivery. It will pilot innovative technology to make Scotland's cities more energy-efficient, greener places to live and do business.</p> <p>Digital connectivity in remote communities (Highlands & Islands only)</p> <p>SME investment support (financial instruments)</p> <p>SME support to grow, including leadership development, access to new markets and use of digital technology</p> <p>Supporting low carbon projects to achieve maturity and scale for external investment</p> <p>Low carbon transport and travel, including integrated ticketing and walking and cycling connections</p> <p>Industrial transition to lower resource intensity, increasing environmental innovation and collaboration between businesses</p> <p>Green infrastructure in urban, deprived areas</p>	<p>Employability (national and local approaches), funding for activity to help unemployed and inactive people into work</p> <p>Youth Employment Initiative (YEI) funding to increase employment levels for young people in south west Scotland.</p> <p>Combating poverty, including through financial inclusion and testing whole-community development</p> <p>Community empowerment and social innovation</p> <p>Social enterprise support</p> <p>Higher-level skills matched to regional industrial needs</p>

As of December 2017, the Scottish Government has committed over £395 million in grant from 2014-20 European Structural Funds programmes to individual projects. These projects, some of which will support inclusive growth and/or improve equity, will:

- **Support over 24,000 businesses** to start up or grow
- **Support 850 low carbon projects**
- **Create 9,400 new jobs**
- Help to grow **150 social enterprises**, supporting more than **100 new jobs**
- Increase the level and **industry relevance of skills** for over **34,500 individuals**
- **Increase the number of people** choosing to travel by foot, cycling or public transport by 1.5%
- Support over **5,000 businesses** to become more **resource efficient**
- **Help 17,000 unemployed** young people access support to **get into work or education**
- **Support over 70,000 individuals** with multiple barriers to work into employment or training, or **to gain improved qualifications**

EUROPEAN SOCIAL FUND

The European Social Fund supports inclusive growth through investments in areas such as training, employability skills and financial literacy, and aims to support individuals to get into or progress in work and to combat poverty and social inclusion.

So far £65 million has been awarded to projects to help people with multiple barriers which are preventing them from gaining work, or to increase the opportunities for those in work. These projects aim to support over 25,000 unemployed people into work and 4,000 people in employment.

A number of projects are working with the most disadvantaged individuals and households, seeking to improve their money-management skills, increase their skill levels and find work, and ensure debt is less of a barrier to social inclusion.

The ESF also has a social enterprise and community focus: The Social Economy Growth Fund supports the development and growth of social enterprises; the Social Innovation Fund supports new approaches to tackling poverty and social exclusion, and the Aspiring Communities Fund helps communities develop long-term solutions to reduce poverty

Developing Scotland's Workforce provides over £25 million to support more than 25,000 participants to gain qualifications through Scotland's colleges and Skills Development Scotland's apprenticeship family, including foundation and graduate apprentices.

The youth employment initiative aims to support 16,000 people under 30 in the West of Scotland with the aim of reducing youth unemployment.

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

The Scottish Government published analysis in January 2018 of the implications for Scotland's economy if the UK exits the European Union. The paper, *Scotland's Place in Europe: People, Jobs and Investment*, demonstrates the benefits that Single Market membership has delivered and could deliver in future, and also sets out in detail the adverse economic consequences of a hard Brexit, which will undermine Scotland's economic prospects, including:

European Single Market and Trade: Brexit threatens Scotland's access to the single market and international markets negotiated by the EU. The European Single Market is the world's biggest, most lucrative marketplace which gives Scotland access to 510 million consumers. This could have a significant impact for Scotland

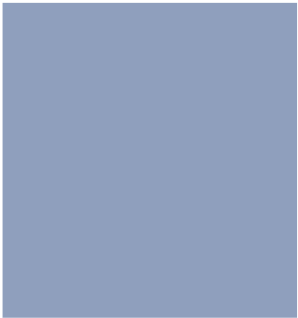
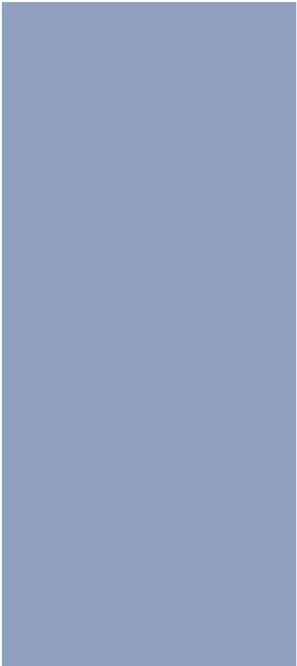
Free Movement of People: Scotland's economy and society have benefitted enormously from the arrival of EU citizens through the freedom of movement of persons. Key sectors of the Scottish economy are particularly dependent on the contribution of EU citizens. Economic modelling by the Scottish Government found that on average each additional EU citizen working in Scotland contributes a further £34,400 in GDP, and £10,400 in government revenue.* Without immigration, the number of people of working and paying towards public services in Scotland is also likely to fall. Brexit threatens continuation of freedom of movement which is therefore essential for maintaining Scotland's population growth, which in turn underpins future economic growth and the sustainability of public services.

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

This is why Scotland's Place in Europe: People Jobs and Investment calls for the UK Government to prioritise the UK's continued membership of the European Single Market and Customs Union, as it embarks on the negotiations to leave the EU. Short of continuing EU membership, the Scottish Government believes that the best outcome for jobs and living standards is to retain membership of the Single Market and Customs Union – both in transition and permanently.

*Source – Scotland's Place in Europe: People, Jobs and Investment

CHAPTER 3: HOUSING



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

One of the most important factors in any person's quality of life is their housing. Good quality, warm and affordable housing is vital to ensuring a Scotland that is fair for this and future generations.

Housing is an area where the Scottish Government and its partners are already taking a range of actions to ensure that all people in Scotland live in high-quality, sustainable homes that they can afford and that meet their needs.

The Scottish Government's target, over the current Parliamentary term, is to deliver at least 50,000 affordable homes, including 35,000 homes for social rent – a 75% increase on our previous social rent target. This ambitious plan has been backed up with investment of at least £3 billion representing a 76% increase on our previous five year investment.

Over £756 million is available in 2018-19 to fund this ambition – a 28% increase from the £590 million in 2017-18. Nearly 70% of the More Homes grant funding for this year, almost £615 million, is capital funding, primarily for social housing.

All Local Authorities across Scotland have received long term resource planning assumptions totalling £1.754 billion to March 2021, providing the certainty needed to deliver our target.

We exceeded our previous 30,000 affordable homes target by more than 10%. Over the last parliamentary term 33,490 affordable homes were delivered, 22,523 of which were for social rent.

Scotland has a range of schemes providing support to private sector housing activity, including the £195 million Affordable New Build and Smaller Developers Help to Buy (Scotland) shared equity schemes, which offers support to homebuyers from 2016-19.

These schemes offer equity support of up to 15% on more affordable new build homes, with progressively reduced threshold prices targeting support to those most needing assistance to buy a home and adapting to improved market lending conditions. The new schemes build on the popularity of the previous Help to Buy (Scotland) scheme which assisted 8,000 homes to be purchased with funding of over £305 million and helped stimulate the home building industry with a total sales value of over £1.4 billion.

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

FINANCIAL INNOVATION

The Scottish Government is maintaining Scotland's leadership in financial innovation and continuing to work creatively with its partners to innovate and optimise public resources to harness increased investment in housing, to deliver ambitious targets and boost the housing construction sector.

The innovative use of government guarantees, loans, grant recycling and leveraging in new sources of private funding is generating over £750 million of housing investment and supporting delivery of around 6,000 affordable homes – the majority of which will contribute to the 50,000 affordable homes target.

The National Housing Trust initiative, the first government guarantee-backed housing programme in the UK, was launched to stimulate the economy during a difficult period and increase the number of high-quality new homes, with no subsidy. This popular initiative has delivered over 1,400 affordable rented homes to date.

We remain committed to supporting expansion of homes for mid-market rent (MMR) across Scotland. The Local Affordable Rented (LAR) Housing Trust is a pioneering affordable housing model that is delivering 1,000 homes for MMR offering tenants high-quality, affordable homes across Scotland. LAR is supported by a £55 million Scottish Government loan, matched by private investment, lifting overall funding to £120 million. We are also progressing applications to our MMR invitation.

The Scottish Government is the first and only national government in the UK to invest in Charitable Bonds. These are a form of ethical investment which creates loan finance to fund affordable housing, and generate charitable donations. A £100 million investment is supporting the delivery of nearly 1,000 homes.

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

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

We are also supporting and enabling investment in the emerging Build-to-Rent housing market, with the potential for delivery of an additional 2,500 new homes for market rent, stimulating up to £500 million private investment.

SCOTLAND'S PLANNING SYSTEM

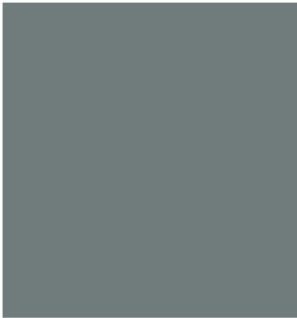
The Scottish Government published the "Places, People and Planning Position Statement" in June 2017, setting out proposed changes to be taken forward following the recommendations of the independent review of the planning system and further consultation. These changes aim to streamline development planning, strengthen community engagement, support the delivery of homes and infrastructure and improve resourcing of the planning system. A Planning Bill was introduced to the Scottish Parliament in December 2017. This includes proposals to strengthen the role of the National Planning Framework (NPF) and amend the development planning system in a way that will provide greater clarity on housing land requirements. Work on preparing the next NPF will start in 2018, with a view to adoption by the end of 2020.

Research has been commissioned to identify the variability in approach taken by different planning authorities in using Housing Land Audits to assess compliance with Scottish Planning Policy. The research will help inform how a more standardised approach to producing Housing Land Audits can be developed and identify options for future policy and guidance.

The Scottish Government is also supporting alternative housing delivery models. £160,000 has been provided to develop case studies that demonstrate and promote the value of self and custom build housing as an alternative mainstream housing delivery model. The seven pilot projects will include exploring the potential for affordable rural self-build and researching the potential for custom build at scale. Planning Delivery Advice on Build to Rent homes was published in September 2017 and sets out the key opportunities of this sector to contribute to housing supply and the challenges which it presents to decision-makers.

In addition to housing, major infrastructure improvements have also been delivered and significant progress continues to be made. In total, over the course of 2017 and up to March 2018 infrastructure projects worth £3 billion opened to the public across areas such as transport, health and education.

CHAPTER 4: EMPLOYMENT



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

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

Europe 2020 headline target:

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

CURRENT SCOTTISH PERFORMANCE

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

Table 2 – Current Scottish Performance Against Employment Indicators

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

YEAR OF YOUNG PEOPLE

The Scottish Government is committed to giving young people a stronger voice in policy making and co-designing improvements to services which affect their lives. We want to ensure that all our young people feel and believe that they are valued, wanted and vital to our country's future and that their voices are heard and listened to.

For this reason the Scottish Government has designated 2018 as the Year of Young People (YoYP) – making Scotland the first country (that we know of) to dedicate a year to its young people.

The YoYP will celebrate the very best of Scotland and its young people through a programme of cultural and educational events and activities, co-designed with young people themselves, held across Scotland. It aims to inspire Scotland through its young people, celebrating their achievements, valuing their contribution to communities and creating new opportunities for them to shine locally, nationally and globally.

Below are a number of initiatives currently being undertaken in Scotland to help support our young people to realise their full potential no matter what background they come from.

SUPPORTING YOUTH EMPLOYMENT

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

Developing the Young Workforce – Scotland's Youth Employment Strategy

The Scottish Government remains ambitious about its plans to increase youth employment and to reduce youth unemployment and is continuing to implement the recommendations of the Commission for Developing Scotland's Young Workforce in our Youth Employment Strategy: Developing the Young Workforce (DYW)⁶. Through this, the Scottish Government aims to reduce youth unemployment levels by 40% by 2021. The strategy further aims to create an excellent, work relevant education offer to young people in Scotland, giving them the skills and qualifications needed to succeed in the labour market.

The third annual report on the progress of DYW was published on 9 January 2018⁷. It highlighted the progress made to expand vocational provision for young people in the senior phase, including a significant expansion of Modern and Foundation Apprenticeships; establishing 21 regional DYW employer groups across Scotland; creating new national standards for work placements and careers education in schools; investing in earlier introduction for careers advice in schools. The report also noted the achievement of the programme's headline target, to reduce youth unemployment by 40% by 2021, four years ahead of schedule.

Tackling inequality is an important part of the Scottish Government's commitment to improving the options for young people as they progress through their education. An Equality Impact Assessment (EQIA) was undertaken for the DYW Youth Employment Strategy which underpins the DYW Programme, updated and published on 14 December 2017⁸. Through the Modern Apprenticeship Equality Action Plan and Scottish Funding Council Gender Action Plan for colleges and universities, the Scottish Government has set out how it will tackle gender imbalances and support those who face additional barriers through their education and training.

Actions to Support Youth Employment

Over the two-year period from January-March 2014 (baseline) to January-March 2016, youth unemployment has fallen by 9,000 from the Strategy's baseline figure of 52,000. As a result the Scottish Government is refocusing activity across its youth employment and apprenticeship programmes on young people who need the most support.

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

We will also continue to support employers to recruit young people who face the biggest barriers to employment, through Scotland's Employer Recruitment Incentive. Since July 2015 to end December 2016 a total of 1,317 employers have participated in the programme and 1,533 young people have been supported into a sustainable job or Modern Apprenticeship.

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

26,262 Modern Apprenticeship starts were delivered in 2016/17 exceeding the target of 26,000 starts.

7 <http://www.gov.scot/Publications/2017/12/7566>

8 <http://www.gov.scot/Resource/0053/00530056.pdf>

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

Our commitment to equality of opportunity in apprenticeships is set out in Skills Development Scotland's (SDS) Equalities Action Plan (EAP), which was published in December 2015. This publication makes clear the interventions we will make to increase the numbers of underrepresented groups in apprenticeships and to tackle gender segregation where it exists. SDS published its EAP Year 1 update in July 2017.⁹

The Scottish Government is investing £59 million of European Social Funds (ESF) into the Youth Employment Initiative (YEI) to help support young people in South West Scotland into secure and sustainable employment. We are also working with partners to ensure that ESF support investment in activity which promotes inclusive growth. ESF are being distributed across Scotland to tackle poverty, promote equal opportunity, develop skills and get people, including young people into training or work.

The Employability Fund (EF) remains a key element of the Scottish Government's efforts to boost employment levels in Scotland, with a further 9,000 EF training places being delivered this year (2017/18) and another 9,000 to be delivered in 2018-19. More than 70,000 training places have been delivered through EF since its launch in 2013, supporting individuals towards and into work, with 71% of leavers achieving a positive outcome from April 2016 to March 2017.

PROMOTING FAIR WORK

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

9 <http://www.skillsdevelopmentscotland.co.uk/media/43416/sds-equalities-action-plan-update-2017.pdf>

↓ The Scottish Business Pledge

The Scottish Business Pledge is a values-led partnership between Government and business, with the goal of boosting productivity, competitiveness, employment, fair work, and workforce engagement and development. By making their Pledge, companies demonstrate their commitment to shared values and to deliver them through their actions and future plans.

The Pledge has nine components:

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

The Scottish Business Pledge has grown steadily since 2015 with more than 500 companies across a range of sectors signing up to the Scottish Business Pledge at June 2018.

On 22 March 2018, a review of the Scottish Business Pledge was announced to focus on boosting the scale and impact of the Business Pledge.

Women's employment

The Scottish Government is working with the Equality and Human Rights Commission to tackle pregnancy and maternity discrimination. The Minister for Employability and Training is chairing a working group whose remit includes:

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

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

Disabled people's employment

In December 2016 the Scottish Government published a disability delivery plan, A Fairer Scotland for Disabled People¹⁰. At its heart was the ambition to make sure that disabled people have fair working lives which provide decent incomes.

¹⁰ <http://www.gov.scot/Publications/2016/12/3778>

We will also take a number of other actions to address the barriers to work. While disabled people account for 20% of Scotland's population (aged 16 and above), they make up just 11.2% of the private sector workforce and 11.6% of the public sector workforce.

We have engaged with stakeholders, including people with learning disabilities and autism, on how to halve the disability employment gap – and will continue doing this during 2018 and beyond. Later in 2018 we will set out next steps for taking forward action to reduce by more than half the disability employment gap, and in April 2018 we held a major Congress on Disability, Employment and the Workplace where the First Minister gave a keynote speech.

We want to give young people with disabilities the opportunity to reach their full potential and recognise the particular challenges they can face when entering the workforce. That is why we will pilot a new work experience scheme to help with this transition into permanent employment, and will offer the highest level of Modern Apprenticeship funding to disabled young people up to the age of 30. We will also build on the Scottish Council for Voluntary Organisations and Inclusion Scotland's pilot programme by providing people with disabilities with 120 employment opportunities in the third and public sectors and in politics between 2017 and 2021.

In April 2018 we launched our fully devolved employment service Fair Start Scotland. We hope that people with disabilities will make up around a third of the 38,000 participants we hope will join the new service over three years of referrals; and July 2018 will see the launch of the single health and work gateway pilot in Dundee and Fife that will deliver enhanced support for disabled people in those areas.

Employment Powers

New devolved powers on employment support were exercised from 1 April 2017, when a one-year transition arrangement for those with greater need was put in place. This decision has been taken to allow the transfer of devolved powers to be efficiently and seamlessly transferred. Existing Work Choice providers will deliver Work First, which will deliver employment support for up to 3,300 people with disabilities. At the same time, Skills Development Scotland will deliver Work Able Scotland, a service for up to 1,500 clients with a health condition and at risk of long-term unemployment who want to enter work.

The Scottish Government's focus is continuity support for those who are unemployed and with significant barriers to work, while building a Scottish programme of support from April 2018. In 2018 the Scottish Government introduced a fully devolved, distinctly Scottish employability service, creating a strong platform for future services, focussing support on those further from the labour market for whom work is a realistic prospect.

REVIEW OF ENTERPRISE AND SKILLS SUPPORT

In May 2016 Scotland's First Minister announced a review of enterprise and skills support in Scotland, to assess and maximise its contribution to productivity, equality, sustainability and wellbeing. The review identified ten recommendations in support of these aims, which are being taken forward through nine projects. The review is now firmly in its implementation phase,

with the establishment in November 2017 of an Enterprise and Skills Strategic Board to align and co-ordinate the activities of Scotland's enterprise and skills agencies, and drive forward the projects that make up the Scottish Government's Enterprise and Skills Programme. Taken together these projects will prompt improvement in Scottish productivity, with an increased focus on supporting and better reflecting business and user need.

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

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

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

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

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

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

*Source: Businesses in Scotland 2017, Scottish Government

CHAPTER 5: RESEARCH AND DEVELOPMENT



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

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

Europe 2020 headline target:

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

CURRENT SCOTTISH PERFORMANCE

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

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

Indicator	Current Level	Change Over Year	Reference Period
The total number of VAT/PAYE registered private sector enterprises in Scotland per 10,000 adults	391 businesses per 10,000 adults	Above the rate of 388 in the previous year	2017
Gross expenditure on research and development as a share of GDP	1.54% of Scottish GDP (0.32% pts above the baseline year of 2006)	0.02% pts above the previous year	2016
Weighted, inflation-adjusted index of the Scottish Funding Council's Knowledge Transfer Metrics	14.3% above the baseline year of 2007-08	1.0% below the previous year	2016-17
Proportion of innovation active businesses in Scotland	46%	5% pts below previous reference period (2012-14)	2014-16

Table 3 shows that:

- The 2017 registered business stock rate of 391 businesses per 10,000 adults represents an increase from the 2016 rate of 388 businesses per 10,000 adults. Note that the 2017 rate is the highest rate recorded since the start of the series in 2005.
- In 2016, Scotland's Gross Expenditure on R&D as a share of GDP was 1.54%, representing an increase from 1.52% in 2015. Spend in 2016 was also well above the 2006 baseline level.
- The knowledge exchange index is estimated to have increased by 1.0% between 2015-16 and 2016-17, driven by an increase in income from venturing and external research grants and contracts. However, fluctuations over time suggest that we should not read too much into one year's change in the index as some of the components can be quite volatile. Since 2007-08, there has been a gradually positive trend in the index, with the current level at 14.3% above the baseline year.
- The proportion of innovation active businesses in 2014-16 was five percentage points below the previous reference period (2012-14).

BOOSTING INNOVATION IN SCOTLAND

Through Scotland's Economic Strategy, and the Programme for Government, the Scottish Government is fostering a culture of innovation and research and development. Scotland CAN DO is our statement of intent to be a world-leading entrepreneurial and innovative nation. Developed and delivered jointly with partners across the public, private and third sectors, it embodies a shared vision where growth and innovation go hand-in-hand with wider benefits to all of society. An example of the collaboration that drives Scotland CAN DO is the Scottish EDGE Fund. Led by a partnership of public, private and third sector interests, the Scottish EDGE Fund delivers investments of up to £150,000 to those early-stage businesses with the most growth potential. Over the last eleven rounds, more than £10 million has been awarded, with the winners generating an additional £79.78 million in turnover and creating 2,214 jobs.

The CAN DO Innovation Action Plan, published on 11 January 2017¹¹, focuses on the steps the Scottish Government can take now to improve Scotland's innovation.

Key priorities of the Plan are to:

1. Directly encourage more business innovation
2. Use public sector needs and spend to catalyse innovation
3. Support innovation across sectors and places
4. Make best use of University research knowledge and talent to drive growth and equip Scotland's people with the tools and skills needed to innovate.

11 <http://www.gov.scot/Resource/0043/00438045.pdf>

KEY POLICIES

To implement the CAN DO Innovation Action Plan to help encourage more businesses in Scotland to increase their level of innovation commitment we will:

- Utilise public sector needs and spend to catalyse innovation through public sector challenges such as the Innovation Centre Challenge Fund and CivTech.
- Develop a more innovative and entrepreneurial culture and drive increased business demand for innovation.
- Simplify and streamline innovation support, finance and bureaucracy.

Scotland CAN DO sets out some immediate steps to improve Scotland's innovation performance. The plan aims to create a culture in Scotland that supports ambitious businesses to use innovation to grow, underpinned by a clear, easy to navigate, well connected system of information, advice and support. The plan includes the use of public sector investment to catalyse innovation, with projects such as CivTech, the world's first cross public sector technology accelerator.

The Scottish Government is additionally supporting innovation by:

- Developing an innovation prize to reward, and invest in, innovation in Scottish companies.
- Supporting digital innovation through CivTech.
- Increased investment in Interface, Scotland's hub to connect business and academia.
- Encouraging public sector and large and small firms to collaborate through Scottish Enterprise's £2.9 million Open Innovation programme.
- Scotland CAN DO SCALE – an education programme aimed at developing entrepreneurial skills and innovative ideas.

- Continuing to support its network of eight Innovation Centres which use academic expertise to address real world business issues. The Scottish Funding Council has committed up to £120 million over six years (2013-2019).
- Developing a plan for establishing a National Manufacturing Institute for Scotland that will act as a hub for continuous innovation to ensure Scotland remains a sustainable and competitive place to do business.
- Committing further funding to establish and embed Innovation and Investment Hubs in London, Brussels, Dublin, and Berlin.

Scotland's universities are a key asset in the drive to increase Scotland's productivity and inclusive growth as demonstrated by their active and valued participation in a range of international research and innovation programmes including Horizon 2020 – the EU's programme for Research and Innovation. Data to March 2017 indicates that Scottish organisations secured almost €352 million, representing around 10.8% of total funding awarded to UK organisations. Scottish Higher Education organisations and research institutes have secured almost 77% (over €271.5 million) of all funding awarded to Scottish organisations.

Scotland's network of Innovation Centres bring together universities, businesses and others to enhance innovation and entrepreneurship across key sectors. There are currently eight Centres, collectively spanning Stratified Medicine, Sensors and Imaging Systems, Digital Health, Industrial Biotechnology, Oil and Gas, Big Data, Construction and Aquaculture. The Centres are being supported by up to £120 million of funding from the Scottish Government over 2013-19, administered by the Scottish Funding Council.

ENCOURAGING ENTREPRENEURSHIP AND BUILDING A SUPPORTIVE BUSINESS ENVIRONMENT

As well as providing direct support for innovation, the Scottish Government is committed to ensuring that our business environment is supportive of new ventures, to help encourage companies to grow, innovate and build resilience. Our approach includes, for example, improving access to finance and offering start-up support and advice for new businesses.

Supporting business development in Scotland starts with the Business Gateway service, offering a first point of contact for all publicly funded advice to business in Scotland to support pre-start, early-stage and growing businesses. The Business Gateway service supports new startups, existing and growing businesses in Scotland. It assists around 10,000 individuals to start a business every year by providing advice, information, training and help to find funding. In 2016/17, 10,629 new start-up businesses were helped to start trading.

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

In 2016, additional European Regional Development Fund (ERDF) Business Competitiveness funding of £24 million plus match funding totalling £60 million was invested to enhance the existing provision to grow Scotland's small and medium sized enterprises (SMEs). This linked support for innovation and investment to build

international capability, particularly in key sectors including food and drink, energy, technology and engineering. The process helped to identify and develop the next generation of growth businesses in Scotland.

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

Access to Finance

The ability for SMEs to access finance is important for funding business investment, ensuring businesses meet their full growth potential and encouraging business start-ups. Support for this includes the SME Holding Fund, which is managed by the Scottish Government and financed by £40 million support from the 2014-2020 ERDF Programmes in Scotland. The Fund supports micro SMEs by improving their access to finance through a range of selected financial intermediaries or delivery agents who manage microfinance, debt and equity funds in Scotland.

The £40 million ERDF is further leveraged by public and private sector support so that more than 500 companies will receive at least £250 million in debt and equity funding to create 2,000 jobs by 31st December 2018. In this role, the Fund contributes to the Scottish Government's economic development strategy on access to finance and fosters EU objectives in support of entrepreneurship, growth, innovation, research and development, and employment. The four appointed delivery agents reported performance (up to 31 December 2017) indicates 330 companies accessed £223 million, creating 1,005 jobs.

Scottish Growth Scheme

The Scottish Growth Scheme (SGS) was announced in the 2016 Programme for Government to stimulate economic growth in Scotland. It will deliver £500 million of investment over three years to June 2020 and will target SMEs that have growth potential, both in Scotland and abroad. In particular this will include those young companies, that are technology intensive and which struggle to obtain finance through conventional means. The Scheme currently has two elements; the Scottish European Growth Co-investment Programme (SEGCP) and new and additional ERDF funding to be distributed as part of the SME Holding Fund.

The first tranche of SGS funding, the £200 million Scottish-European Growth Co-investment Programme, was announced in June 2017. It will provide equity to companies seeking over £2 million of investment.

In September 2017, we announced new and additional Growth Scheme funding of £25 million for businesses seeking equity investment of up to £2 million. By early April 2018, 43 companies had received investments totalling £49.4 million under the Scottish Growth Scheme. Further activity will be announced over coming months, seeking to deliver a range of products including microfinance, debt and equity.

DEVELOPING DIGITAL INFRASTRUCTURE

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

Thanks to our Digital Scotland Superfast Broadband programme, around 890,000 additional premises across Scotland have access to fibre broadband, with the majority of those able to access superfast broadband (speeds greater than 30 Mbps). We also exceeded our target of 95% fibre broadband coverage across Scotland by the end of 2017 largely thanks to the current programme's roll-out.

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

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

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

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

The Scottish Government's refreshed Digital Strategy, published on 22 March 2017¹², makes clear that digital connectivity is a vital part of national infrastructure and sets out our commitment to achieving high-quality connectivity throughout the whole of Scotland.

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

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

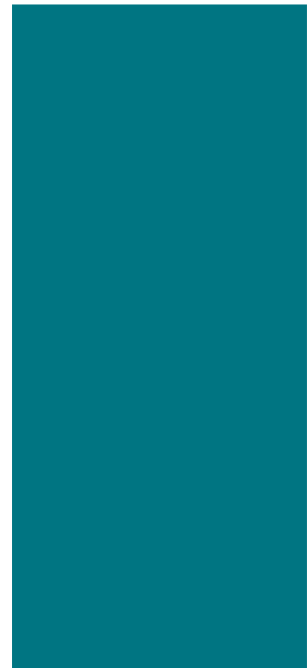
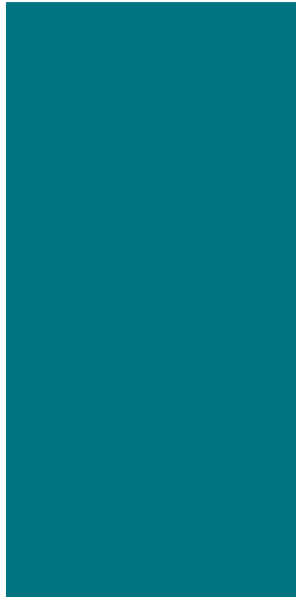
Missing out on EU research and innovation programmes - It is widely acknowledged that research and innovation policies make a significant difference to increasing productivity and boosting the competitiveness of industry. The Scottish Government believes that our universities, research institutions and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

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

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

12 <https://beta.gov.scot/publications/realising-scotlands-full-potential-digital-world-digital-strategy-scotland/documents/00515583.pdf?inline=true>

CHAPTER 6: EDUCATION



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

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

Europe 2020 headline targets:

Improving education levels, in particular by:

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

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

CURRENT SCOTTISH PERFORMANCE

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

Table 4 – Current Scottish Performance Against Education Indicators

Indicator	Current Level	Change Over Year	Reference Period
Proportion of 18-24 population who are early leavers from education and training ¹³	10.3%	2.8% pts decrease	2017
Share of the population aged 30-34 having completed tertiary education ¹⁴	57.5%	2.5% pts decrease	2017
Proportion of 18-24 population who are early leavers from education and training ¹⁵	91.1% 16-19 year olds were participating in education, training or employment	0.7% pts increase	2016-17
The proportion of graduates in positive destinations six months after graduating ¹⁶	68.3%	1.1% percentage point increase	2014-16
The proportion of working age adults that have low or no educational qualifications (SCQF Level 4 qualifications or below) ¹⁷	10.8%	1.1% pts decrease in proportion of adults with low or no educational qualifications	2017

13 <http://ec.europa.eu/eurostat/web/education-and-training/data/main-tables>

14 <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tgs00105&plugin=1>

15 https://www.skillsdevelopmentscotland.co.uk/media/43580/2017_annual-participation-measure-report-29th-august-2017.pdf

16 <http://www.gov.scot/About/Performance/scotPerforms/indicator/graduates>

17 <http://www.gov.scot/About/Performance/scotPerforms/indicator/skill>

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

RAISING ATTAINMENT AND ADDRESSING INEQUALITIES OF EDUCATIONAL OUTCOME

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

Scottish Attainment Challenge

The Scottish Government has extended the scope and the reach of the Scottish Attainment Challenge which aims to achieve equity in educational outcomes with particular focus on closing the poverty-related attainment gap. It is backed by the £750 million Attainment Scotland Fund over the course of the current parliament, prioritising improvements in literacy, numeracy and health and well-being for pupils impacted by socio economic disadvantage. In 2018-19, every local authority area in Scotland will benefit from £120 million of Pupil Equity funding which will be allocated directly to over 96% of schools based on estimated free school meal registrations. In addition, we have provided £59 million for 2018-19 to provide targeted support to specific Scottish Attainment Challenge authorities and schools in areas with high levels of deprivation, as well as a number of national

programmes including support for staffing supply and capacity, professional learning and school leadership.

Education Maintenance Allowance

The Scottish Government has retained the Education Maintenance Allowance (EMA) in Scotland to provide financial support to eligible 16-19 year olds from the lowest income families, enabling them to stay in education and learning beyond the school leaving age. In January 2016, the programme was expanded to include part-time non-advanced college courses and the income thresholds were increased. 31,735 school pupils and college students received EMA payments in Scotland in the academic year 2015-16. The total amount spent on EMA payments in 2015-16 was £24.8 million. Of this, £17.4 million (70%) was paid out to school pupils, and the remaining £7.4 million (30%) paid out to young people attending college.

SCHOOL ATTENDANCE – PROMOTING ENGAGEMENT

The Scottish Government works with local authorities, schools, pupils and parents to highlight the potential risks of disrupting learning by absence from school. The Scottish Government published guidance on attendance for local authorities and schools "Included, Engaged and Involved Part 1: Attendance in Scottish Schools"¹⁸ in 2007 which provides guidance on how to promote engagement and motivation, including among those who may be at risk of poor attendance. In Scotland, the attendance rate in publicly funded schools has remained relatively stable since 2010/11, increasing from 93.1 to 93.7% in 2014/15 then decreasing slightly to 93.3% in 2016/17.¹⁹

¹⁸ <http://www.gov.scot/About/Performance/scotPerforms/indicator/skill>

¹⁹ <http://www.gov.scot/About/Performance/scotPerforms/indicator/skill>

SUPPORTING STUDENTS AND WIDENING ACCESS

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

- In further education, full-time students are currently able to receive a means tested non-repayable bursary of up to £97.33 per week. The 2017-18 student support budget is at a record high of over £107 million in college bursaries, childcare and discretionary funds.
- The Scottish Government is committed to providing student support. The current higher education funding package includes an annual minimum income of £7,625, through a combination of bursaries and loans, for students with a family income of less than £19,000, and a student loan of £4,750 a year, which all students are eligible for. Part-time students with a personal income of less than £25,000 are eligible to receive a grant towards tuition-fee costs.
- Eligible students taking 'taught' postgraduate diploma and masters courses in Scotland can apply for a tuition fee loan of up to £5,500, in addition to a living cost loan of up to £4,500. Over the academic year 2016-17, £834.8 million of student support, covering tuition fees, grants, bursaries and authorised loans, was allocated through the Student Awards Agency for Scotland (SAAS) to 143,100 full-time higher education students.
- Ensuring that access to higher education remains free for Scottish-domiciled students, investing over £1 billion in Scotland's higher education sector in 2017-18 to support this. In addition, the Scottish Government's Budget for 2017-18 confirmed that universities and colleges will receive cash terms increases in funding on the previous year.

- We commissioned the Independent Review of Student Support which provided recommendations to Scottish Ministers in November 2017. We have welcomed the report's central premise about creating a student support system around the key values of fairness, parity and clarity. The report sets out a number of recommendations that would fundamentally change the way students in Scotland are supported financially. It is only right that we now take the necessary time to consider these recommendations in detail and in particular how these interact with social security payments still reserved to the UK Government. We will set out our next steps in this regard in due course.

The Scottish Government is committed to widening access to higher education and has committed to implementing all 34 of the recommendations made by the Commission on Widening Access, which were published in its final report, *A Blueprint for Fairness*²⁰ on 14 March 2016. We have established an Access Delivery Group, chaired by the Minister for Further Education, Higher Education and Science, to bring together all those with a responsibility for implementation of the recommendations, those leading delivery projects and other key stakeholders. The Group's primary purpose is to coordinate and monitor delivery and to provide a forum for strategic discussion with the sector on widening access. In line with the Commission's recommendations we appointed a Commissioner for Fair Access whose first annual report, *Laying the Foundations for Fair Access*, was published on 13 December 2017²¹. The Commissioner is also leading the development of a Scottish Framework for Fair Access. This online toolkit and community of practice, which will be launched by the end of 2018, will help access practitioners plan and evaluate new ways of helping people from disadvantaged backgrounds to access higher education.

²⁰ <http://www.gov.scot/Publications/2017/04/7347/10>

²¹ <https://beta.gov.scot/publications/laying-foundations-fair-access-annual-report-2017-commissioner-fair-access/>

Supporting Older Learners

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

- The Scottish Funding Council's Outcome Agreements ask colleges to remove barriers and support full participation and successful outcomes for all groups of learners in their local community.
- Older learners are well represented amongst all college students:
 - For those aged 25 and older, the number of funded full-time enrolments at college has increased by 41.9% (to 19,175 in 2016/17) since 2006-07.
- Older learners in further education are benefitting from record levels of support. The 2016/17 budget of over £106 million in college bursaries, childcare and discretionary funds is a real-terms increase of 32% since 2006/07.

INVESTING IN SCOTLAND'S LEARNING ENVIRONMENT

The Scottish Government is also committed to increasing student and staff mobility, and promoting Scotland as a learning nation. Scotland's participation in ERASMUS+, the EU programme for education, training, youth and sport for 2014-2020, helps to raise the profile of Scotland as a place to live, work and study in key overseas markets and to showcase the best of Scottish higher education to the world. Participation is of considerable value in providing people in Scotland with the opportunity to learn new skills, develop their confidence and broaden their horizons. Since 2014 more than 15,000 people have been involved in ERASMUS+ projects in Scotland. The inclusion of support for areas such as adult education and youth volunteering is of particular importance because it provides valuable opportunities for mobility to those who too often have few opportunities to spend time studying or working overseas.

Across the UK, ERASMUS+ is delivered by a consortium of the British Council and Ecorys. British Council estimates published in February 2018 show that to date, almost €65 million has been awarded for 658 successful projects led from Scotland, in sectors such as higher and adult education, schools, youth, and vocational education and training, since ERASMUS+ in 2014 to 2017. In 2017 Scotland received its highest ever allocation of ERASMUS+ funding – nearly €21 million was awarded compared to €16 million in the previous year.

Brexit: What's at stake for Education?

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

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

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

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

CHAPTER 7: POVERTY AND SOCIAL EXCLUSION

7



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

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

Europe 2020 headline target:

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

CURRENT SCOTTISH PERFORMANCE

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

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

Indicator	Current Level	Change Over Year	Reference Period
Solidarity target: "Increase the proportion of income earned by the three lowest income deciles as a group by 2017" ^{22 23}	121	Decreased from 138	2015-16
Reduce the proportion of individuals living in poverty - this is measured in terms of the percentage of people living in relative poverty (below 60% of UK median income before housing costs) ²⁴	17% of the population in relative poverty	unchanged	2015-16
Reduce children's deprivation National Indicator - this is measured in terms of percentage of children in combined material deprivation (based on a suite of questions in the Family Resources Survey) and low income (below 70% of UK median income) ²⁵	10% of children in combined material deprivation	unchanged	2015-16

22 The solidarity target changed its calculation method in 2015. It has two elements – the level of total income received by Scottish households in the most recent year; and the ratio of the incomes of the top 10% of households, compared to those of the bottom 40%. Change of 5 percentage points or more is required to be performance improving or worsening.

23 <http://www.gov.scot/About/Performance/scotPerforms/purposetargets/solidarity>

24 <http://www.gov.scot/Publications/2018/03/3017>

25 <http://www.gov.scot/Publications/2018/03/3017>

As indicated in Table 5, the share of income earned by the lowest four income deciles has increased compared to the previous year, while the proportion of the population in relative poverty and the share of children living in material deprivation have remained broadly unchanged. In addition to the National Performance Framework measures, in 2017, the Scottish Government introduced four statutory child poverty targets to assess progress in tackling child poverty.

DELIVERING INCLUSIVE GROWTH

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

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

The Scottish Government is committed to creating a fair and inclusive jobs market in which every individual can participate to their full potential. Scotland's Labour Market Strategy sets out the action we are taking to deliver this ambition. This includes supporting the Fair Work Convention to embed a culture of Fair Work throughout all workplaces in Scotland, encouraging employers to adopt Responsible Business practices, and promoting workplace equality.

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

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

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

We are working with the Convention to drive change and to promote fair work through engaging in a new type of dialogue with employers, employees and trade unions. Our approach is to persuade and influence where we cannot legislate, and we continue to make great progress using the levers which we have. For example:

- Through public procurement we have published statutory guidance addressing fair work practices.
- The number of Scots-based Accredited Living Wage Employers has now risen to over 1,100. Furthermore, Scotland is the best performing of all four UK countries in terms of both the proportion of the workforce paid at least the living wage and the proportion of accredited companies paying the Living Wage.
- Through initiatives like the Scottish Business Pledge and public procurement actions, we remain committed to opposing exploitative zero-hours contracts. The proportion of people on zero hours contracts in Scotland (2.7% of all employees) is lower than the UK as whole (2.8%).
- We see Trade Unions as our social partners and a huge strength for our country. That is why we opposed the UK Government's Trade Union Act which is a threat to unions; to the fundamental rights of workers; and to the collaborative approach we take here in Scotland. We continue to offer support to the Scottish Trades Union Congress via Scottish Union Learning and the Trade Union Fair Work Modernisation Fund,
- We support the work of Business in the Community Scotland (BITCS) to bring those from a background of poverty and limited opportunity closer to the workplace. They have four leadership groups which focus on Innovation, Employability, Communications and Education.

Looking forward, the Scottish Government will build on our progress to date and publish a Fair Work Action Plan by the end of 2018.

EQUITY

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

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

Tackling poverty and inequality is central to what the Scottish Government is seeking to achieve. In October 2016, the Scottish Government published the Fairer Scotland Action Plan²⁶, which sets out 50 selected actions over this Parliamentary term under five themes of: A Fairer Scotland For All; An End To Child Poverty; A Strong Start For All Young People; Fairer Working Lives; and A Thriving Third Age.

Key commitments within the Fairer Scotland Action Plan include:

- A significant increase in the level of funded early learning and childcare provision by 2020.
- The introduction of a new Best Start Grant for low-income families in the early years.
- A new socio-economic duty on public authorities, which will ensure that public bodies are all working consistently towards the same anti-poverty goals.

26 <http://www.gov.scot/Resource/0050/00506841.pdf>

- Commitments to promote good flexible working to help families maximise their incomes and achieve a better work-life balance.

The Fairer Scotland Action Plan is underpinned by a new £29 million programme, including £12.5 million from the European Social Fund, to tackle poverty across Scotland.

EVERY CHILD, EVERY CHANCE

In March 2018 the Cabinet Secretary for Communities, Social Security and Equalities published 'Every Child, Every Chance: The Tackling Child Poverty Delivery Plan 2018-22'²⁷. This is the first of three delivery plans which will be published by the Scottish Government in order to meet the ambitious targets set out in the Child Poverty (Scotland) Act 2017. The Plan sets out a range of actions aimed at meeting the targets by increasing family incomes and reducing household costs. Key commitments include:

- An additional £12 million for parental employment support, helping parents to enter and progress in work; alongside launching Fair Start Scotland, the new devolved employment service.
- A new guaranteed minimum amount for School Clothing Grant, providing more money for school uniforms and sports kits.
- £1 million investment to providing help for children experiencing food insecurity during the school holidays.
- A commitment to introducing a new income supplement for low income families, and introducing the new Best Start Grant from summer 2019.

- Investing £2 million to expand the Children's Neighbourhoods Scotland programme to improve a range of outcomes for children.
- A new £7.5 million innovation fund with the Hunter Foundation

Progress reports will be published annually on the Delivery Plan, and Local Authorities and Health Boards will commence reporting on their action from next year.

There are also a number of social security powers that have been devolved through the Scotland Act 2016 that will help people on low incomes, in particular Universal Credit Scottish Choices. The new Universal Credit Scottish Choices, sometimes known as "The Scottish Flexibilities", make Universal Credit payments more flexible and adaptable by giving people in Scotland the choice to be paid either monthly or twice monthly and have the housing cost in their Universal Credit award paid direct to their landlord.

We are also introducing a new grant targeted at young people aged 16-24 who are starting work after a period of 6 months or more unemployed. The Scottish Government has made a commitment of a cash payment of £250 to young parents (or £100 for people without children) and a three month bus pass. The Job Grant aims to meet the immediate costs of transitioning into employment, as well as contributing towards longer-term outcomes, such as improvements in employment and health.

²⁷ <http://www.gov.scot/Publications/2018/03/4093>

EXPANDING EARLY LEARNING AND CHILDCARE

The Scottish Government has noted European Commission recommendations that action is taken to improve the availability of affordable, high-quality, full-time childcare. This is an area where the Scottish Government continues to take strong action.

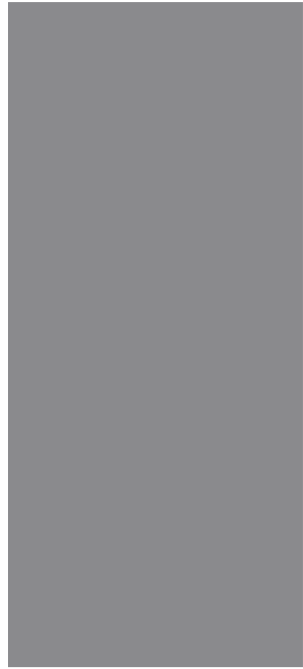
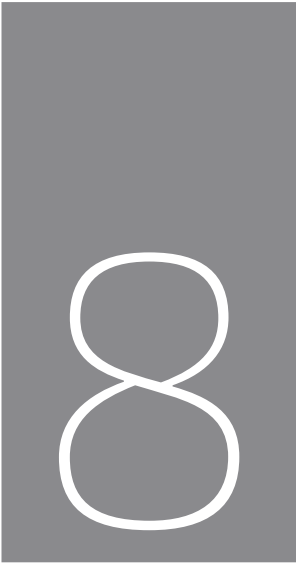
In Scotland, through the Children and Young People (Scotland) Act 2014, entitlement to funded early learning and childcare (ELC) increased to 600 hours for all 3 and 4 year olds and to eligible 2 year olds. The Act also made it a legal requirement for local authorities to consult parents in order to increase flexibility and choice over how ELC is accessed. Since 2014, the Scottish Government has provided local authorities with nearly £810 million to fully fund these changes.

The Scottish Government is committed to further expanding the entitlement and will nearly double the funded early learning and childcare entitlement to 1,140 hours per year by 2020. This will require substantial increases in the workforce and investment in infrastructure. Since 2017-18, the Scottish Government has provided local authorities with over £270 million to support the expansion to 1,140 hours.

The Scottish Government is committed to providing local authorities with additional funding to allow them to agree rates with providers in the private and third sectors that enables them to pay all childcare workers delivering the funded early learning and childcare entitlement the 'real' Living Wage from August 2020.

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

CHAPTER 8: CLIMATE CHANGE AND ENERGY



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

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

Europe 2020 headline targets:

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

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

CURRENT SCOTTISH PERFORMANCE

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

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

Indicator	Target	Current Level	Change Over Year	Reference Period
Greenhouse Gas Emissions ²⁸	Reduce emissions by at least 42% by 2020 and at least 80% by 2050, compared to a 1990 base year	45.21.0% reduction from 1990 to 2016, after taking account of trading in the EU Emissions Trading System (EU ETS)	2.5% increase in emissions, after taking account of trading in the EU Emissions Trading System (EU ETS)	2016
Indigenous Renewable Energy Sources	Generate the equivalent of 100% of gross electricity consumption from renewable sources by 2020	68.1%	14.1% pts increase	2017
Heat Demand	11% of Scotland's heat demand from renewables by 2020	4.8%	0.6% pts decrease	2016
Energy Efficiency	Reduce final energy end-use consumption by 12% by 2020 (against a 2005-2007 baseline)	15.4% lower than baseline	0.3% pts decrease in consumption	2015

28 <http://www.gov.scot/Resource/0053/00536542.pdf>

Scotland is on track to achieve its interim 2020 target to reduce greenhouse gas emissions by 42%; Scotland has now exceeded its interim target to produce 50% of its gross electricity consumption from renewable sources; final energy end-use consumption continues to decrease having already met the 2020 reduction target; and the share of Scotland's heat demand from renewables decreased in 2016.

CLIMATE CHANGE

In February 2018, the Scottish Government published its Climate Change Plan²⁹ for meeting greenhouse gas emission reduction targets out to 2032. In December 2017, it also published a full statement of its ambitious long-term vision of energy supply and use in Scotland, aligned with greenhouse gas emissions reduction, in the Energy Strategy³⁰.

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

The Climate Change Plan is our third Report on Policies and Proposals, mandated by the Climate Change (Scotland) Act 2009. It sets out the actions the Government will take over the period 2018-2032, to reduce emissions by 66% from baseline levels. The Plan includes policies and proposals across all sectors including:

- A 28% reduction in emissions from the electricity sector over the lifetime of the plan with Scotland's electricity system to be largely decarbonised by 2032.
- A 33% reduction in emissions from the building sector over the lifetime of the Plan emissions, including a 23% fall in residential emissions and a 53% fall in non-domestic emissions.
- Low carbon heat targets of 35% for the domestic sector, and 70% for the non-domestic.
- A 37% reduction in emissions from the transport sector over the lifetime of the plan with proposals around promoting the use of ultra-low emissions vehicles and phasing out the need for new petrol and diesel cars and vans by 2032 and increasing investment in walking and cycling from £40 million to £80 million.
- A 21% reduction in emissions from the industry sector over the lifetime of the plan, supported by proposals to increase industrial and commercial energy productivity, reduce industrial and commercial emissions intensity and support for new technologies.
- A 52% reduction from the waste sector over the lifetime of the plan, with commitments to reduce waste arising by 15%, recycle 70% of our waste, reduce the amount landfilled to 5% and reduce food waste by 33%.

²⁹ <http://www.gov.scot/Resource/0053/00532096.pdf>

³⁰ <https://beta.gov.scot/publications/scottish-energy-strategy-future-energy-scotland-9781788515276/documents/00529523.pdf?inline=true>

- Working with farmers, crofters and land managers to maximise efficiency and lower the emissions intensity of Scottish produce, to reduce emissions from the agriculture sector by 9% over the lifetime of the plan.

The Energy Strategy is the first publication of its kind and is intended to guide the decisions that the Scottish Government, working with partner organisations, will make over the coming decades. It describes the ways in which we will strengthen the development of local energy, protect and empower consumers, and support Scotland's climate change ambitions while tackling poor energy provision.

The strategy's vision for 2050 is built around six priorities:

- Promote consumer engagement and protect consumers from excessive costs.
- Champion Scotland's renewable energy potential, creating new jobs and supply chain opportunities.
- Improve the energy efficiency of Scotland's homes, buildings, industrial processes and manufacturing.
- Continue to support investment and innovation across our oil and gas sector, including exploration, innovation, subsea engineering, decommissioning and carbon capture and storage.
- Ensure homes and businesses can continue to depend on secure, resilient and flexible energy supplies.
- Empower communities by supporting innovative local energy systems and networks.

The Strategy establishes two new 2030 targets for energy in Scotland:

- 1) to deliver the equivalent of 50% of all energy consumed in Scotland from renewables; and
- 2) a 30% improvement in our energy 'productivity'.

The Scottish Energy Strategy includes a range of actions that will create opportunities for both suppliers and consumers of energy. These include a £20 million Energy Investment Fund, which will build on the success of the Renewable Energy Investment Fund, and a £60 million Low Carbon Innovation Fund, to provide dedicated support for renewable and low carbon infrastructure over and above wider interventions to support innovation across the economy.

The Scottish Government introduced a new Climate Change Bill on 23 May 2018 that responds to the UNFCCC Paris Agreement with new, evidence-based, statutory emission reduction targets. The proposals include increasing the ambition of our statutory targets (including a 2050 target to reduce net greenhouse gas emissions by 90% from 1990 levels); requiring Ministers to regularly seek advice on the earliest achievable year to reach net-zero emissions; removing the adjustment for the EU-ETS so that targets are based on emissions in Scotland; and retaining the rigorous statutory framework, which includes annual targets and annual progress reports. The Bill is expected to complete Parliamentary passage in 2019.

On the global climate action agenda, Scotland continues to engage with external partners to share expertise and lessons from domestic action in support of the Paris Agreement. This is underpinned by direct backing for inclusion and capacity building amongst developing countries, in addition to the programmes run under Scotland's Climate Justice Fund. Technology and policy initiatives are also areas of cooperation with global partners through Scotland's membership of the Under 2 Coalition and The Climate Group's States and Regions Alliance. The period between 2018 and 2020 is an important phase for the Paris Agreement, and the Scottish Government will continue to be active at the UNFCCC level alongside the UK, as well as regional, city and community level as part of the combined global effort to tackle climate change.

OPPORTUNITIES FROM A LOW CARBON ECONOMY

The transition to a low carbon economy, as part of the drive to tackle climate change, has the potential to bring new economic, environmental and social opportunities to individuals, business and communities across Scotland.

Scotland is already capturing the economic benefits associated with this energy transition. Scotland is an internationally renowned centre for energy innovation and expertise with Scottish renewable energy businesses now working in more than 40 countries around the world. In 2015, low carbon industries and their supply chains in Scotland generated over £10.5 billion and supported 58,500 jobs.

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

MAXIMISING THE SOCIAL AND ECONOMIC OPPORTUNITIES OF ENERGY AND RESOURCE EFFICIENCY

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

By 2040, our homes and buildings will be warmer, greener and more comfortable, as well as reducing our impact on the environment. The Programme is supporting our ambitious targets to reduce greenhouse gases; we will see emissions reductions in the residential and services sectors of 23% and 59% respectively by 2032 on 2015 levels. Our Climate Change Plan sets out the policies and proposals that will keep Scotland on course to achieve the 2050 target of cutting greenhouse gas emissions by 80%. To achieve this, emissions from all buildings in Scotland will need to be near zero carbon by 2050. We will achieve this in a way that is socially and economically sustainable.

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

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

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

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

We are now consulting on these proposals.

Energy Efficiency has been a long term priority for the Scottish Government and the Programme will build on the good progress already made. The standard assessment procedures for EPCs continues to show improvement in the energy efficiency profile of housing. The share of the most energy efficient dwellings (rated C or better) increased from 24% in 2010 to 43% in 2016. In the same period, the proportion of properties in the lowest EPC bands (E, F or G) has almost halved, reducing from 27% to 14%.

By the end of 2021, the Scottish Government will have committed over £1 billion since 2009 on tackling fuel poverty and improving energy efficiency. This funding will be used to build on the over 1 million measures delivered through a range of UK and Scottish programmes to 1 million households since 2008.

LOW CARBON INFRASTRUCTURE TRANSITION PROGRAMME (LCITP)

The Low Carbon Infrastructure Transition Programme (LCITP) has committed European funds to projects up until 2021. The projects being funded support important economic, employment and social priorities. Until it is clear how negotiations with the EU are to progress, these important projects should continue.

LCITP is a collaborative partnership led by the Scottish Government, working with Scottish Enterprise, Highlands and Islands Enterprise, Scottish Futures Trust and Resource Efficient Scotland.

LCITP supports the acceleration of low carbon infrastructure projects across the public, private and community sectors to develop investment grade business cases to help projects secure public and private capital finance. The programme aims to stimulate commercial interest and investment and maximise Scotland's vast potential in the low carbon sector whilst contributing to the positive progress of the Scottish Government in reducing Scotland's greenhouse gas emissions.

Since 2015, LCITP has supported the co-development of over 30 feasibility and development proposals for low carbon projects. LCITP has also run a number of open funding invitations, including the Transformational Low Carbon Demonstrator Funding Invitation launched on 10 July 2016. This was designed to encourage innovation of both design and business models, along with aggregation at scale and acceleration of large scale transformational low carbon infrastructure projects in Scotland. and offered over £40 million of funding to 13 demonstration projects that are due to commission by the end of 2018. This funding has been matched by equivalent investment.

LCITP launched the Standalone Low Carbon Energy Demonstrator Solutions Call in March 2016. This invitation has been designed to support and accelerate the development and delivery of innovative, local low carbon energy opportunities across Scotland. The LCITP Innovative Local Energy Solutions Funding Invitation has provided £2.6 million funding to 12 low carbon projects in rural and off gas grid areas.

Of this £550,000 was awarded to ten projects to develop investment grade business cases and £1.95 million capital support has been offered to 2 innovative demonstrative projects.

In January 2018, the Low Carbon Innovation Funding Invitation was launched. It has been designed to accelerate the delivery of large scale innovative low carbon infrastructure projects that support the ambitions set out within the Scottish Energy Strategy published in late 2017. The deadline for initial applications was the 30 April 2018.

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

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

Not benefitting from an integrated energy market - the UK's exit from the EU threatens the opportunity for Scottish consumers, to benefit from the development of an integrated energy market in the EU through a reduction in the cost of energy bills. EU policies such as the Clean Energy Package rationalise reserves and procurement activities, incentivising investment and the common management of cross-border energy infrastructure. This energy market is also of particular importance for the Scottish renewables sector.

The loss of leadership and undermining of collective efforts to tackle climate change - Climate policy has domestic, regional and global implications and connections and the EU's legislative reach, market influence and climate diplomacy are extensive. Through the UK's membership, Scotland has benefitted from being a direct part of the EU's considerable diplomatic clout in the climate negotiations, projecting our domestic climate leadership internationally through collective effort with our EU partners. Scotland has developed a world leading expertise in environmental management and regulation that is very much valued across Europe. Leaving the EU would reduce our ability to bring our experience to the table and have a positive influence on future environmental policies, which would affect not only Scotland but the EU as a whole.

CONCLUSION

Scotland has a long history as a proud, outward-looking European nation. Whatever the outcome of the negotiations on the UK's withdrawal from the EU the Scottish Government is committed to continuing to work closely with our European neighbours to share our values, knowledge and policies for the benefit of all our citizens.

Through the Scottish Government's Economic Strategy, Scotland shares the vision set out in the Europe 2020 strategy of smart, sustainable and inclusive growth. This report demonstrates that the Scottish Government is making progress not only domestically in all the areas covered by Europe 2020 – such as climate change, education, inequalities, youth unemployment and research – but also recognises the part it plays in supporting growth as part of the wider European economy.

In turn, the contribution that Europe and European funding makes to Scotland's economy – and indeed wider society and environment – is significant, and the evidence presented here seeks to show the risk to Scotland's future prosperity as a result of leaving the EU. That is why the Scottish Government continues to call for Scotland and the UK to remain within the European Single Market and Customs Union.

Whatever the future holds, we will continue to work constructively and co-operatively with our partners in Scotland, across Europe and more widely to deliver smart, sustainable and inclusive growth for all our citizens.

FURTHER READING

[Europe 2020 Strategy](#)

[Europe 2020: Scottish National Reform Programme 2017](#)

[Europe 2020: UK National Reform Programme 2018](#)

[Scotland's Place in Europe](#)

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

[Brexit: What's at Stake for Businesses](#)

[Brexit: Protecting What Matters - What's at Stake for Individuals in the Brexit Talks](#)

[A Nation with Ambition: The Government's Programme for Scotland, 2017-18](#)

[Scotland's Economic Strategy](#)

[Climate Change Plan](#)



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