Independent Report on

Regional Economic Development in Scotland

Contents

Foreword

There is a need for much greater consistency, clarity of purpose, and sustained focus on the objective to drive economic and productivity growth. This is not just a policy imperative; it's a national priority which must be central to government policy, precisely because it is the key to raising living standards, resourcing our public services and generating the means to tackle inequalities. In recent times, the Scottish Government's focus has been on social and fiscal policy, and a greater focus is needed on economic growth especially after the major shocks which have hit the global economy in recent years.

Although the need to improve pro-productivity and growth policies is a universal message across many Western economies, for the UK and Scotland, given our poor relative economic performance since the Great Financial Crisis, the challenge has become even more urgent.

In February 2025, I was commissioned by Anas Sarwar, Leader of the Scottish Labour Party, to explore how Scotland can unlock the potential of its regional economies and ensure that economic growth improves the quality of life of people living across Scotland.

As an academic economist, I have approached this task independently, reflecting my own analysis and key recommendations to produce this report on regional economic development in Scotland. It is my hope that my findings and recommendations will be of value and interest more generally across the political spectrum, posing new ideas that could be implemented to the betterment of Scotland's economy.

This report has been informed by a broad range of perspectives. I consulted with a wide variety of stakeholders from business, government, civil society, academia, and local authorities. I am grateful to the many stakeholders who contributed evidence and insight on how to improve Scotland's regional economic policy landscape.

Whilst different stakeholders expressed a variety of views on many issues covered in this report, there was a remarkable degree of consensus and consistency on the need for improvement in how regional economic policy is designed and delivered in Scotland. That is to say that we need to be better at economic policy in the round, and also target a clear improvement in the economic performance within Scotland, in each of its regional economies. There was a consistent feeling that driving economic growth in Scotland must be central to the Scottish Government's purpose after the 2026 elections.

In addition to evidence from stakeholders, this report also draws on existing research, including best practice from the UK's nations and regions. It responds to current and pressing economic challenges, such as low productivity and economic inactivity, that are felt across the UK.

Recognising Scotland's rich and diverse geography, the report adopts a place-based approach, reflecting the unique strengths, challenges, and infrastructure needs of both urban and rural communities.

The scope of the report includes key drivers of economic growth - such as transport, education and skills, planning, regulation, and enterprise support. It considers the critical role of the Scottish Government in working collaboratively with UK and local governments. The UK Government has made economic growth central to its policy ambitions. The central theme of my recommendations is that the Scottish Government must do the same and act as a convenor, bringing together business, civil society and communities to drive shared prosperity for Scotland.

One of the report's key contributions is the clear call for greater coherence between UK Government, Scottish Government and local government policy. Almost universally, stakeholders expressed a view that the policy landscape is fragmented and should be less tangled and more focused. The Scottish Government should simplify and in effect de-clutter the policy architecture for which it has responsibility. In doing so this may help the Scottish Government, our local authorities and UK Government to better align their responsibilities and policy interventions.

Whilst the report touches on a wide range of issues, its focus remains firmly on the key drivers set out of above, those which of greatest impact central to the Scottish policy domain.

I look forward to discussing these findings further, and to our collective endeavour to improve Scotland's economic outlook.

Professor Sir Anton Muscatelli
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Chapter 1
Intro & Context

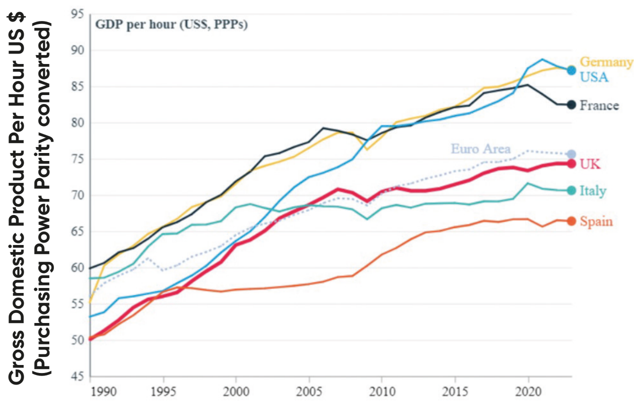
Economic growth - typically defined as the growth of Gross Domestic Product (or GDP) - matters for every country. It determines the standards of living in a country and impacts on the ability of a government of a country, through the tax system, to raise the resources needed to pay for public services. It is an absolute imperative - albeit one that is not always popular. Some contend that growth is inconsistent with wellbeing. I do not. In fact, it is growth which provides the means and resources to bring about wellbeing. It does not necessarily have to be inconsistent with our climate aspirations, and it is wrong to narrowly view it as such - instead we should recognise that economic growth will drive forward new technologies and approaches.

Economic growth depends on the key inputs of human and physical capital, and on how productively and efficiently these can be combined to produce economic activity. The efficiency with which human and physical capital are combined to drive economic growth is sometimes referred to as productivity. In turn that depends on technology, organisational efficiency and other factors which allow us to produce more goods and services with the same inputs.

The UK and Scotland have experienced a major slowdown in economic growth since the Great Financial Crisis in 2007-8. This has been exacerbated by the pandemic. It has been in part driven by lower investment, but to a major extent, by a slump in productivity growth both in absolute terms and relative to other advanced economies (see Figure 1.1).[1]

The UK Government has recognised this important challenge and in 2024 published its growth mission.[2] It sets out its policy approach to re-booting the UK's growth and productivity growth - which has since been reaffirmed through the UK Government's new Modern Industrial Strategy.[3] Stagnation has impacted on many Western economies, with the notable exception of the USA, but the UK has fared less well than many of its OECD peers.

Figure 1.1 GDP per hour (in US$, PPP Converted, 1990-2023



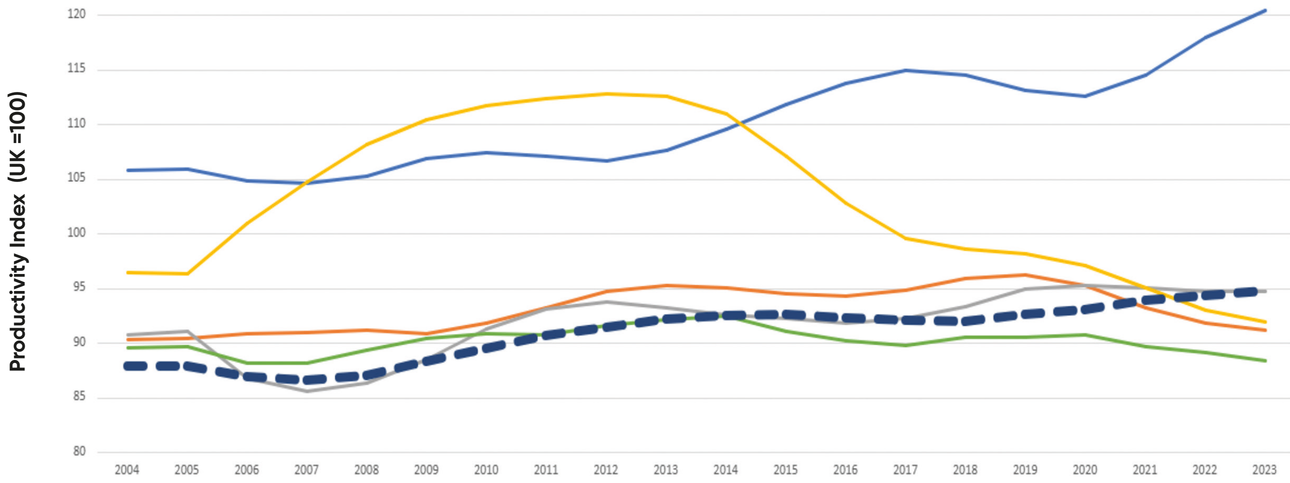
Economic growth and productivity matters for our standards of living but it also matters for the resources available for public services in Scotland. Since the Scotland Act (2016) several aspects of UK taxation and welfare spending have been devolved. In recent years, Scottish Government has used these powers to raise tax revenues in Scotland and to take a different approach to some welfare benefits[4]. This has allowed the Scottish Government to increase public spending, but the Scottish Government could have had more (perhaps as much as £1billion more this year)[5] to spend on its public services had Scotland kept pace with the UK's economic performance. Scotland's relative economic performance lags the rest of the UK and is missing out on tax base gains as a result.

There are however limits to a strategy of raising taxes relative to the rest of the UK in terms of economic competitiveness, as I will explore below.

Furthermore, the pressures on the Scottish budget are increasing. The Scottish Fiscal Commission (SFC) have highlighted in their recent Economic and Fiscal Forecast (June 2025[6]) that the Scottish Government's

1 The Productivity Institute, 2024 - What explains the UK's productivity problem? - The Productivity Institute
2 Kickstarting Economic Growth, 2024 Kickstarting Economic Growth - GOV.UK
3 The UK's Modern Industrial Strategy 2025 - GOV.UK
4 See Assessing Scottish Tax Strategy and Policy, Institute for Fiscal Studies, 2025
5 Scottish Fiscal Commission - Fiscal Update - August 2025, pages 13-17 https://fiscalcommission.scot/publications/fiscal-update-august-2025/
6 Scottish Fiscal Commission - Fiscal Update - June 2025 https://fiscalcommission.scot/wp-content/uploads/2025/06/Scotlands-Economic-and-Fiscal-Forecasts-Update-June-2025.pdf

Figure 1.2 Scotland's Regional Productivity[9]



Medium-Term Financial Strategy (MTFS) faces severe challenges. The SFC note that the Scottish Government's MTFS spending projections for both resource and capital fall well short of the SFC's forecasts. In resource spending there is a potential fiscal gap of over £2.6 billion in 2029-30, and for capital spending, the fiscal gap is £2.1 billion by 2029-30. In addition, the SFC also notes that Scotland faces greater challenges than the rest of the UK in funding devolved public services in the next 25 years because the population in Scotland will age faster than in the rest of the UK.[7]

All this highlights the urgency of the challenge of re-booting economic growth in Scotland. In order to ensure a sustainable future for our public services Scotland needs to adopt a clear and focused strategy to boost its economic growth - and do so now.

This urgency is felt even more in Scotland's regional economies - where economic performance is far from uniform (see Figure 1.2).[8]

In stark contrast to the East Scotland region, a number of other regions perform less well and, concerningly, are dropping in productivity levels, and are now lagging similar tier-2 regions in the rest of the UK. Regional inequalities *within* Scotland have, if anything, got worse.

Economic inactivity and other inhibitors of growth such as ill-health (with rising ill-health now in fact leading cause of economic inactivity in Scotland, affecting 250,000 Scots[10] - c. 7% of our working-age population), help to explain some of these differences, but there are many complex factors at play.

We know from international comparisons that successful regional economies benefit from virtuous circles: population moves towards higher-wage regional economies and the inflow of human capital and investment will further drive productivity growth. The data shows clearly that within Scotland a small number of regions are thriving, but ultimately Scotland's economic success will rely on ensuring that lagging regions can match the performance of the very best.

The basic ingredients of how to boost productivity are well understood.[11] It requires policy certainty and stability; government-led public investment crowding in private investment, incentives for R&D uptake, enhanced skilled inward migration, and skills development. The latter of these factors has been the subject of much review in Scotland in recent years. At both a UK and Scottish level, we need to build a resilient and adaptable workforce capable of meeting the challenges of a rapidly evolving economy. This ideal relies upon long-term investment in skills and education, a flexible funding system that supports varied routes into work, and a credible system of

7 Scottish Fiscal Commission - Fiscal Sustainability Report - April 2025 https://fiscalcommission.scot/wp-content/uploads/2025/04/Publication-April-2025-Fiscal-Sustainability-Report.pdf
8 Regional gross domestic product: all ITL regions - Office for National Statistics
9 Analysis of Office for National Statistics - Subregional Productivity (June 2025 release) Productivity Index
10 Introduction - Economic inactivity in Scotland: supporting those with longer-term health conditions and disabilities to remain economically active - gov.scot
11 The Productivity Institute, 2024 - What explains the UK's productivity problem? - The Productivity Institute

recognition and accreditation that values all forms of learning.[12] To this end, we must ask ourselves whether in fact there is now a growing skills mismatch across the country and determine what the optimal balance between higher and further education is necessary to provide the redress we need - asking who is best placed to supply vocational skills to business. The Higher Education and Further Education sectors can fill this space, but doing so will mean adapting the way they teach, and what our students learn.

As we shall see below, the key to this however, is how policies aimed at enhancing all these different policy dimensions work together, in concert, much like an expert orchestra. And, as I set out later, we need predictability and policy certainty.

Focus on high-growth sectors is also a factor in boosting productivity and economic growth. In my consultations I found that in Scotland there was considerable support amongst businesses and those supporting economic development for a focus on the same key sectors as in the UK Industrial Strategy. The so-called 'IS-8 sectors' are: Advanced Manufacturing, Clean Energy, Creative Industries, Defence, Digital and Technologies, Financial Services, Life Sciences, and Professional and Business Services.

Addressing economic stagnation also matters in terms of national resilience. The Covid pandemic has tested the UK economy: the higher debt accumulated during the Covid years has made the UK's fiscal position more challenging. The shadow of the Covid shock on our economy highlights why resilience matters.

Both the UK and Scotland are open economies exposed to the global economy and further potential major economic shocks. These could come from greater geopolitical uncertainty such as trade protectionism, climate shocks, as well as associated international financial flows. It is therefore imperative that in the next Scottish Parliamentary term there is a major focus on improving the foundations of Scotland's economy, and of its regional economies.

One striking feature of Scotland's recent economic policy landscape is that deprioritisation in funding. Since 2010, and the start of the fiscal consolidation or 'austerity agenda', budgets for economic development have been under considerable pressure in Scotland. Limited real terms increases in aggregate budgets, coupled with growing pressures in areas such as health, have led to a deprioritisation of economic development, relative to other areas of spending. Recurrent spending has been squeezed over time: for instance, the discretionary funding for Scotland's enterprise agencies has fallen in real terms over the last decade with even deeper cuts in local authority economic development departments.[13]

It is crucial that this issue is addressed going forward: ultimately reducing spend on economic development will not allow Scotland to fulfil its ambitions in terms of economic growth and productivity growth. Scotland's economy is at an inflexion point, with a strained budgetary landscape, stretched public services, lower and lagging productivity (hours and per worker) and the aspiration of an innovative and dynamic economy.

Another issue which is often raised is whether Scotland has the policy tools at its disposal to deploy an effective regional economic development policy. In my judgement Scotland has many policy tools at its disposal. It has substantial powers to direct spend towards pro-productivity policies - and we have now seen now five economic strategies come forward post devolution. A recent study by leading economists, including the former Chief Economic Adviser in Scottish Government has suggested that a lot of the changes over the 25 years since devolution have been presentational rather than substantial.[14]

Above all, Scotland can deploy its regional economic development policy levers which complement an increasing array of UK-level policy interventions which seek to boost growth and regional growth in particular. Scotland has the levers, but has it pulled them effectively? Have we learned what works and does not?

If one looks across OECD countries where, like the UK, some major policy levers are reserved at national level (competition policy, business taxation, R&D tax policy) to avoid wasteful tax and regulatory competition effect, the key to devolved policy success is how devolved policy can best *complement* national policy.

What is striking is that some English regions outside the South-East of England have managed to improve their economic growth in recent years compared to some of Scotland's less successful regional economies, despite fewer devolved powers. In regions, outside the South East of England, the uptick in economic growth is not as a result of greater productivity per se, but through growth in employment and population. Where this has been particularly successful (e.g. in regions like Greater Manchester), it has been achieved through effective co-ordination of policies both within city regions, and through co-ordinated action with higher levels of government.

This level of cooperation will only be possible if the Scottish Government can take a more focused, strategic, and targeted approach to using its devolved powers to deliver economic growth.

Recommendations:

- **An incoming Scottish Government in 2026 should recognise that Scotland faces a major challenge, like the rest of the UK, to boost both growth and productivity growth and that addressing this must be a key priority. Formulating and executing an effective regional economic development policy within Scotland is a key part of that agenda.**

- **Normatively, that policy makers now need to recognise that 25 years on from devolution, the fiscal environment is severely constrained. Several capabilities necessary for growth have been eroded – to the extent that Economic Development needs to be reinstated as a central function of government and its representatives.**

- **There has been a deprioritisation in economic development funding in Scotland, and this must be recognised as the starting point for change, by government and its agencies, and all stakeholders partners.**

- **Consequently, that the unique economic opportunities and capabilities Scotland and its regions could benefit from (including investments in the UK's Industrial Strategy IS-8 priority sectors – e.g. life sciences, critical technologies, energy and infrastructure etc), can only be realised with such a reinstatement of the Economic Development agenda, with a compelling set of policy priorities in support of this agenda, thus releasing the handbrakes in place throughout the system slowing growth and productivity gains.**

12 Enhancing Skills and Future of Work, A. Vignoles: The National Institute Of Economic & Social Research occasional Paper: joining Up Pro-Productivity Policies In The Uk (July 2025)
13 A. Muscatelli and G Roy - (Reforming the UK Fiscal Framework and Boosting Public Investment – a perspective from Scotland https://www.productivity.ac.uk/wp-content/uploads/2025/07/Joining-Up-Pro-Productivity-Policies.pdf)- Scottish Enterprise grant-in-aid funding (its core budget for economic development activities) has fallen by over 20% in real terms since 2009-10. Whilst year-on-year comparisons over time are difficult, the overall direction of travel has been a significant cutting back of activity and autonomy. Source: Scottish Enterprise Accounts (various years)
14 A. Goudie, G. Roy and D. Waite – Scotland's Economy After 25 years of Devolution Scottish Affairs vol 33, issue 4. https://www.euppublishing.com/doi/abs/10.3366/scot.2024.0521?journalCode=scot

Chapter 1 - Intro & Context

Chapter 2
Approaches to Regional Economic Growth and Economic Geography Across UK

Place-based economic policy has been an important feature of UK policymaking under successive governments. In addition to the need to ensure balanced economic growth and opportunity across the UK's regions, there is a recognition that one of the issues holding back UK economic growth has been the underperformance of some of its component economic regions.

The Productivity Institute has highlighted this point forcefully.[15] If one looks at tier-2 city regions, the UK shows major and persistent disparities in regional productivity and in economic growth, between major city regions such as the West Midlands, Manchester, Glasgow and London and the South-East. This contrasts sharply with competitor OECD countries such as Germany and France.

Indeed, even if one looks at Scotland as a whole relative to other UK ITL-1 (ONS International Territorial level 1) regions, the Productivity Scorecard for September 2025, produced by the Productivity Institute, shows major weaknesses (see Figure 2.1).

The UK Labour Government inherited some regional economic interventions and investments and has extended them or confirmed them: for instance, the Innovation Accelerator pilots for the West Midlands, Manchester and Glasgow city regions, the Freeports, and Investment Zones. This has been supplemented by the growth mission and the UK Modern Industrial Strategy which sets out the role of the UK's city regions and clusters[16] in our industrial and economic growth agenda. This set out specifically the need to focus more specifically on investment sites (including improving the prospects for Freeports and Investment Zones), as well as AI Growth Zones and a £500m Local Innovation Partnerships Fund for seven English regions and a region in each of the devolved governments.

One of the major features of the UK Government's current approach has been a promise of deep devolution to local leaders in England, with the introduction of the English Devolution and Community Empowerment Bill (July 2025), which builds on the Government's English Devolution White Paper (December 2024). The new statutory category of Strategic Authorities (SAs) in England which include Combined Authorities (CAs), Combined County Authorities (CCAs) and the Greater London Authority (GLA) will be crucial in the delivery of these enhanced powers.

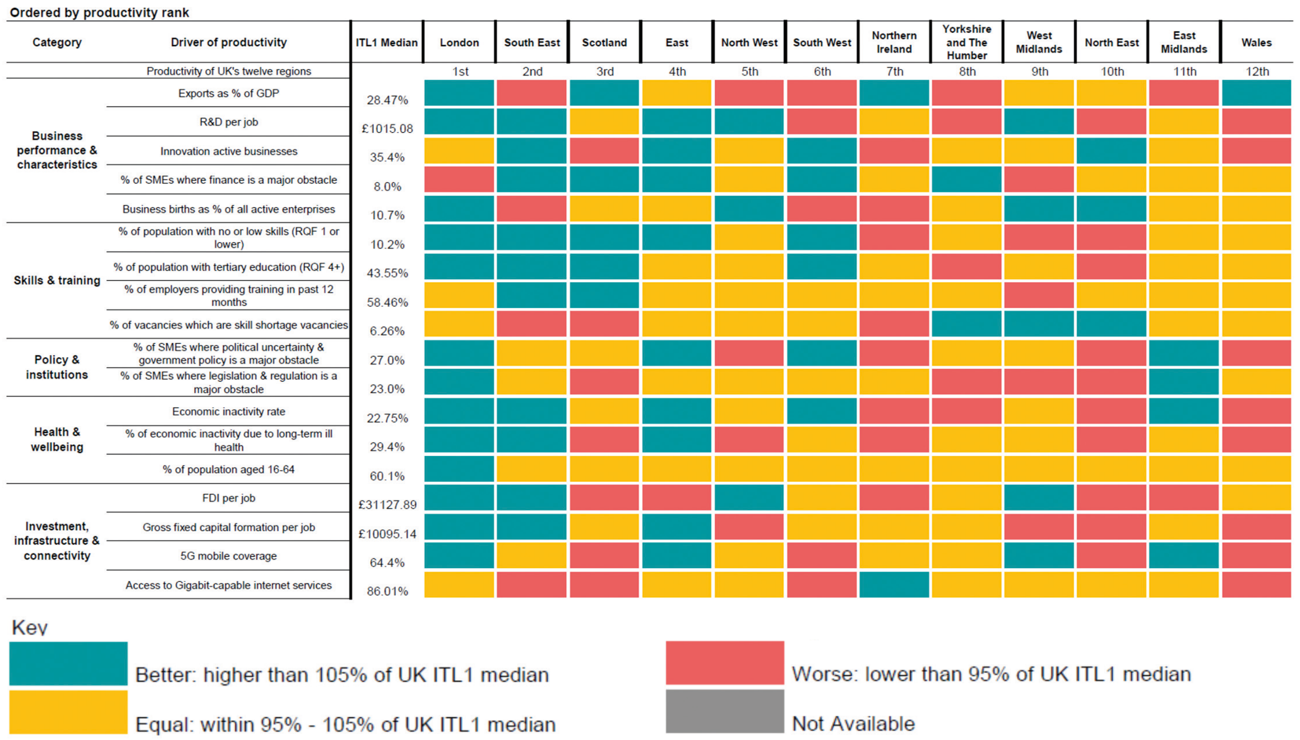
Some of the enhanced powers of the new SAs in terms of the delivery of the industrial strategy will help align local growth plans with the UK's growth mission. Similarly, the devolution of control over local transport networks, infrastructure planning, skills and housing delivery will provide a better alignment between planning, infrastructure and growth.

As part of this study, I interviewed a number of businesses, policy experts and other actors with experience of existing established English mayoral authorities, and specifically Greater Manchester, to compare their experience with the workings of more mature Scottish city regions, such as Glasgow and

15 McKeogh, N; Menukhin, O; Ortega-Argiles, R; Sarsfield, W; Silva Ruiz, A; Watson, R (2025), TPI UK ITL1 Scorecards, TPI Productivity Lab, The Productivity Institute, University of Manchester. See https://www.productivity.ac.uk/wp-content/uploads/2023/11/TPI-Agenda-for-Productivity-2023-DIGITAL-VERSION.pdf, p.11, Figure 4.
16 See https://assets.publishing.service.gov.uk/media/68595e56db8e139f95652dc6/industrial_strategy_policy_paper.pdf, p.94

Chapter 2 - Approaches to Regional Economic Growth and Economic Geography Across UK

Figure 2.1 TPI Regional Productivity Scorecard UK ITL-1

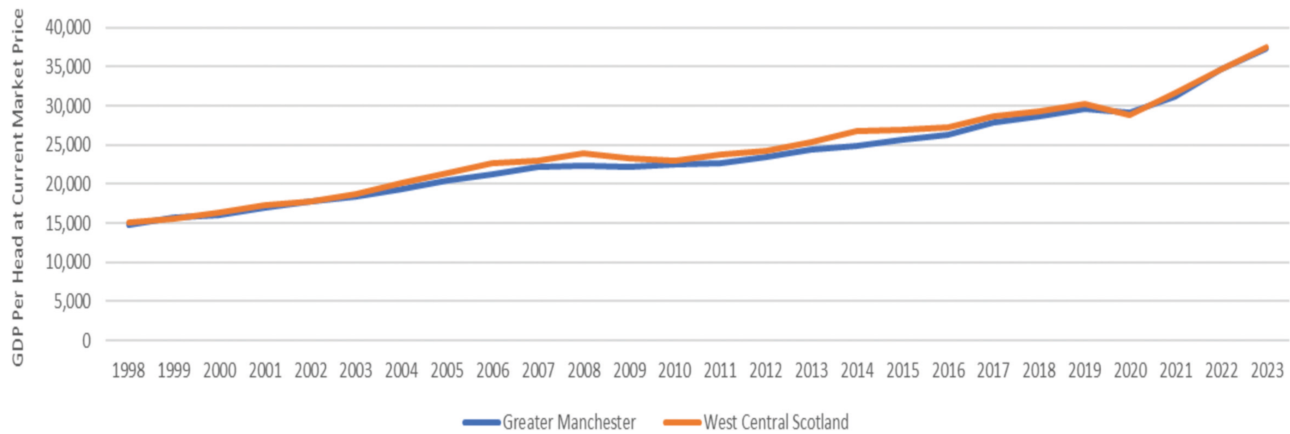


Edinburgh, which emerged as a result of the delivery of City Deals.

Many business leaders with experience of Scottish city regions and English tier-2 city regions (Greater Manchester, Liverpool, the West Midlands and similar English CMAs) did note that, even before the roll-out of additional powers envisaged in the current UK legislation, in their experience of CMAs such as Greater Manchester - anecdotally at least - they seemed more co-ordinated than their Scottish counterparts.

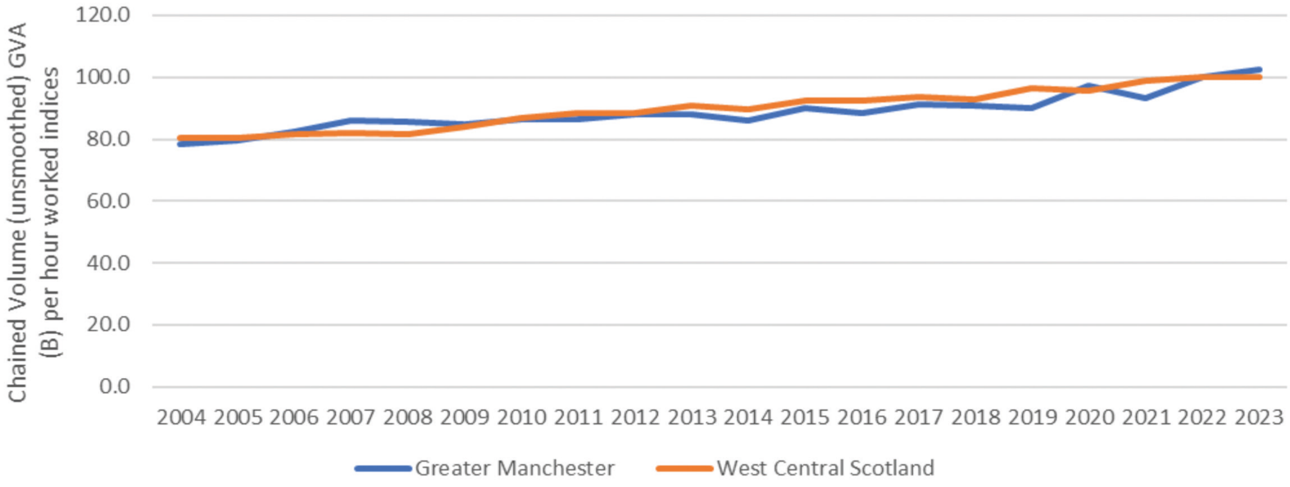
Looking at the empirical evidence between comparable English and Scottish tier-2 city regions is interesting. For example, if one compares Greater Manchester's economic performance with that of the West Central Scotland (i.e. in effect Glasgow City Region), one sees that there isn't a major difference in productivity levels. Since 1998, productivity in Greater Manchester as measured by GDP per head has grown by 152% - which is very similar to Glasgow City Region's 148% growth in the same timeframe (see Figure 2.2).[17]

Figure 2.2 Comparison of Greater Manchester and Glasgow City Region GDP per head



17 Source: Regional gross domestic product: all ITL regions - Office for National Statistics. For context, GDP per head grew by 109% in the West Midlands over the same timeframe. A notable Scottish outlier is Edinburgh – with its GDP per head growing by 198%, owing largely to its dense concentration of highly productive service sector industries.

Figure 2.3 Comparison of Greater Manchester and Glasgow City Region GVA Per Worker



The Gross Value Added (GVA) per hour worked is also very similar between Greater Manchester and the Glasgow City Region (see Figure 2.3).

The biggest difference in recent years, however, is that Greater Manchester has been more successful than Glasgow in *growing* its economy.

Looking at International Territorial Level (ITL) regional data, between 1998 and 2024, Greater Manchester grew its (current prices) GDP by 194% compared to West Central Scotland's 161%. In essence, Manchester has managed to *increase its population and labour force, and corresponding investment, to allow its GDP to grow:* Greater Manchester's population grew by 17% in 1998-2024 in contrast to the much lower growth of 5% in West Central Scotland's population. When looking at regional economic development it's important to focus not only on productivity growth, but, keenly, on the growth of production factors i.e. business investment and the labour force.

Whilst the empirical evidence on the mayoral effect is somewhat limited, it does seem to be recognised that the directly-elected mayoral leadership in some English CMAs, often with its nationally recognised leadership, has been used to good effect in encouraging investment. CMAs like Greater Manchester seem to have benefited from this reputationally. From my interviews with economic and business actors it is clear for instance that they appreciate the convening power which the city leaders (elected and officials) have had with all the key innovations in their region.

For example, and in particular, the elected mayor in Greater Manchester and the University of Manchester (which is the most research-intensive (Russell Group) university in Greater Manchester) have worked closely alongside all the other Higher Education and Further Education institutions to together co-ordinate actions in the innovation and skills space. One notable example, for context, is Manchester's boom in advanced materials and manufacturing - its innovation, infrastructure provision and, importantly, commercialisation. This should set an example to be followed in other regions, where a less mature set of relationships based on ad hoc historic governance structures can result in poorer co-ordination in the innovation and economic development agendas, meaning opportunities to seize opportunities like this are missed.

Having said that, some Scottish city regions (e.g. Glasgow City Region and Edinburgh City Region) have benefited hugely from the establishment of very competent PMOs in recent times, which has assisted delivery of schemes such as the City/Growth Deals, the Innovation Accelerators and Investment Zones. In Glasgow City Region the GCR intelligence hub has improved the evaluation of data/ impact and has led to evidenced-based decision-making. This best practice needs to be rolled out across all of the relevant regional entities in Scotland, as I will highlight in Chapter 5.

More importantly, it has to be recognised that English CMAs with elected mayors - like Greater Manchester - can now manage a single, flexible funding pot instead of separate funds from different government departments. This gives them more freedom to plan ahead, which city-regions in Scotland don't currently have. The Centre for Cities has argued that directly elected mayors bring stronger democratic legitimacy. This helps them make tough, long-term decisions with a public mandate similar to national politicians.

Any discussion on further devolution to Scotland's local authorities and regional cooperation must start with a recognition that over time local government has had less room for manoeuvre. Budgetary pressures, increased ring-fencing by the Scottish Government, and efforts to centralise decisions that are recognised as devolved have added to this feeling of centralisation. In re-casting Scotland's regional economic policy, local government must be recognised as key partners in policy-making and treated as such.

Arguably, the level of devolution to tier-2 regions in Scotland will be far less than English regions going forward. This leads to the question as to whether Scotland should look to a similar re-alignment of powers. In theory, it should be possible for Scotland to set up a strong city-region structure that can receive devolved powers, with enhanced governance, even without a directly elected Mayor. The adoption of a Corporate Joint Committee approach in Wales is a good exemplar of this - where multiple local authorities are joined, 'corporately' with the underpinning of a legal identity, taking their collaboration beyond informal joint-working, with the legal means to hold budgets, appoint employees, deploy resource and enter into formal arrangements as a single regional collaborative.

Some of Scotland's regions which have come together to manage city/growth deals have had experience of working together across existing local authority boundaries without the formal realignment of powers. In the absence of such a formal restructuring of Scotland's local authorities (LAs), for example to create something akin to England's Strategic Authorities, progress will however require sufficient common purpose between our LAs. These groupings where they do not already exist will have to span significant economic geography, have to be sufficiently permanent to endure with confidence, and have to carry genuine local accountability and scrutiny.

In Chapter 5 on Place, I argue that Regional Economic Partnerships could provide the optimal means to achieve this, with the right private / public / university partnerships underpinned by, importantly, sufficiently resourced Local Authority PMO delivery teams (e.g. West Midlands Innovation Accelerator utilising a small share of funding to establish PMO functionality).

One advantage in adopting a 'soft realignment' in Scotland which delivers more at the regional level through a *voluntary* coming together of LAs e.g. through established City Regions, is that Scotland's functional economic geography is very different from England's. Arguably, unlike many English CMAs, Scotland's central belt, which includes three major city regions (Glasgow, Edinburgh and Tayside), with the strong linkages between them, should be considered in the round - with significant collaborative potential - rather than consistently treated as separate (and competing) regional entities.

Figure 2.4 TPI Regional Productivity Scorecard Scottish ITL-3

		TLM	TLM13	TLM14	TLM34	TLM31	TLM02	TLM20	TLM12	TLM32	TLM01	TLM50	TLM93	TLM33	TLM95	TLM11	TLM91	TLM92	TLM03	TLM94
Category	Driver of Productivity	Scotland	City of Edinburgh	West Lothian	North Lanarkshire	East Dunbartonshire and West Dunbartonshire	Perth and Kinross, and Stirling	Highlands and Islands	Falkirk	Glasgow City	Clackmannanshire and Fife	Aberdeen City and Aberdeenshire	North Ayrshire and East Ayrshire	Inverclyde, East Renfrewshire, and Renfrewshire	South Lanarkshire	East Lothian and Midlothian	Scottish Borders	Dumfries and Galloway	Angus and Dundee City	South Ayrshire
Productivity	Taxonomy relative to the UK	Catching up	Steaming ahead	Steaming ahead	Steaming ahead	Catching up	Falling behind	Catching up	Falling behind	Catching up	Falling behind	Falling behind	Falling behind	Catching up	Falling behind	Catching up	Catching up	Falling behind	Catching up	Falling behind
	Taxonomy relative to ITL1		Steaming ahead	Steaming ahead	Steaming ahead	Catching up	Falling behind	Catching up	Falling behind	Catching up	Falling behind	Falling behind	Falling behind	Catching up	Falling behind	Catching up	Catching up	Falling behind	Falling behind	Falling behind
	GVA per hour worked	£41.28	£56.26	£46.49	£45.28	£40.06	£39.85	£39.68	£38.69	£38.56	£38.51	£38.48	£37.85	£37.47	£37.41	£37.05	£36.89	£36.54	£36.01	£35.50
Business Performance	Export Intensity	32.9%	31.6%	31.7%	21.7%	50.8%	14.0%		28.7%	25.5%	43.9%	75.4%	19.8%	38.5%	10.6%	14.5%		10.8%	22.3%	98.8%
	New Businesses	10.6%	10.7%	12.0%	12.7%	10.3%	9.3%	9.3%	11.3%	12.5%	10.7%	9.2%	10.7%	11.4%	11.7%	10.9%	8.8%	7.9%	10.6%	10.6%
Skills & Training	Low Skilled*	9.0%		13.6%					14.1%								6.0%	8.6%	9.2%	
	High Skilled	55.1%	69.9%	52.1%	44.1%	55.7%	64.3%	49.6%	46.3%	56.9%	51.0%	55.4%	53.2%	61.6%	48.9%	58.2%	47.6%	53.0%	53.0%	49.4%
Health & Well-being	Active	77.5%	85.8%	77.9%	72.4%	74.8%	80.5%	75.7%	75.2%	74.4%	77.3%	82.0%	72.2%	77.0%	78.8%	84.3%	78.7%	72.6%	71.8%	69.4%
	Inactive due to Illness*	31.6%	19.9%	19.3%	37.2%	29.7%	27.0%		36.9%	24.1%	33.9%	27.3%	38.9%	35.5%	37.7%	33.0%	22.1%	42.9%	34.5%	42.7%
	Working Age	62.9%	68.1%	63.7%	64.3%	60.1%	61.5%		63.2%	68.7%	60.4%	66.7%		59.1%	60.5%	57.9%	56.6%	58.5%	62.5%	57.9%
Investment, Infrastructure & Connectivity	5G connectivity	25.4%	97.4%	67.2%	57.7%	77.2%	31.0%	15.7%	70.2%	99.7%	80.2%	34.6%	39.6%	69.4%	40.6%	51.0%	20.9%	24.5%	46.6%	31.8%
	Gigabit connectivity	77.8%	92.0%	90.1%	91.8%	91.9%	54.6%	47.1%	93.2%	93.1%	80.7%	65.7%	77.5%	91.1%	87.0%	86.9%	66.5%	41.5%	78.6%	73.4%
	GFCF per job	£10,472	£10,326	£7,484	£7,743		£9,887		£10,766	£9,353	£9,953	£12,783	£8,193	£7,605	£6,886	£12,600	£7,514	£8,595	£7,041	£10,609
	ICT per job	£475	£292	£397	£461		£627		£674	£308	£461	£1,193	£440	£427	£410	£374	£373	£392	£385	£300
	Intangibles per job	£1,979	£3,790	£1,511	£1,541		£1,452		£2,035	£1,350	£1,430	£2,702	£1,052	£1,545	£1,058	£1,999	£1,346	£1,124	£1,612	£1,358

Key

Better: higher than 105% of ITL1 parent region

Equal: within 95% - 105% of ITL1 parent region

Worse: lower than 95% of ITL1 parent region

Data release surpressed

Data unavailable due to change of ITL3 codes

The Productivity Institute has provided a scorecard for Scottish ITL-3 areas,[18] at a level below tier-2 (see Figure 2.4). This highlights the major differences which exist even between adjacent LAs in Scotland and their associated economies, demonstrating the need for separate rural and urban regional development strategies in Scotland, with much greater joining-up and co-operation between the major city regions in the central belt, and greater co-ordination between adjacent rural economies in the South of Scotland and the Highlands and Islands – and all with a view to functional economic geography which often transcends governance boundaries. As a result of deal-making (through the City & Growth Deals programme) we do see some positive change with the promotion of more functional geographies.

In this context, it is striking that in recent discussions on innovation and place in England, the Oxford-Cambridge Arc has been advanced as a major potential driving force of the UK economy. Linking up two of England's major research-intensive hubs, driven by two of the top Russell Group universities and the innovation ecosystems they lead, could supercharge not only their surrounding regional economies, but also the UK economy. It is arguable that Edinburgh and Glasgow city regions, with the addition of Tayside could be seen as a single corridor around which one could build an innovation agenda. Recent discussions between the Universities of Edinburgh and Glasgow to establish a Scottish Health Institute (involving also key players like Dundee and St Andrews) highlight the potential for Scotland to lead in one of the key IS-8 sectors. Similarly, if one takes the Glasgow-Edinburgh city regions together, there are major strengths in critical technologies such as quantum technologies/photonics/semiconductors across a number of universities and involving many established businesses and innovative SMEs. Edinburgh-Glasgow could, and should, be put forward by its leaders as a singular investible proposition, with real potential to couple opportunities.

This suggests an imperative for the Scottish Government to act in a more co-ordinated way to bring together regional economies in Scotland than would be appropriate in England. The Scottish Government should certainly consider a co-ordination role with the city regions in the central belt to ensure greater synergies.

Finally, in essence it is clear that, unlike England, in Scotland the imperative is for a regional economic development strategy which differentiates between the needs of Scotland's urban regional economies and the rural economies. Place-based economic strategies inevitably focus on larger populations and industrial clusters. Scotland's rural economies need a more bespoke approach to development, which will be explored in greater detail when looking at the role of the economic agencies in Chapter 9.

Recommendations

- **Whilst Scotland should learn from and adopt elements of best-in-class practice in England's CMAs (notably Greater Manchester), it should not necessarily simply follow the approach adopted in CMAs/SAs in NE and NW England. Instead, Scotland ought to take a considered approach reflective of its own unique functional economic geography and political structure, and one cognisant of the dominant and different regional economies in the central belt.**

- **Scotland has to co-ordinate the post-industrial and demographic strengths in Glasgow City Region with the significantly faster-growing economy output of Edinburgh City Region to ensure a balanced and co-ordinated regional growth. It also has to combine this with the significant strengths in Dundee and Tayside's digital economy and the energy sector footprint and asset base of Aberdeen and NE. This suggests a regional economic strategy based on a softer realignment in Scotland. This might involve greater devolution of powers to Scottish city regions, similar to that envisaged in England, around funding for innovation, skills and other key place-based investments. But this will have to be combined with greater co-ordination at Scottish Government level of different city regions to avoid increased and wasteful competition between geographically close city regions.**

- **The UK's Industrial Strategy ambitions necessitate Scottish and UK Governments fostering improved regional cooperation and best practice sharing, compelling cross-regional delivery of projects. This might include for instance a Glasgow-Edinburgh Arc around innovation to match a similar development in the South-East of England (the Oxford-Cambridge Arc).**

- **Scottish regional economic development partnerships governance should be considered and strengthened. At present their capacity is very variable depending on whether they have received investment in their planning capacity, linked to prior place-based investments.**

- **One lesson of best practice from high-performing English CMAs/SAs is that improved and effective representative governance is necessary to bring together all levels of government, academia, and industry to coordinate investment decisions at regional levels and then prioritise the messaging and funding necessary to grow the unique assets and competitive advantages in each regional economy. At present some Scottish city-regions do this in an ad hoc manner and none of this is particularly visible to the Scottish Government. If the Scottish Government has to play a co-ordinating role between regional economies in Scotland, then it should ensure that all are operating governance structures which are fit for purpose. The Scottish Government has a responsibility to support the capacity assessment of regional authorities and equipping them for delivery.**

- **It seems clear that, with the exception of Edinburgh City Region (Eastern Scotland), Scotland's regional economies are underperforming in terms of economic growth. Increased government investment and subsidy to address market failure in enabling innovation infrastructure is necessary – particularly in Scotland's Tier-2 cities where significant and evidenced market failure is prevalent. And whilst more funding is part of the solution, Scotland also needs to be better at prioritising and evaluating its existing budgetary spend.**

- **Scotland needs to develop a separate strategy for rural economic development to sit alongside its city regions and urban economic development.**

18 McKeogh, N; Menukhin, O; Ortega-Argiles, R; Sarsfield, W; Silva Ruiz, A; Watson, R (2025). TPI UK ITL3 Scorecards, TPI Productivity Lab, The Productivity Institute, University of Manchester.

Chapter 3
Role of Policy levers – Devolved vs Reserved in Collaboration

Following the 2024 UK General Election, the UK Government has embarked on a programme of public investment linked to its growth mission. The UK Government's reform of the net debt rule in November 2024 was designed to address weak public investment and adopted measures to seek to 'crowd in' private investment. The new Modern Industrial Strategy[19] aims to boost productivity growth, particularly in key high growth (IS-8) sectors and technologies, and has a key 'place' element.

A majority of respondents to this commission's consultation cited the need for policy certainty and consistency, also expressing frustration at what is perceived to be a chronic issue of single year funding settlements and budgets. Interestingly, these representations were made equally by both public and private sector representatives. Consultees argue that shifting policy and limited one year funding cycles impede the progression of long term, truly impactful and strategic developments in regional economies. Such issues can only be addressed, in my opinion, with coherent join up between the Scottish and UK Governments - and a stable collaboration capable of enduring for as long as is electorally possible.

As has been noted recently in papers by Muscatelli and Roy[20] and Our Scottish Future[21] the announcement of a UK-wide industrial strategy raises the issue of co-ordination between different tiers of government, and indeed it raises the fundamental issue of how a growth mission at UK level is co-ordinated with devolved governments. This is an issue which all countries with devolved/federal structures must face: it is essential that Scotland and the UK develop ways to co-ordinate their strategies to grow the economy and indeed to boost productivity. Whilst the devolution settlement must be respected, it would be absurd for Scotland and the rest of the UK not to align their approaches to regional economic development so that they are congruent. Not least when, with few exceptions, both governments demonstrate policy support for the same sectors of opportunity.

This dimension of co-ordination between UK and Scottish Governments is one which requires a number of developments; one being the appraisal of the effectiveness of Joint Ministerial Committee (JMC) meetings, and greater encouragement of meaningful policy formulation in and around these strategic events. Conceivably these JMC discussions might better lead to a shared delivery of elements of the UK Industrial Strategy, on priority sectors, perhaps with shared gateways on joint agreed investments.

This would allow some important joint initiatives. If, for instance, the Scottish Government has key technology and sectoral priorities as part of its growth and regional economic development strategy it can align these with similar UK sectoral priorities to leverage additional resource. Similarly, if the UK Government directs investment at priorities in the UK industrial strategy, in key areas of innovation infrastructure in key sectors and technologies, including critical national infrastructure, this could benefit from co-ordinated investment in Scotland. This might also allow collaborations across the UK which includes both Scottish economic regions and other UK economic regions, creating stronger linkages. For instance, one could link up Scotland's

19 The UK's Modern Industrial Strategy 2025 - GOV.UK
20 A. Muscatelli and G Roy - Reforming the UK Fiscal Framework and Boosting Public Investment – a perspective from Scotland https://www.productivity.ac.uk/wp-content/uploads/2025/07/Joining-Up-Pro-Productivity-Policies.pdf
21 Our Scottish Future - Innovation Nation - 2025 https://ourscottishfuture.org/wp-content/uploads/2025/06/Innovation-Nation.pdf

2nd Tier Cities with other UK economic regions through potential future rounds of the UK Local Innovation Partnerships Fund - or any subsequent similar intervention.

Finally, if the UK Government announces further investments into English 2nd Tier Cities (e.g. in a further wave of growth deals or innovation deals) it would be able to work with the Scottish Government in parallel investments in Scotland's regional economies. As the recent Our Scottish Future Report also highlights:

"Scotland lacks a single institutional home for innovation strategy or delivery. Responsibility is fragmented across economic development, education, planning, and finance. Complexity is not a problem per se, and some institutional competition can be constructive; but the absence of a "system integrator" makes it hard to adopt a whole-economy view or respond to fast-moving opportunities…"

It is important to note that these recommendations are entirely in the spirit of Scotland's devolution settlement. These interventions have already happened over time, delivered and overseen by individual UK Government departments in partnership/consultation with the Scottish Government. Initiatives such as the first wave of City Deals are a good illustrative example of partnership working - increasingly so as these details matured -, as indeed are innovation accelerators and investment zones. What should be envisaged is a much deeper partnership which ensures that as UK policy levers are developed in regional development, these can be developed in partnership with devolved governments.

This enhanced co-operation will be crucial in all of the IS-8 sectors of the UK Modern Industrial Strategy. But it will also be crucial in ensuring the execution of the investment necessary into the UK and Scotland's Critical National Infrastructure (CNI) development, and in co-ordinating delivery of Net-Zero strategies: where the interaction of sovereign capability, strategic national assets and economic growth requires the support of a mixture of reserved competencies, like energy, with a suite of devolved elements including the likes of economic development, industrial support, climate and planning.

Ensuring an effective level of government co-ordination also requires better co-ordination at lower tiers of government – and between Scottish local authorities and Scottish Government and UK Government respectively. This ought to span traditional borders between local authorities, city regions remits and wider functional economic geographies. We explore this further below.

Recommendations

- **Respecting the devolution settlement, bringing forward enhanced Scottish and UK Government coordination and integration is vital for regional growth. In practice this means exploring joint delivery of priority areas in the UK Industrial Strategy, and Scotland's industrial strategy when it emerges post-election. Both governments should elevate joint-decision-making in strategic and nationally significant opportunities (net zero, CNI), and sharpen coordinated delivery where there are interwoven interests (e.g. energy reserved, consenting and housing devolved). This could be achieved through the mechanism of a Joint Ministerial Committee which focuses on a shared productivity and growth mission.**
- **The Scottish and UK Governments should also co-produce an aligned policy appraisal framework between them that explicitly assesses options in terms of their impacts on grand challenges and their regional implications, or opportunities.**
- **The Scottish Government should aim to provide more consistency and policy certainty in regional economic development. Businesses and anchor institutions need certainty to plan and cannot do so on the basis of yearly government programmes. Impactful programmes and relationships take time to develop, and 3-5 years+ regional growth intervention programmes would provide certainty of funding routes.**

Chapter 4
Higher & Further Education Sectors' Role in Innovation and Growth

Rightly, I would argue, the UK Government places our genuinely world-leading University sector at the very forefront of the strategic policy documents articulating the plans for the revival of economic growth in the UK. Indeed, the sector's significance and potential to this end takes pride of place in the opening line of the government's growth mission.[22] A prioritisation which is reiterated throughout the new Modern Industrial Strategy too.

The positioning of our higher education institutions at the epicentre of growth policy is logical and is to be commended. Below I explore the gains we can expect as a result of the delivery model adopted in the design of interventions like the Innovation Accelerators and Investment Zones. These are the most recent growth interventions, which helpfully bring all levels of government together - and where coalescing around a 'knowledge anchor' (i.e. university or research institution) is mandated for participation.

However, with this comes a significant caution: the sector can only fulfil this role and rise to the challenge if both UK and Scottish Governments demonstrate with urgency a much greater understanding of the financial threats faced by the sector and take action to provide the requisite resource funding and operating environment necessary to carry out the sector's contribution to Scotland's innovation and economic development.

The question of fiscal sustainability in higher education is causing significant tension, and the scope of current challenges is vast. Indeed, I have argued that it is important that the shape and size, as well as the funding of the HE sector, merits a commission of its own after the 2026 Scottish Elections. The capacity of the sector to drive the innovations and technological developments necessary to boost our productivity outcomes and support growth, is inextricably linked to some core principles of financial context.

The amount of spending via the Scottish Government in respect of research and innovation has not kept pace with inflation. The Research Excellence Grant to Scottish Universities (the equivalent of QR Funding in England) has fallen[23] in real terms by more than 20% in the last decade[24]. The University Innovation Fund (UIF - or now Knowledge Exchange Innovation Fund) also fell in real terms, although less sharply.[25] This matters, and is compounded with the established fact that HEI research and innovation is, on average, not conducted at Full Economic Cost and therefore has to be cross-subsidised by other income sources.[26] These income sources, in effect propping up this research capability, are now being eroded at an alarming rate. Were public funding to further decrease (noting also that the main teaching grant to Scottish universities is down 20% in real terms as well[27]) alongside a slowing of international student flows, then deficits will grow. It is far from dramatic to state that this could lead to existential challenges for some organisations.

These financial strains and chronic under-funding are compounded by geopolitical uncertainty which impacts on the sector's ability to bring in additional income from non-publicly funded teaching. This has tested the sector's resilience and adaptability and, ultimately, its capacity to engage in economic development. This needs to be addressed if our universities are to continue to be the source of research, ingenuity and innovation and impart their unique value as core anchor institutions delivering on the place-making and regional economic development agendas.

In recent weeks, the Scottish Funding Council has published its evaluation of the sector's financial position - which authoritatively sets out the fiscal risks facing our institutions and their financial health.[28] I would caution, further still, that elements of this assessment will in all likelihood be overly-optimistic, due to the incorporation of inevitable optimism bias in the forecast of individual universities.

University Sector's Contribution to Regional Economic Growth

Our universities play a central role as the engines driving the very innovation necessary to generate growth as Scotland, and the UK, shifts to a more innovative, technologically advanced and resilient economy. Scotland is the envy of many nations when it comes to prestige of our university sector, with 19 HE institutions and two world top-100 universities: per capita more than many countries. According to the 2021 Research Excellence Framework (REF), Scotland accounts for 12% of total UK research output, despite sharing only 8% of the population.

Both governments need to continue to resource and recognise the value that the sector brings in catalysing the opportunities necessary for industrial renewal, owing to the strengths of our HE institutions, as:

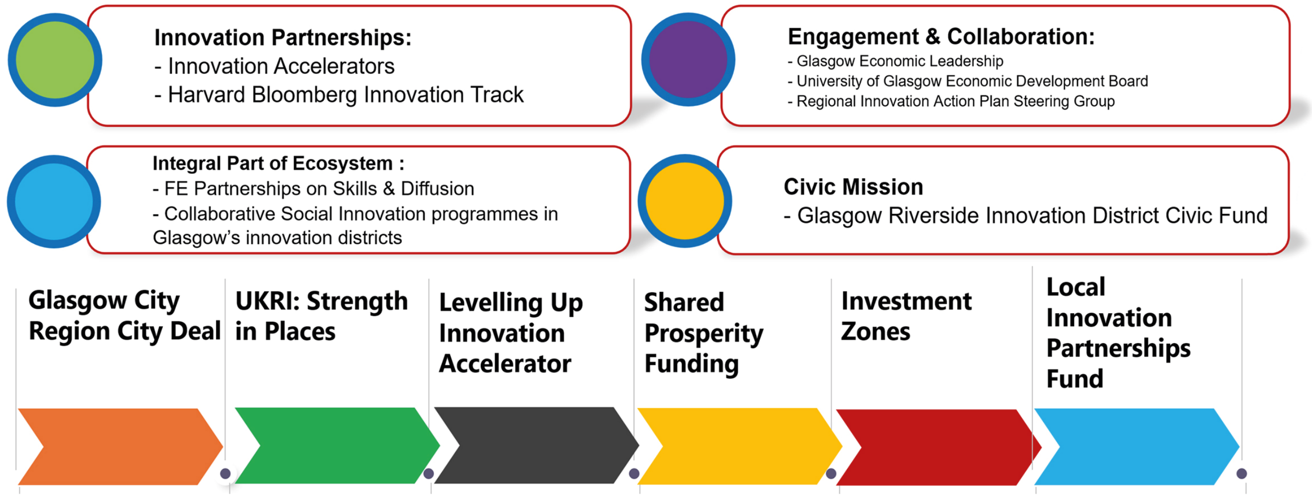
- The home of ingenuity and transformational discovery research: Our HE institutions have the unique capacity to generate the very cutting-edge research and discoveries to boost productivity, growth and tackling a wide range of policy outcomes. Universities also then have the infrastructure to take these discoveries further into their market adoption, either through commercialisation or taking into our public services for innovation and betterment - with, for example, every £1 invested in UK university research, generating almost fivefold impact in the UK's economy in productivity spillovers.[29]
- Major employer organisations in their own right, often amongst the largest in their City localities – (~12,000+ employees at University of Glasgow, for example) and therefore deeply embedded in a place as 'anchors', capable as being viewed as a long-term trusted business partners carrying civic support.
- Shapers of the physical infrastructure and built environment of their surroundings: many of the UK's HE institutions are the entities constructing the improvements in the built environment of their communities and cities, as they invest to grow their campus footprint, providing the infrastructure necessary for innovation to take place.
- Magnets for talent and income: our world-renowned universities attract much sought-after international expertise into Scotland's regions and the wider UK economy - attracting students who will remain in their local region after graduation. This global prestige drives further foreign direct investment (FDI) through the powerful partnerships they foster. With the right government support, these partnerships can form a dynamic quadruple helix linking academia, government, industry, and communities, to deliver the collaboration and momentum needed for investment and meaningful, lasting change.[30]

It is these attributes which account for governments' placing of the sector at the centre of the most recent innovation and growth interventions, for example, the Innovation Accelerator and Investment Zones. The collaborative approach here, whereby place-based interventions are made through university-led programmes specifically designed to generate improved outcomes across (i) innovation adoption; (ii) investment in R&D; (iii) pay; (iv) productivity and (v) employment is most welcome, and will, in time yield results in terms of agglomeration and growth. Of particular benefit is the very eligibility model itself, mandating the participation of a university as the 'knowledge anchor' at the centre of project creation delivery, with grant intervention alongside majority industry match funding – and channelled into sectors with the greatest growth potential – thereby bringing the forces of a research anchor, industry co-funders

22 Kickstarting Economic Growth, 2024 Kickstarting Economic Growth - GOV.UK
23 See https://www.universities-scotland.ac.uk/briefing-evidence/financesub-2/
24 As set out in Muscatelli & Roy (2025) - having fallen by 20.1% between 2014-15 and 2024-25 using a GDP deflator and by 29.3% using RPIx.
25 https://committees.parliament.uk/writtenevidence/124835/pdf/
26 For fuller commentary of this challenge, see The Muscatelli Report Driving Innovation in Scotland – A National Mission, 2019 at p9
27 Analysis of Scottish Funding Council Final Funding Allocations 2015/16 - 2025/26 University Final Funding Allocations 2025-26 - Scottish Funding Council and Real terms calculator – SPICe Spotlight | Solas air SPICe
28 Financial Sustainability of Universities in Scotland 2022-23 to 2026-27 - Scottish Funding Council
29 Universities UK & London Economics, The economic impact of higher education teaching, research, and innovation, 2025, p8: Every £1 invested (from public or private sources) in HEPs' research activities generates an additional annual economic output of £4.95 across the UK through positive productivity spillovers to the UK private sector.
30 For more on the HE sector's role as powerful innovators, economic development partner convenors, and 'income attractors', see How Universities Can Help Drive Local and Regional Economies, Institute of Economic Development and Atkins, 2025

Chapter 4 – Higher & Further Education Sectors' Role in Innovation and Growth

Figure 4.1 Snapshot of Government Interventions Interacting with (Glasgow) HE Initiatives



- and all levels of government together in the project development and delivery process.

I have observed first hand in Glasgow (see Figure 4.1) the coherence which this model brings alongside other interventions, allowing for partners to bring a wider ecosystem of support to increase the prospect of successful execution and economic impact in the City Region.

'Clusters' in Growth Policy

Government policy, and a series of recent interventions, all centre on the increasingly understood premise that clustering industry and research leaders accelerates agglomeration and economic growth. Government funding models are most effective when designed with regional strengths and disparities in mind – because outwith SE England, different regions require different interventions.

Whilst much quantitative analysis rightly informs the UK Government (and DBT / DSIT departmental) methodology on place and cluster selection, an approach with greater flexibility could facilitate the additional growth realised when recognising that sectors of competitive advantage that often coexist within the same city or region, and the cross-cluster collaboration this entails.

Cities like Glasgow, with unique strengths in life sciences, critical technologies, advanced manufacturing, digital and the creative sector, would benefit from programmes that go beyond a singular sector focus to fully promote their economic potential, capitalising on functional complementarities where different industries rely on similar inputs, technologies, IP and knowledge.

It is striking that faster-growing, city-region economies like Manchester take exactly that approach: they do not rely on a single IS-8 industry cluster in its economic strategy.

Both UK and Scottish Governments, alongside their stakeholders, should recognise that clusters are, and ought to be, truly cross-cutting in practice – and that in reality multiple clusters of competitive advantage are present within a singular geography.

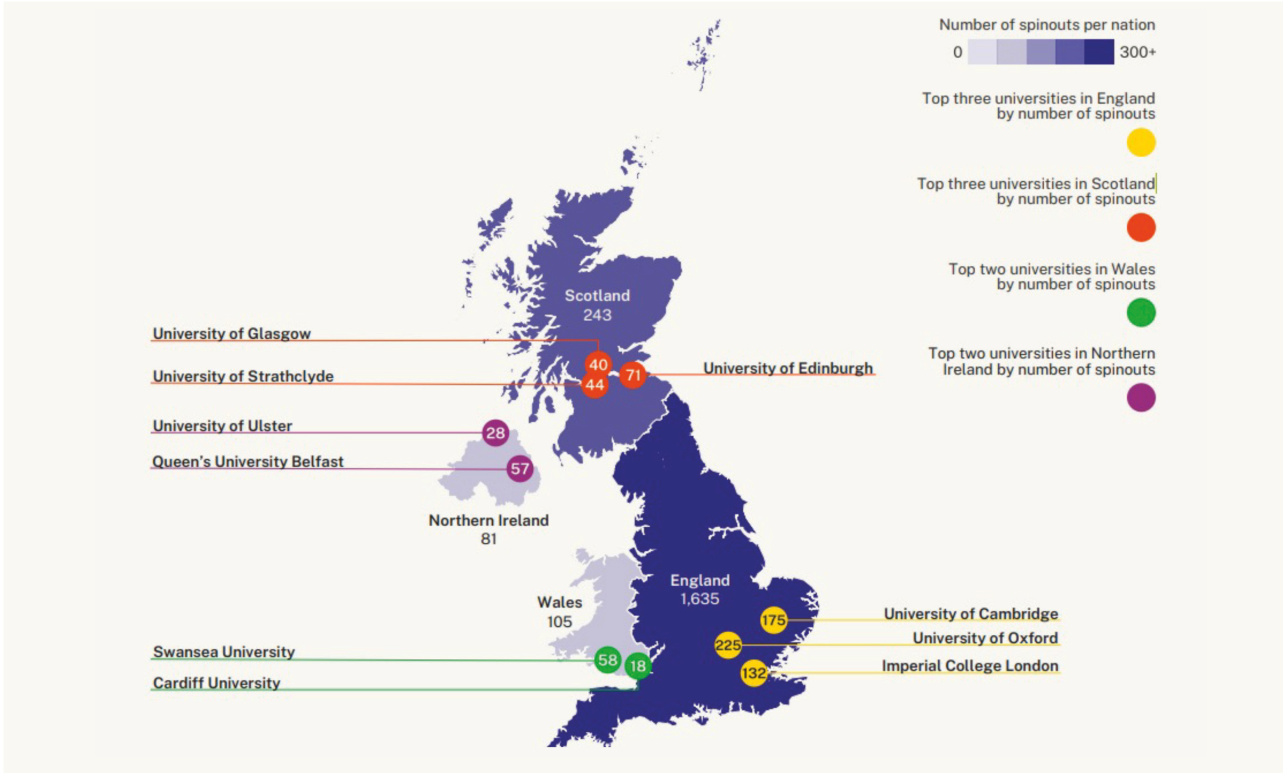
Government decision-making on clusters should focus more on creating and retaining highly-innovative businesses, with *complementary technologies* and enabling infrastructure that is multi-disciplinary - suitable for use amongst a series of enterprises with shared needs (for example, wet-lab facilities) and with an overall recognition of the interdependencies between clusters and what is needed to promote these, as opposed to assigning a singular cluster designation to each regional economy.

Entrepreneurial Universities

It is our universities' capacity for the generation, commercialisation and scale-up of discovery research which justifies the UK Government's ambitions for the UK to become a superpower for technology, science and innovation, creating the growth and productivity upticks we so desperately need.

Serving on the Advisory Board for HM Treasury's recent review into the UK's spin-out landscape,[31] I observed first-hand the contribution of R&D commercialisation

Figure 4.2 Regional Map of Spinout Population - Royal Academy of Engineering 2025



to economic opportunity, and left with a clear understanding that - as set out in the review's report publication - beyond the United States, very few places in the UK possess all of the characteristics needed for truly world-class spin-out ecosystems.

Success requires an optimal series of conditions combining at the same time: incentivised academic founders in possession of transformational intellectual property; an abundant start-up capital architecture; accelerator programmes and specialist infrastructure.[32] The report sets out that in the UK the 'golden triangle' geography between Oxford, Cambridge and London is beginning to exhibit many of these characteristics. This Golden Triangle now represents c.28% of the UK's spinout population - with 571 spinout companies, more than double the spin-out output of our Scottish institutions (see Figure 4.2).[33]

Though with the right policy support prioritisation, enabling infrastructure and improved capital attraction, Scotland can make ground on the Golden Triangle, boosting both the quantity and, importantly, the quality of our spinout enterprises. Policy improvements to help accelerate commercialisation and its impact could include:

- **Expanded regional Proof of Concept Funding:** to help emerging companies validate and scale. Whilst the new UKRI Proof of Concept is most welcome – bringing forward a key recommendation from the HMT spin-out review – this initiative is UK wide and therefore brings Scottish HEIs into a highly competitive and crowded environment. A regional proof of concept fund would provide more equitable coverage across the UK, and allow for flexibility specific to Scottish regional innovation economy needs and the institutions best primed to serve those needs. This could also consider a delivery model (or devolution model where applicable) or some such funding adjustment to help mitigate the risk of Scottish institutions being left at a competitive disadvantage relative to other UK counterparts in the sector, particularly where already exposed to wider economic and productivity challenges (see chapter 2). The Scottish Government has taken action here. Its new Scottish Proof of Concept Fund[34] is a hugely welcome step in the right direction, one I hope will continue to scale in its quantum and frequency of calls - matching ambitions and the strong demand from institutions.

31 Tracey and Williamson - Independent review of university spin-out companies - 2023 https://www.gov.uk/government/publications/independent-review-of-university-spin-out-companies
32 See Ibid p4 for a fuller list of required enabling factors.
33 Royal Academy of Engineering - Spotlight on Spinouts, UK Academic Spinout Trends, 2025
34 See The Scottish Government's Proof of Concept Fund

- **Increased financing of research activity** through uplifts in the Research Excellence Grant and Knowledge Exchange Innovation Fund, to expand the pipeline of high-impact innovation emerging in Scottish universities, investing in national anchor research assets that pool regional strengths. This could be augmented with encouragement of much greater collaboration between universities in their Knowledge Exchange and innovation activities, (possibly involving regional hub-and-spoke models where appropriate), which would involve the larger HEIs - with greater capacity to engage and co-ordinate innovation activities - taking the lead.[35] Such an approach may help incentivise, to some extent, greater VC interest in the Scottish landscape, where we seem to face perennial challenges in securing the capital necessary to move from concept through to seed and scale.

- **Encourage the 'Buy-Out' of Academic Time** – Innovation funding could be deployed more effectively and promptly by supporting the 'buy-out', in effect a subsidisation, of academic time at research-intensive institutions. This would allow leading our academics to dedicate additional capacity to entrepreneurial activity and R&D commercialisation supporting the growth – and in turn increasing the number – of start-up businesses in the Scottish ecosystem. Universities themselves have an opportunity, and indeed a responsibility, to support this, creating an innovation-charged environment and embedding this approach across academic staff and increasingly students.

Enabling Infrastructure

New innovation infrastructure requires government to make good on the private sector investor opportunity before us, playing a role de-risking acute regional market challenges, unblocking the match-funding we need to advance the right spaces for innovation to take place and grow. The development of enabling and specialist innovation infrastructure in Tier-2 cities remains a challenge. Scotland lacks sufficient investment in wet-lab space development[36] to support relevant IS-8 commercialisation of R&D and scale-up activity, in part due to the disparity between regional rental incomes such premises can attain across the UK.

The execution of public / private investment to finance such infrastructure in Tier-2 regions requires additional government intervention, and this could be addressed in part through Scottish or UK government and partners committing to significant infrastructure and physical capital investment in initiatives such as Investment Zones and regional growth / City Deals. This should be done in a manner that strikes the optimal balance of support to de-risk ancillary private sector investment, thereby creating infrastructure that provides the premises and space for innovation to take place, grow and, all importantly, to be retained in the regional economy. This does not necessarily mean more public support and could be implemented through different and innovative delivery models with more joint venture arrangements and, as I comment later, needs to be appraised to ensure genuine additionality - safeguarding against deadweight or displacement.

Inward Flows of Skills & Talent

The acceleration of innovation scale-up and growth in turn requires a corresponding, supportive immigration policy to furnish business with the talent it needs, and the skills it wants. The Scottish Government should influence UK counterparts and work with the HE sector to establish opportunities to enable regional economic growth and innovation through immigration levers, including revisiting Start-up Visas.

Such initiatives are not without precedence and new schemes could be designed to help Scotland attract global expertise in the current economic climate, whilst adjusting the UK's Skilled Worker visa salary thresholds could attract and ease recruitment for critical R&D roles. These measures would be key to keeping Scotland competitive in high-growth sectors and fulfilling its innovation potential. Crucially they are not a replacement for growing our own talent base, but they would be an enabler. They need not just be exclusive to Scotland but might also apply to other parts of the UK and regions which also have to close the productivity and growth gap.

International students represent a major education export for the UK economy and represent a tool of growth in and of themselves: with revenue from education related exports and transnational education (TNE) activity estimated to be £27.90 billion in 2021 – an economic impact contribution which is analogous to that of the entire tourism sector in the UK – and which has grown 6.23% since 2020, and up ~75% since 2010.[37]

Ultimately, overseas students help subsidise research and innovation activity and, beyond this revenue return, in reality help finance the teaching of domestic students; meaning fewer international students in turn reduces the number of places available for UK students too, hampering our own internal talent pipeline.

35 This call for greater collaboration was one of the main recommendations of The Muscatelli Report Driving Innovation in Scotland – A National Mission, 2019 at p3
36 For example, See Glasgow City Region Laboratories: A Market Investigation, 2024
37 Gov.UK Statistics, 2024 https://explore-education-statistics.service.gov.uk/find-statistics/uk-revenue-from-education-related-exports-and-transnational-education-activity

Chapter 4 – Higher & Further Education Sectors' Role in Innovation and Growth

The Innovation District Catalyst

Innovation Districts provide a place that bring into close proximity industry, academia, investors and community and with the right policy conditions and investment support, they can be the epicentre of place-based growth in urban areas of Scotland.[38] With a vibrant ecosystem of districts emerging in Scotland, they are an ideal locus driving increased growth, productivity and employment in our communities.

These concentrated boundaries of opportunity are becoming increasingly widespread – with >30 identifiable districts now operating across the UK, organically able to convene together academia, physical, financial and social capital.[39] We need to ensure that we prioritise the quality and intensity of an innovation district, as opposed to simply increasing the number of them.

Further Education – A Core Innovation & Industrial Partner

The opportunities for blending together HE and FE in the delivery of regional economic growth are plentiful, with Scotland's Colleges playing a vital role in skills provision, place-making and providing a truly unique integration with industry and Scotland's future workforce. With Scotland estimated to require 1.1 million people (two fifths of our current workforce population) to fill expected job vacancies in the next decade, we must bring the sector together to attract, teach and train young people for these positions. We also need to better incentivise older workers to upskill and reskill to meet this demand for workers, and understand the fiscal implications of failing to do so.[40]

Much more could be done to convene effective partnerships between the education sectors, progressing together the logical synergies for shared lab, infrastructure and innovation facilities. This can also feed into developments that help serve joint HE & FE participation alongside businesses in innovation and entrepreneurial programmes.

The recent College Local Innovation Centres (CLIC) programme, being delivered within the Glasgow City Region, is a commendable example of such an approach. Its mission is to target productivity gains within the City's business base through digitisation, and using the City's FE sector strengths in innovation to support this goal, and where we are seeing collaborations between participants and both FE and HE representatives.[41]

With what can be perceived as a hollowing out of college budgets in recent years (with colleges experiencing a 20% real terms funding cut), and rules restricting institutions' borrowing or innovative finance models, in effect the hand-break has been pulled seriously hampering the contribution our rich college landscape can make to this agenda.[42]

The Scottish Funding Council's latest assessment of the challenges facing the FE sector finds inter alia that further flat cash, or cuts in capital and revenue funding would put 'significant added pressure' on colleges' sustainability - and, unfortunately, that this risk is 'increasingly likely to materialise given the current fiscal pressure facing the Scottish Government'.[43]

All business-centred respondents to this report's consultation process cited the criticality of our college base, and the benefits that restoring key initiatives like the National Transition Training Fund (NTTF), alongside the return of the Scottish Government's Flexible Workforce Development Fund (FWDF), could deliver and help better support college and business partnerships on a local and regional level. There is no bigger test case for this thinking than the energy transition, a clear priority for retraining, and one which is being recognised by Scottish Government as such.

Recommendations

- **The Scottish Government, working closely with City Regions, should encourage the standardisation of the strategic delivery model exemplified in the Innovation Accelerators and Investment Zones: where the forces of a research anchor, industry co-funders, and all levels of government are brought together in the growth programme development and delivery process.**

- **Higher Education Institutions in Scotland and those leading our major innovation districts should consider link-ups with similar innovation ecosystems in the rest of the UK. A good example of this is the Manchester-Cambridge collaboration. A similar linkage bringing together the ecosystem in the Edinburgh-Glasgow corridor with dynamic districts in England could be mutually beneficial.**

38 See Scotland's entrepreneurial ecosystem: interactive map | Scottish Enterprise
39 See IPPO Innovation District Report Growth Beacons 2024 for a raft of best practice and evidenced examples
40 See Universities Scotland submission to the Scottish Finance & Public Administration Committee, and Prosper (2025) Scotland's Blueprint: the Art of the Possible
41 CLIC | College Local Innovation Centres
42 See Audit Scotland Report - Scotland's colleges 2024 | Audit Scotland articulating the 'mounting financial challenges' facing Scotland's College sector.
43 Financial Sustainability of Colleges in Scotland 2022-23 to 2027-28 - Scottish Funding Council

- **All levels of government and agencies need to recognise that clusters are, and ought to be, truly cross-cutting in practice – and that multiple clusters of competitive advantage will present within a singular geography. Governments' decision-making on clusters should focus more on creating and retaining highly innovative businesses wherever they lie, with complementary technologies and enabling infrastructure that is multi-disciplinary, and with an overall recognition of the interdependencies between clusters, as opposed to assigning a singular cluster designation to each city region.**

- **Catalysing the innovations and businesses necessary for an increase in regional economic growth will require enhanced support for R&D commercialisation within the university sector and carefully curated policies to accelerate its translation and adoption into the economy – the Scottish Government and the Scottish Funding Council should re-examine the funding model for research and innovation / support 'buy-out' of academic time.**

- **The Scottish Government should continue and increase the proof of concept funding introduced in 2025 – ensuring this funding is regional in selection and delivery, mitigating the competitive advantage of South East England and the Golden Triangle.**

- **Government, agencies and regional authorities should all continue to invest in high quality, intensive Innovation Districts – concentrated geographies reflecting regional and local economic advantages, economic actors and community priorities. Interventions could privilege collaborations between Scotland's city-regions which supports specific IS-8 technologies where the strengths are distributed across Scotland (e.g. life sciences between Dundee, Edinburgh and Glasgow city regions; quantum and critical technologies across the central belt). In doing so, where repurposing is needed, we should not be afraid to cease intervention activity or policy initiatives that are not working. The focus should be on the quality and depth of these Innovation Districts rather than on the number and be clearer about the role of multiple undertakings in similar geographies.**

- **Increased subsidy (grant funding) and improved state-intervention business models are needed to de-risk innovation infrastructure – lab and manufacturing space – and incentivise private sector investment into innovation physical capital assets in Scotland. There is evidence from many case studies that this is an inhibiting factor to scale-ups thriving in Scotland.**

- **Scotland's now chronic demographic challenges around population decline will in time pose significant risks to its fiscal, economic and social resilience. The UK and Scottish Governments must collaborate on exemptions and incentives to help alleviate the core challenges associated with recruiting and retaining talent in Scotland. Options include modernising historical immigration schemes that encouraged working in Scotland; revisiting changes to the UK's Skilled Worker visa salary thresholds; and a post-study work visa scheme to allow international graduates to contribute to Scotland's economy. This would not be exclusive to Scotland, but could be designed to target growth in those regions of the UK which could benefit most.**

- **Heeding the cautions of Audit Scotland, the Scottish Government and SFC should collaborate on how best to restore and rebuild the key initiatives that can support our college sector, and at the same time consider collaboration opportunities with higher education and business.**

Chapter 5
Place

An understanding of place is central to driving a step-change in Scotland's regional economic growth. Moving beyond traditional geography and spatial planning, effective place-making in policy development and delivery means a recognition of identity, economy, and community, and shaping informed decisions to improve outcomes for the people who live, learn, work, and trade in a place. This place-based approach involves undertaking collaborative work to take account of the unique blend of characteristics that exist in every place.[44]

Given the perennial socio-economic inequalities across the United Kingdom's regions, and the understandable need to address these inequalities as quickly as possible, there is often a tendency to standardise policy interventions and funding actions throughout the country, without properly taking account of the individual characteristics and opportunities of places and their communities. If done properly, the growing devolution agenda is an ideal opportunity to shift this 'ingrained position'.[45] We have an opportunity to move towards a place first principle in how we deliver growth and prosperity.

How the benefits of 'place' are quantitively appraised in governments' - and their agencies' - decision making is a key question and, in a positive move, one which the UK Government has appetite to reconsider.[46] Whilst successive governments have pursued regional growth objectives in various guises, the execution of public sector investment (in all portfolios from health to transport, to education, infrastructure of national significance etc.) rests on the application of Green Book principles, providing an appraisal of cost, benefit, risk and - ultimately - striving for optimal value to the public purse.

HM Treasury's review of the Green Book aims to pivot the task away from finding *"what is the best way to undertake this project?"*, to a more logical and rounded *"what is the right project to improve growth in this area?"*. Alongside this welcome self-reflection, is the added impetus to give far greater weight to the wider and enabling economic benefits of projects - such as housing or ancillary investments which may not be easily 'monetisable' but nonetheless in part underpin the best possible choices for a place's priority projects. With a new Task Force assembled to report back in 2026 with revised Green Book a new guide to place-based interventions, administrators and regional leadership in Scotland must all ensure they are fully participating in this conversation.

Scottish Infrastructure & Growth Policy

Across both public and private sectors, the clearest and most consistent message from consultees to this report was the urgent need to address a set of shared infrastructure priorities across Scotland. Grid, road, rail and digital infrastructure were cited as both the predominant barriers to regional economic growth in Scotland, but also themselves as the key enablers of Scotland's potential. We need to see improved co-ordination around UK spending reviews on infrastructure development which spans into the remit and interests of devolved governments, supported by greater clarity on Scottish Government infrastructure priorities. This would be a more sophisticated and co-operative approach that moves far beyond simple reliance upon receiving Barnett consequentials.[47]

This challenge presents itself at a UK level also, where we need to observe consistency and commitment in capital spending to support effective longer term planning by the public and private sectors, and avoid fluctuation in approach from year to year, which can add to inflationary pressures.

The prevailing fiscal environment and Scotland's limited capability to finance on its own certain works of scale are well understood. Setting out the restrictive implications across the UK Capital Block Grant, spiralling construction costs, stubborn inflation and a maxed-out borrowing position,

44 See - UKRI AHRC & UofG - Advancing People-Centred, Place-Based Approaches - AHRC Place-Based Research Programme Report Series, No.2, November 2024
45 Ibid p9
46 See HM Treasury - Greenbook Review 2025: Findings & Actions
47 A. Muscatelli and G Roy - (Reforming the UK Fiscal Framework and Boosting Public Investment – a perspective from Scotland https://www.productivity.ac.uk/wp-content/uploads/2025/07/Joining-Up-Pro-Productivity-Policies.pdf)-

the Scottish Government's latest progress report on its Infrastructure Investment Plan[48] states that: *"Ministers need to consider affordability and additionality before committing to additional major infrastructure projects or public-private partnerships in the near term….Scottish Government is focussing capital resources on the maintenance of existing assets to safeguard service delivery".*

Whilst this fiscal responsibility will be commended in some quarters and likely responds in part to recent Audit Scotland observations,[49] it will provide little assurance to stakeholders and businesses on the prospect of actioning their investment requests. This approach will curtail economic growth and policy makers need to be mindful not to overlook the impact infrastructure delivery can in itself stimulate, and unavoidable message here of 'maintenance only' to investors.

At a time when the UK Government is reviewing its approach to infrastructure investment, the Scottish Government should also focus on the economic impact of such investment, and should also adopt the approach of asking, "What project will most effectively drive growth in this area?"

In the right instances, improved public realm infrastructure can fix some chronic problems and simultaneously crowd in private sector funding. This necessitates consideration of optimal public / private partnership investments in our enabling infrastructure. It also underlines the criticality of coordination and joint-working to unlock enabling infrastructure investment with UK Government partners (as set out in Chapter 3).

In this context, the policy signalling of governments becomes more important than ever - needing to impart strategic, crisp and clear messages to business and funding bodies. We need to create the conditions investors can step into.

Scotland's major policy commitments on infrastructure and growth are spread across this Infrastructure Investment Plan[50], National Planning Framework (NPF) 4[51] and the National Strategy for Economic Transformation.[52] When taken together these documents present a package and policy context which is arguably neither strategic nor transformational - forming a policy environment which is too complex and diffuse.[53]

Stakeholders would value a shortening, rationalisation and simplification of policy, one which sets out Scotland's infrastructural priority projects, determined in partnership with regional leadership, their expected contributions to economic growth and all couched in such a way to spell out a viable nearer-term route to financing. We need to strike up a conversation amongst policy makers – across Whitehall and Holyrood - on how we fund major infrastructure development. Given the impetus behind the new UK Government Industrial Strategy and associated commitments in the spending review, Scotland must best position itself to take advantage of this step change in approach.

Spatial Planning - Convening Authorities

For many, NPF4 provides a comprehensive and detailed framework for the preparation of Regional Spatial Plans and Local Development Plans in all regions across Scotland. To others, it focusses far too narrowly on the climate emergency, majoring on enhancing blue and green infrastructure, decarbonising transport and building resilient connections. Does this mean that the case for broader and alternative opportunities to drive economic growth and innovation - through a whole spectrum of sectors - is being overlooked? This is not to pose that the climate emergency and regional economic growth are mutually exclusive propositions, or objectives to be tensioned against one another. NPF4 could be adapted to be more dynamic and provide greater flexibility for regions to pursue their own growth objectives.

Whilst rightly a truly national endeavour, Scotland could clarify the leadership in place-making and infrastructure: those best placed to convene and broker our infrastructure solutions. Understandably Scottish Government, Scottish Enterprise, Highlands & Islands Enterprise, South of Scotland Enterprise, local authorities, the Scottish Futures Trust and the five HubCos are all participants, but without a clear delineation of responsibility and clear leadership, there is a high risk of duplicative and competing mandates in the development agenda.

NSET is clear on the potential contribution of Scotland's eight Regional Economic Partnerships (REPs) and their capacity to drive improvements in productivity - precisely because of their ability to convene key economic actors to enhance regional

48 Infrastructure Investment Plan 2021-22 to 2025-26: progress report 2024 to 2025 - gov.scot
49 Audit Scotland Publication: Investing in Scotland's infrastructure September 28, 2023
50 The Infrastructure Investment Plan for Scotland (2021-2022 to 2025-2026)
51 National Planning Framework 4
52 Scotland's National Strategy for Economic Transformation - gov.scot
53 See Our Scottish Future - Innovation National: Good Jobs for Scotland's Future, p54

interests, focus and alignment of resources.[54] NSET Project 10 explicitly reinforces SG's commitment to work with these REPs to deliver Regional Economic Strategies *"identifying the most transformational interventions in each local economy, including infrastructure investment"* and the attraction of inward investment. NSET's latest report states this action is in progress.[55]

A more streamlined and simplified policy context, in parallel with the empowerment of REPs, could make an important step forward in providing the clarity and leadership, necessary to address the persistent challenges in aligning infrastructure expenditure and delivery in any given geography in Scotland.

In practice, empowering REPs means the government must ensure key actors are properly resourced – including through longer-term funding certainty - to focus on regional economic development. As this report notes, colleges, universities, and local authorities face financial pressures. The same is true for the third sector and social enterprises. Equally, it depends on businesses being confident that their engagement will be meaningful and genuinely influence policy and delivery. To achieve this, the government must provide clearer guidance on the role and potential influence of REPs.

REPs empowered to bring forward Strategic Spatial Plans which triangulate industrial, infrastructural and housing developments - underpinned with statutory weight where appropriate - could help cut through much of today's convoluted policy and authorising environment.

Such an approach could also create scope for the development of integrated transport plans to support these Strategic Spatial Plans (addressing issues like trunk road improvements necessary to move our freight, supply chains and talent - particularly to and from the epicentre of growth opportunities). This coordination could be extended to take account of Utility Plans developed in such a way so as to be mindful that energy, broadband, water and waste investment plans could align to enable the wider Strategic Spatial Plans.

This rounded approach, in the North East of Scotland and Inverness for example, could be effective in facilitating the right decisions and coordination of activity in response to the immense capital investment pipeline forthcoming there - where almost £100billion in investment intent (equivalent to £77billion in GVA and 114k job years)[56] could have a truly transformational impact on Scotland's wider economy, if it is met with the right regional coordination, and the national support behind it: potential that can only start to be realised with the right planning and governance by those who know the region best, furnished with sufficient resource and deference. The further development of regional skills hubs, under a single leadership structure, where REPs are empowered to plan for the unique demands of their regional economies would assist in this mission.

South of Scotland REP, as a newer REP, working with South of Scotland Enterprise, has the potential to bring forward Strategic Spatial Plans in a locus of vast potential in the energy sector, capable of generating more renewable energy than the region could ever consume. The £450m Borderlands Inclusive Growth Deal is making progress in directing substantial investment which could capitalise on the strategic geography of the region, to help address difficult economic circumstances such as lower levels of productivity, depleting population and poor connectivity;[57] advancing interventions to improve the attractiveness for entrepreneurial activity across a range of sectors, and helping to address these stresses in the region.

The demand for this thinking is particularly acute in the rural geographies in Scotland. Rural economies have unique and remarkable strengths. However, some rural economies are also characterised by low pay and low skill jobs and sectors. Regional economic development in rural areas understandably focuses on existing strengths but this can risk entrenching regional inequalities.[58 59] Government support should take this into account. Successful examples of rural economic development have focused on existing assets and an area's distinctiveness and empowered local communities and networks – from councils to business, colleges and universities, and local people - to find ways to innovate and collaborate to create more skilled jobs. Government support is essential from providing infrastructure, funding and training to connectivity and networking.

Wigtown, in Dumfries and Galloway, has been presented as a success story of rural economic development. Its redevelopment as 'Scotland's National Book Town' has brought together the town's historic character, local volunteers and organisations, and central financial support to create a strong

54 NSET - p32
55 National Strategy for Economic Transformation: second annual progress report - gov.scot - Action 42
56 See £100billion potential of 'transformational' projects in the Highlands and Islands | HIE
57 See Borderlands Inclusive Growth Deal - Year 2023/24 - 424
58 D. Clelland, What would it take to level up the UK's rural areas? 2023 https://eprints.gla.ac.uk/303596/
59 See https://lordslibrary.parliament.uk/the-rural-economy/

tourism offering, including the Wigtown Book Festival, which has had a hugely positive impact on the local economy.[60] As the OECD emphasises (and as this example illustrates), rural economic development has to focuses on distinctive assets, and also on tailored approaches to fostering innovation[61].

Across Scotland's rural communities there is an increasing need to convene partners to focus on the enabling factors and constraints affecting the ability of entrepreneurs, businesses, and communities to unlock their full growth potential.[62] Greater consideration could be given to how clusters, including micro clusters, operate in rural areas, the role of towns, and the possible need for more formal support for networks. Importantly, this ought to recognise that not all rural places are the same, and their growth and development requires the creation and execution of strategies consistent with a vision which is set by local knowledge, with plans tailored to specific circumstances, needs and priorities.[63]

Such overall coordination in the form of Regional Strategic Spatial Plans, led by REPs themselves, may catalyse improved (and I anticipate much-welcomed) subsidiarity which is in turn capable of translating into improvements at local, city, regional and national levels.

My support for REPs recognises the role these entities played in the delivery of Scotland's eight City & Growth Deals. These were used, with generally accepted success, to deploy significant public realm infrastructure upgrades. Now, a model is required to prevent the lessons and joint working within these Deals from becoming dormant and helping to best position our regions with the right capacity and partnerships to take advantage of the next iteration of intervention (see Chapters 2 & 10).

Given that elements within the central belt of Scotland represent single travel-to-work areas, and that arguably this is a single functional economic geography, I would recommend this as the starting place for greater co-ordination between REPs, facilitated by Scottish Government. Devolution will at times need to be asymmetric. The capacities within Edinburgh and Glasgow City Regions naturally means that these regions - or combined region - would be ready to move with greater autonomy and pace than others.

The Housing Imperative

The shortage and distribution of new housing stock in Scotland goes hand in hand with the regional economic growth mission. Rightly, this matter has dominated much of the think-tank and policy debate of late. Despite being afforded what is clearly significant attention by the Scottish Government, the market dynamics would suggest a number of hurdles need to be overcome in order to stimulate sufficient housing stock and, critically, ensure its construction occurs in the right places - strategically linked to our industrial developments.

New house build starts and completions are down for a third consecutive year, and at the lowest level for eight years.[64] The creation of a new specific Cabinet level portfolio (under a Cabinet Secretary for Housing), alongside a new Housing Investment Taskforce[65], demonstrates how seriously the Scottish Government is treating this issue.

Scotland's housing challenge is not something that additional public funding can resolve quickly. With more than 75% of Scotland's new build stock delivered to us by the private sector, it is absolutely one area where policy certainty and investment incentives are crucial. There seems to be a growing dichotomy between projects that are too large for SME builders to undertake, but too small for larger institutional investors to get behind - a challenge where government, or indeed SNIB as recommended by the Taskforce, could broker portfolio options and bring forward and support the creation of joint venture opportunities.[66]

Housing needs to be viewed as a core pre-requisite as part of industrial and inward investment plans, an essential lever for workforce planning and business' capacity to recruit. The developments at the Port of Nigg, with its recent takeover by Mitsui, and situated adjacent to a new £350m cabling factory development by Sumitomo[67] - poses an exemplar test case for bringing together inward investment, industrial planning, enabling infrastructure development and requires sufficient workforce housing stock to properly execute this opportunity.

Without requisite house builds, businesses will not be able to recruit and major investments like these will stall, hampering our industrial rejuvenation.

60 D. Clelland, What would it take to level up the UK's rural areas? 2023 https://eprints.gla.ac.uk/303596/
61 See https://www.oecd.org/en/publications/enhancing-rural-innovation-in-scotland-united-kingdom_33b8c803-en.html
62 See Unlocking Rural Innovation | OECD
63 D. Clelland, What would it take to level up the UK's rural areas? 2023 https://eprints.gla.ac.uk/303596/
64 See Prosper - Housing-Supply-for-a-Growing-Economy.pdf and All-sector new housebuilding - Housing Statistics for Scotland Quarterly Update: New Housebuilding and Affordable Housing Supply to end December 2024 - gov.scot
65 Housing Investment Taskforce - Housing Investment Taskforce - gov.scot
66 A similar approach can be found in the UKG's / Home England's subsidiary and the New National Housing Bank - notwithstanding its significant capitalisation https://www.gov.uk/government/news/over-500000-homes-to-be-built-through-new-national-housing-bank
67 Nigg - Our Future

Hitting the required number of new houses will require the consideration and promotion of all tenures - and the Scottish Government should set an annual target to this end, imparting the strongest possible signal to the sector and its developers. Key stakeholders have argued this should be in excess of 25,000 per year.[68] Housing is in and of itself a major economic system. Its functioning and outcomes influence both productivity levels and capital allocations across our economy.[69]

Whilst government can set a national target and bring the drive associated with that, it is important not to lose sight of the need for local design - ensuring that development takes place in the right areas, in the right way and factored into regional place-making autonomy.

Recommendations

- **With a new HM Treasury Task Force due to report in 2026 with a revised Green Book and its new guide to place-based interventions, administrators and regional leadership in Scotland must all ensure they are fully participating in this exercise.**

- **A much-simplified and rationalised policy environment is needed - and the Scottish Government should revisit and simplify the complex and voluminous policy documents in the Infrastructure Investment Plan, National Planning Framework 4 and the National Strategy for Economic Transformation.**

- **In doing so, whilst respecting the imperative of addressing the climate emergency, NPF4 could be made more dynamic, and encourage greater flexibility in development and growth projects.**

- **Given the fiscal context, government should clearly articulate its appetite for public / private partnership investments and which initiatives it considers suitable for this. It should also set out in which at-scale enabling infrastructure developments are to be prioritised for UK Government joint-working.**

- **The Scottish Government should clarify the leadership of place-making and infrastructure development. Scotland's Regional Economic Partnerships should be empowered to bring forward Regional Strategic Spatial Plans which triangulate industrial, infrastructural and housing developments - underpinned with statutory weight where appropriate. These should be also accompanied by Transport and Utility Plans where appropriate.**

- **Government and its partners should recognise the key enabler of new housing stock in regional economic growth and its interdependency with industrial development and workforce provision. The Scottish Government should set an annual all-tenure new housing target.**

- **The expertise of the Scottish National Investment Bank could be brought to the brokering of private sector housing investment in Scotland.**

68 See Prosper's- Housing-Supply-for-a-Growing-Economy.pdf
69 How does the housing market affect UK productivity? Economic Observatory

Chapter 6
Regulation & Regulators in Growth

Delivering a significant uptick in regional economic growth across Scotland requires the stimulus of rather considerable private sector investment into a dynamic and innovative landscape. These ideals will only materialise in a system which provides a regulatory framework with enough latitude for this to occur.

It is well established that good regulation promotes public health, keeps our workplaces safe, maintains building standards and manufacturing processes, fosters fair markets and shields consumers from harm in a variety of fields. But as many of the respondents to this report's consultation would testify, over time, overlapping and often poorly designed regulations (occasionally, some would argue, devised in a vacuum from the business community) have produced a somewhat complex and costly[70] system for Scottish and UK business.

A patchwork of almost 100 regulatory bodies now exists across the UK.[71] With so many regulatory body undertakings - statutory and non-statutory - combined with at times inconsistent objectives and unclear government direction, an inevitable scenario of an unpredictable and unnecessary burdensome regulatory environment has come to pass. This too has encouraged excessive risk aversion in policy-making, ultimately constraining our capacity to balance the core needs of regulatory protection with the imperative for growth, and our ability to adapt effectively and quickly to seize the opportunities of new technologies and industries.

Regulation and its authors must therefore be mindful of the need to ensure rules are developed in partnership with businesses and the investor community; that our regulation be competitive and consistent, precise and proportionate, and agile enough to change as technology shifts.

This is all the more important given the genuinely mobile nature of global capital, and the critical need for an attractive environment, to lure it to Scotland.

It is excellent, therefore, to observe both UK and Scottish Governments paying serious attention to better regulation in recent months - particularly a contextual shift to recognise that regulators and good regulation can themselves be an active part of the growth conversation.

Regulation sits at the heart of the relationship between our governments and the business base. This is a relationship which naturally requires to be solid, for a strong private sector willing to invest in our country. But it matters also in the specific context of regional economic development. We need businesses at the table, along with representatives of government, local authorities and anchors like our universities to bring forward strategic regional plans, programmes and investments. Business capacity and appetite to do so, is inextricably tied to whether the region - and country - is a good place to do business - and this means considering the regulatory environment.

New Approach: Government Policy on Regulation

It is welcome that both UK and Scottish Governments have recognised this challenge, and, what's more, are dedicating resource and initiative towards its resolution. The UK Government's new approach comprises an ambitious Action Plan to 'overhaul' the regulatory landscape, including commitments to slash the regulatory cost of doing business by at least 25% - underpinned by a streamlined and regulation reform agenda, which is to be interwoven in delivery with the Industrial Strategy.[72]

70 DBT (2024) White Paper - suggests that the impact of red-tape costs could be as high as 3-4% of GDP, or around £70billion.
71 See Who watches the watchdogs? Improving the performance, independence and accountability of UK regulators - House of Lords - Industry and Regulators Committee https://publications.parliament.uk/pa/ld5804/ldselect/ldindreg/56/5604.htm#:~:text=According%20to%20the%20National%20Audit%20Office%20%28NAO%29%2C%20there,environment.%202%20Their%20powers%2C%20responsibilities%20and%20funding%20vary
72 New approach to ensure regulators and regulation support growth (HTML) - GOV.UK

The creation of a new UK Regulatory Innovation Office will use the convening force of government to remove regulations presenting as a barrier to innovation, helping to 'position the UK as the best place in the world to commercialise technologies' and, we hope, help ease pathways to initial market commercialisation and scale-up. The mission-oriented areas of this new entity's focus (including space, engineering biology and AI / digital in healthcare) are specialisms where Scotland has renowned strengths. It is vital therefore that Scottish policy makers and regulatory actors are included within the priorities and workplan of this new office, influencing the inclusion of opportunities generated from these technologies which, with the right support in deployment, could in time have a sizeable impact on Scotland's own regional economic growth prospects.

This thinking could be bolstered by parallel consideration of innovation 'testbeds', and whether Scotland's Innovation Districts, or even elements of land within them, could be considered for such status. Testbeds create a regulatory sphere within which partners (industry, government, local authorities, and communities) bring their respective powers and permissions to enable innovation to be trialled at pace, thereby accelerating the iterative development of solutions and, importantly, to support business investment in a failure scenario, allow them to fail quickly. Recent testbed developments at the Queen Elizabeth Olympic Park Innovation District in London - providing over 500km of open access infrastructure for trials - make for a compelling intra-UK example.[73]

Across a myriad of sectors, to enjoy an even playing field, Scotland's industrial players and investors must navigate a mixed system of reserved and devolved regulatory responsibility. For this reason, in principle, the refreshed focus of the Scottish Government upon this topic - and its wider Better Regulation agenda - is to be lauded. The new Programme for Government sets out a series of commitments as part of a strive to make Scotland an easier place in which to do business - including the development of Scotland's own regulatory Action & Implementation plan for 'key growth' sectors by the end of 2025.[74] One such designated policy area for this attention is housing - which is welcome news for many in the sector, not least with a significant number of SME Home Builders reporting that the cost of regulation since 2021 has directly led to a £20,000 increase in the cost of building a home.[75]

The Scottish Government's New Deal for Business, in its final report, articulates a clear understanding of the need to involve the business and investor community within regulatory design from the very outset and, importantly, reminds one of the constant need to remain vigilant of the cumulative load of restrictive regulation across the entire policy and legislative environment. The Scottish Government is embedding a more rigorous Business and Regulatory Impact Assessment, with a rejuvenated Regulatory Review Group, to bring the scrutiny of subject matter experts into ministerial advice.[76]

Given past high-profile examples of regulatory interventions striking a negative tone for Scottish stakeholders (the Deposit Return Scheme being the most obvious example[77]), this new approach to business regulation within Holyrood appears to represent a welcome development. Trade bodies will be pleased with the government's explicit recognition of business inclusion in the development process. However, past experience has given industry reason to be sceptical. Success will be measured by the tangible results of these proposed changes. Delivery must come with clarity of communication throughout implementation. There need to be clear long-term outcomes and at all times this journey must be underpinned by mutually beneficial collaboration between both governments - especially where the complex matters of internal market rules are concerned.

The relationship between governments and business requires continuous attention and care. It is an agenda that must be met with commitment and effort. Not least, when considering that, despite these recent steps, the business community observes only a 'modest improvement'.[78] Ultimately, uncertainty has a real world financial cost to industry, and it is with this in mind that we should consider how best to approach regulatory frameworks and any proposed reforms.

Investors will also, no doubt, welcome the clear message of the Deputy First Minister in the foreword to the aforementioned Final New Deal for Business Report, introducing these reforms under the purview of an *"unashamedly pro-growth administration"*.

Respondents to this Report's consultative process also commended what they perceived to be a noticeable (albeit anecdotal) shift to a more obvious growth mindset from key energy systems

73 Testbed | Trial, Test & Prove Your Innovation | Queen Elizabeth Olympic Park Innovation DistrictTestbed | Trial, Test & Prove Your Innovation | Queen Elizabeth Olympic Park Innovation District
74 Programme for Government 2025 to 2026 - gov.scot
75 Almost 60% of respondents, with 88% reporting the development experience has worsened since 2021: https://homesforscotland.com/number-of-sme-home-builders-falls-to-lowest-level-in-20-years-as-scotland-remains-in-housing-emergency/.
76 New Deal for Business Group Final Progress Report
77 Deposit return scheme - Managing waste - gov.scot
78 Scottish Business Monitor Q3 2025 | FAI

operators. Building a realisable case for improved regional economic growth in Scotland will require the continuation of this mantra and the initial positivity in business sentiment it seems to have garnered.

Planning Capacity

In Chapter 5 I set out the critical importance of developing Scotland's infrastructure needs and investing in our physical capital. This can only be realised with commensurate investments in human capital. One critical example of this is the need for continued support to grow the size and capacity of Scotland's planning profession. Whilst technological advances (e.g. AI) may introduce efficiencies into the planning system, the supply of accredited planners in Scotland is a fundamental enabler of economic growth, investment, and our transition to net zero. It is welcome that planning reform is another area where there has been a renewed and much welcomed refocus in Westminster and Holyrood alike - but this must continue, with dedicated initiatives and efforts to increase the population of planners and this crucial overall skills pipeline.

Scotland has only around 1,600 planners in total, with approximately 1,200 working in local authority planning departments - where of course the key decision making for development occurs. This figure is the lowest level recorded for over five years.[79] This lack of capacity, if left unaddressed, will pose a significant risk to delivering housing, energy assets, public sector and business estate developments, and the execution of Scotland's more strategic economic development priorities. The issue is compounded by further tensions: specifically, lower levels of funding for planning services, alongside an expansion of the range and expectation of planners' duties. These stresses are arriving on top of acute demographic pressures within the sector (with the majority of planners over the age of 50). Retirement and transfers between different local authorities are the two main reasons for local authority planning staff departures.

Given these challenges, new approaches to building resilience and capacity are required. Recent steps taken by the Scottish Government are headed in the right direction - with the latest Programme for Government proposing a series of welcome measures designed at reversing the decline in public sector personnel levels, recruiting and training extra planners and investing in postgraduate bursaries.[80] This will have a positive effect, and is a worthwhile intervention, but the additional bursaries are insufficient to address the shortfall. Far many more than 18 bursary places will need to be created by the Scottish Government to meet demand and achieve meaningful progress. Given that the planning profession provides useful skills, with increasing demand by the private sector (not least energy infrastructure developers), it would be positive to see more shared investment talent investment schemes. These could bring together Scotland's accredited planning schools, the Scottish Government, local authorities, and industry partners to together incentivise the take up of post-graduate planning studies, and provide, alongside covering tuition costs, the employment prospects necessary to entice young people towards the discipline.[81]

New 'Masterplan Consent Areas', may also prove helpful in introducing agility, removing outdated national planning advice to declutter the system where possible. Other welcome initiatives introduced by government include a commitment to undertaking rapid audits of planning teams to identify and address process inefficiencies and injecting additional support to local authority planning department through a new Planning Hub (providing extra expertise and pooling capacity in areas struggling with delays). Sharing resource beyond traditional geographic boundaries will also lend support to the broader challenge of adopting a more rounded, systems-based approach to planning, with decision-makers being more cognisant of a proposed development's enabling effect across sectors and geographies.

The next Scottish Government needs to make Scotland's planning system and profession a key priority. This will be critical in determining whether Scotland has the means to deliver the developments needed to drive Scotland's growth.

UK and Scottish policymakers need to adopt a more rounded and enabling approach to risk and regulation overall: one that recognises the importance of creating space for experimentation and innovation. We need Scotland and the UK to become as agile as possible to invest and grow, and this end will necessitate meaningful joint-working between both governments (and their regulatory counterparts) to ensure the removal or improvement of regulation in one 'jurisdiction' is considered in the adjacent and vice versa, with the hope that Scotland can retain and - where appropriate - develop a competitive edge.

79 See Royal Town Planning Institute (RTPI) reports RTPI | Future Planners Project Report and RTPI | State of the Profession 2023
80 Programme for Government 2025 to 2026 - gov.scot
81 One example of such a scheme can be found in: University of Glasgow - Scholarships & funding - GRID Planners Scholarship

Brexit has had innumerable drawbacks, but it does provide greater latitude within some regulatory areas. For example, our subsidy control frameworks could be used more strategically to support our innovation ecosystems and accelerate investment in emerging sectors. Stakeholders' experience of subsidy control, across both public sector actors and private businesses engaged in the conversation, is highly unlikely to be seen as enabling to this point. Linked to this, the recent UK Government's growth-focused Strategic Steer to the Competition and Markets Authority (CMA) does signal a shift towards embedding growth considerations within our regulatory environment. Together, these developments present an opportunity to move away from a narrow, risk-averse regulatory culture, and more towards one that balances protectionism with the active pursuit of innovation, regional growth, and productivity gains.

Recommendations

- **The renewed impetus exercised by both Scottish and UK Governments to overhaul our regulatory landscape and facilitate business activity is to be welcomed. The UK Government's reforms and the Scottish Government's Better Regulation agenda need to align so far as possible - ensuring a level playing field for UK enterprise and that our regulatory measures are competitive and consistent, precise and proportionate, with an agility to change as technology shifts. This will be key in attracting investor interest and mobile capital to Scotland.**

- **The Scottish Government, if not already doing so, should pursue with enthusiasm opportunities to collaborate with the new UK Innovation Regulation Office - shaping its priorities to ensure the inclusion of Scotland's shared sectoral and technological strengths.**

- **Policy makers must continue the renewed emphasis and increased prioritisation of not just planning system reform but boosting the capacity of the profession's personnel levels. Resources for investment and development could be pooled between accredited planning schools, local authorities, private sector (developers), and government to grow the planning workforce. The Scottish Government should encourage and incentivise such co-operation between these economic actors to attract young people towards the discipline**

Chapter 7 Fiscal Levers & Incentives

Investment and innovation are mutually reinforcing, supporting a virtuous cycle that can drive productivity, competitiveness, and long-term economic growth. Innovation matters – for the public and private sector, and for shaping positive societal outcomes. A nation's ability to innovate is intrinsically linked to its prosperity,[82] but innovation activity requires sustained investment, from domestic and international sources.

Foreign direct investment (FDI) can bring new technologies, international expertise, and access to global networks, strengthening Scotland's capacity to create good skilled jobs across the country. Indigenous investment is essential to keeping Scottish businesses competitive, opening new markets, and building resilient local supply chains.

Scotland has strong fundamentals for attracting investment and fostering innovation: a skilled workforce; world-class universities; and excellence in sectors including renewables, life sciences, fintech, and DeepTech. However, persistent challenges continue to hold back innovation including low business investment in R&D (BERD), insufficient scale-up funding, and the growing risk of relocation of skilled people and innovative businesses out of Scotland.

A fresh approach to investment and financial incentives, which focuses efforts around innovation could unlock significant business growth, boost productivity, and create many more good jobs across the country.

Scale-up

Investment value in Scotland is rising: venture capital (VC) and private equity (PE) investors participated in £442m of deals in 2024, a 91% increase on 2023 and higher than 2022's record levels. Scotland now ranks behind only London and the East of England for VC/PE deal value.[83]

Yet Scotland's persistent shortage of scale-up funding remains a barrier to innovation, competitiveness, and long-term growth. Promising SMEs and start-ups often stall due to a lack of scale-up capital and fragmented support. As the Scottish National Investment Bank (SNIB) observes, *"at the mid to later stages of a business's growth, particularly where greater levels of investment are required, there are fewer options for accessing growth capital"*.[84]

The ScaleUp Institute estimates a funding gap of between £217 million - £1.5 billion for scaling businesses.[85] This gap is particularly worrying given the positive impact of scale ups. They are significantly more productive than other businesses, generating 61% more turnover per employee than the Scottish average. They are also major innovators and exporters with substantial growth potential, and tend to be more diverse.[86]

Without adequate scale-up funding, start-ups risk relying on short-term finance that sustains operations rather than fuels expansion, making it harder to innovate and attract highly skilled people, and remain located in Scotland. Addressing this gap is critical to unlocking Scotland's full economic potential.

Plugging Scotland's scale-up gap requires mobilising a diverse investment ecosystem, from public sources to incentivising angel investors. However, each of these faces its own challenges. The domestic funding landscape is marked by an over-reliance on grants, which can too often reward form-filling over risk-taking. Public funding can be erratic with frequent new or reprofiled government funds and initiatives. There are relatively few high-profile venture capitalists operating within Scotland and there is a limited appetite among public funders to fill this gap and take VC-style funding risks.

Private early-stage funding is largely provided by smaller angel investors and syndicates. However, data suggests that angel investors are becoming more risk-averse, reflecting broader economic pressures. The British Business Bank reports that investment through EIS fell by 20% to £1.6 billion in 2023/24, down 31% from its £2.3 billion peak in 2021/22. Whilst the proportion of angels making 6-10 investments has risen, an increasing share made no investments, citing economic uncertainty as their biggest barrier.

Encouragingly, though, angel investors are undertaking more investments in key Scottish sectors including life sciences and energy related sectors. The Scottish Government should help Scottish businesses seize this opportunity.

The scale-up gap, a cautious angel market, and fragmented public funding all point to the same conclusion: Scotland needs a more coherent investment strategy. Greater alignment between private investors and public intervention could de-risk investment, crowd in additional capital, and give high-growth firms the confidence to innovate in Scotland. Scotland's funding gaps could also be closed by widening the pool of investment sources, from unlocking the potential of pension funds to exploring inclusivity of capital, to build a more resilient, innovation-driven economy.

Infrastructure, local government and Non-Domestic Rates

Investment alone cannot deliver innovation and growth unless it is encouraged and complemented by the infrastructure that enables businesses to grow. EY's survey highlights a rising investor focus on transport links, particularly considering major energy projects in the Highlands, such as Scottish and Southern Electricity Network's £31billion grid upgrade and Sumitomo's new cable factory, as well as on communications and housing. Scotland's cities also face the risk of becoming less attractive places to live and work than other UK and European cities without sustained investment to maintain their competitiveness.[87] (See Chapter 5 for further infrastructure considerations.)

Local government has a critical role to play - and immense value to contribute - in shaping these conditions, from business support and local networks to the quality and availability of infrastructure. Empowering councils is therefore central to attracting investment, driving innovation, and delivering sustainable growth.

Regional cooperation across councils should be used to balance local risk with regional opportunity. Reconsidering rates – and their use - could help reframe and reinvigorate local government's role in driving business growth, long-term investment, and innovation.

Non-Domestic Rates

Scotland's business rates system needs to be considered more strategically within the investment agenda. NDRs provide a key revenue stream to support the local services that businesses rely on but remain one of the most significant costs for businesses and can directly shape decisions about expansion, location, and innovation.

Whilst reliefs such as the Small Business Bonus Scheme (SBBS) have provided important support, questions have been raised about their effectiveness and the current targeting or resources. A Fraser of Allander Institute (FAI) evaluation of the SBBS found no empirical evidence that identifies the scheme as supporting enhanced business outcomes and highlighted "bunching" around the eligibility thresholds of the SBBS.[88]

Whilst most of the recommendations from the Barclay Review, an independent review of Scotland's non-domestic rates system, were implemented, they focused primarily on creating a competitive, fair, and transparent system. What is now needed is a review of business rates with sharper focus on economic outcomes including investment and innovation, beyond innovation zones. Such an exercise could be advanced through the mechanisms now making progress under the Scottish Government's Better Regulation agenda, bringing the voice of the business community to the policy making table. The challenge is to ensure that any business rates system supports innovation and investment as well funds the local infrastructure Scottish business needs.

82 Our Scottish Future - Innovation Nation - 2025 https://ourscottishfuture.org/wp-content/uploads/2025/06/Innovation-Nation.pdf
83 Scotland's Risk Capital Market Report | Scottish Enterprise
84 The Scottish National Investment Bank, Scaling Up Scotland - Scaling Up Scotland looks at our strengths, weaknesses and potential to grow I Scottish National Investment Bank
85 Ibid
86 ScaleUP Institute https://www.scaleupinstitute.org.uk
87 https://www.ey.com/content/dam/ey-unified-site/ey-com/en-uk/newsroom/2025/06/ey-uk-attractiveness-survey-scotland-06-2025.pdf
88 An Evaluation of the Small Business Bonus Scheme | FAI

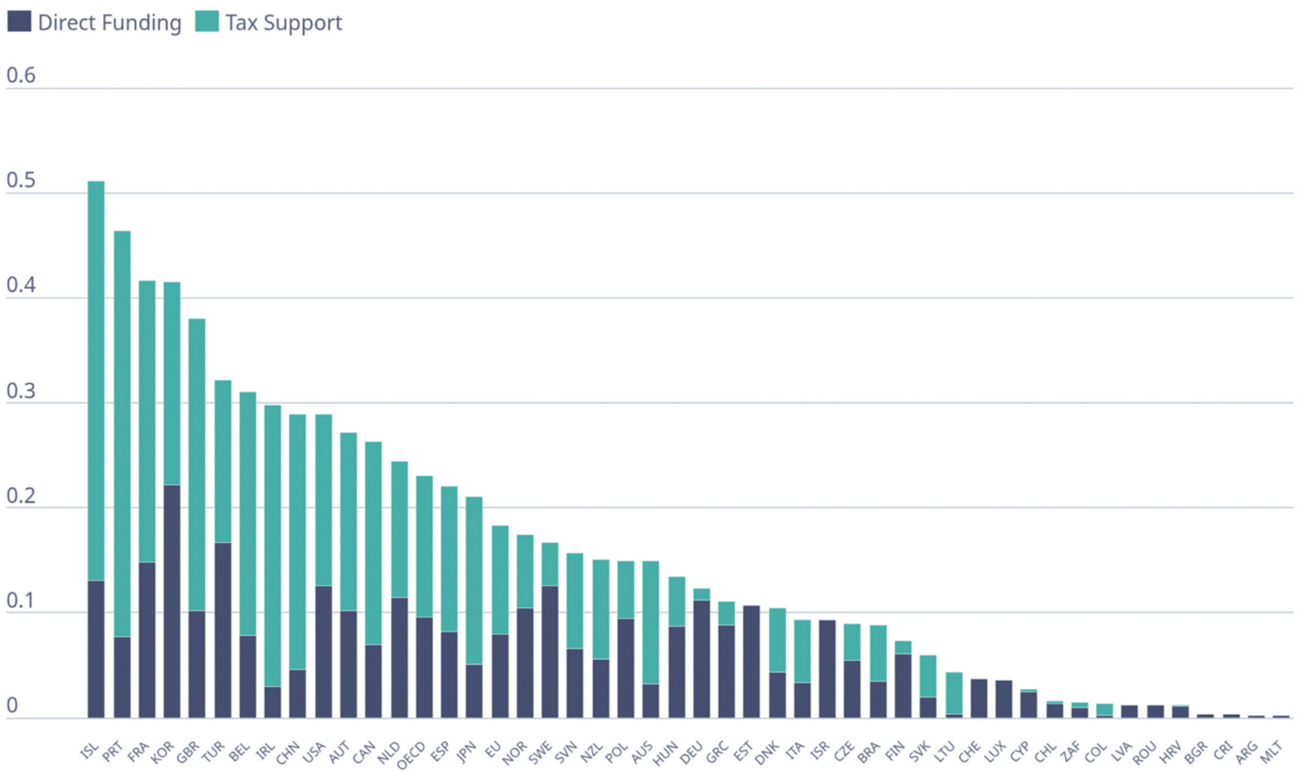
Research and Development

Beyond business rates, R&D tax reliefs and other incentives play a pivotal role in shaping Scotland's ability to innovate, scale businesses and compete globally.

Measured by cost as a share of GDP, the UK offers one of the most generous R&D tax regimes in the OECD.[89] However it has been suggested that it could be improved further. One particular issue for the UK in terms of R&D tax credit design is that there has been a surge in SMEs claiming for relief relative to large companies and that there seems to be a large element of incorrect and invalid claims. One study by Tax Policy Associates[90] notes that HMRC's 2020-21 analysis[91] shows that half the claims were incorrect and a quarter were fully disallowed. This suggests that there should be a continuous improvement in design and better targeting. As the OECD shows (see Figure 7.1) R&D tax credits are a really important source of incentivising support for business R&D across advanced economies. Given the potential importance of R&D tax credits in incentivising investment in R&D it should be better targeted towards highly innovative SMEs. One possibility worth considering by the UK Government is to target innovative SMEs which draw on our research base through our universities and work collaboratively with UK HEIs. This may help to reduce the compliance costs.

Benefits of R&D tax credits continue to be concentrated in London, the South East, and large R&D clusters like Cambridge, Oxford, and Manchester. Despite Scotland's research strengths, its share of R&D tax relief is just 4.8% of the UK total, the fourth-lowest among regions.[93] Given Scotland's low share of UK R&D tax relief, it is essential the Scottish Government plays an active role in any efforts to improve the system, working in close partnership with the UK Government. The Scottish Government should engage constructively. Important issues include: whether definitions of eligible R&D are keeping pace with advances in areas like AI, fintech, green technologies, health-tech, and the creative industries; whether HMRC's tighter compliance approach is discouraging take-up; whether the concentration of reliefs among a small number of firms is limiting broader innovation benefits; and how these benefits could be felt more widely. The UK Government should see whether our R&D tax credit scheme remains competitive within the OECD.

Figure 7.1 Govt Direct Funding and Tax Support for Business R&D (As a Percentage of GDP 2023)[92]



Sources: OECD calculations based on OECD R&D Tax Incentives Database, October 2025.

The Scottish Government also has a role to play in increasing Scottish businesses' engagement with R&D Tax Credits. Scottish business investment in R&D (BERD) is particularly low (1.45% of GDP in 2022, below the UK average) and activity is dominated by a small number of firms, with the top five responsible for nearly a third of spending. Innovation activity rates are declining, with only 32% of Scottish firms being classified as innovation-active in 2020–22, down from 2012–14 levels.[94]

Beyond R&D tax credits, there is also evidence that targeting tax breaks for business R&D in other ways could support innovation and productivity growth. For instance, some economists[95] have argued that extending the 'full expensing' regime for corporation tax to include intellectual property and patents transactions might be helpful in driving business innovation.

However, R&D tax reliefs are only part of the solution. Scotland also needs complementary measures that turn research excellence into innovation, investment, and jobs. A distinctive Scottish approach, developed in partnership with business, could focus on building more and stronger innovation clusters in growth sectors such as renewables and healthtech, extending the impact of tax credits, engaging supply chains, investing in skills, and connecting SMEs with commercial mentors. Business support should be designed not only to help firms and clusters undertake R&D, but to position that activity in the context of future markets, emerging sectors, and international opportunities, whilst maximising value through IP protection and commercialisation.

Growth Incentives - Freeports & Investment Zones

Freeports have been presented as a flagship tool to boost trade, attract inward investment, and stimulate innovation in key industries such as renewables and advanced manufacturing.

However, early in the development of Freeports in the UK, the Institute for Fiscal Studies (IFS) warned of risks in choosing the wrong locations or sectors. The organisation noted:

"Freeports may not be successful in creating the clusters that they hope for. In this context, too tight a focus on particular sectors could prevent other, potentially more viable, sectors from locating in the Freeports. This means there could be a tension between ensuring plans are sufficiently adaptable to respond to market signals, and maintaining a focus on sectors associated with positive externalities and agglomeration effects."

The IFS also highlighted the risks of deadweight and displacement: activity that would have happened anyway, or simply relocated from elsewhere. If activity, investment and employment would have taken place elsewhere without incentives, the Freeports could reduce UK-wide productivity.[96] In April 2024 the House of Commons Business and Trade Committee heard evidence that, in previous investment zones, only around one-third of jobs were genuinely additional, with the remainder displaced or deadweight. It found that mitigations have been introduced to minimise displacement in freeports by preventing activity currently happening elsewhere from accessing their benefits, but such mitigations cannot prevent deadweight activity from accessing benefits.[97] The larger the deadweight effects, the more chance there is that public money could have been better spent, for example, on infrastructure or skills. It is important to note that Freeports are a legacy of the last UK Government. The UK Labour Government have chosen to provide stability by maintaining the policy.

It is too early to properly evaluate the effectiveness of freeports in Scotland. Scotland's two green freeports were only announced in early 2023 and it can take several years for investment, job creation, and innovation impacts to become visible. Their location, at Grangemouth and Inverness & Cromarty Firth, do reflect wise choices in light of the transformation, energy and growth potential in these areas. However, government and policy makers must exercise real caution around the displacement effect when evaluating effectiveness and planning future freeport policy. If freeports are to deliver genuine additionality rather than moving activity, transparency, accountability, and a clear link to long-term innovation and productivity will be essential. This cautionary point applies equally to Investment Zones.

89 R&D tax incentives continue to outpace other forms of government support for R&D in most countries
90 https://taxpolicy.org.uk/2024/09/30/the-uk-has-lost-up-to-10bn-in-the-rd-tax-relief-scandal-how-did-hmrc-and-the-treasury-miss-it/
91 https://www.gov.uk/government/publications/compliance-approach-to-research-and-development-tax-reliefs/hmrcs-approach-to-research-and-development-tax-reliefs
92 https://www.oecd.org/en/topics/r&d-tax-incentives.html
93 Scottish SME R&D tax claims fall but value rises | Scottish Financial News

94 Scottish Enterprise - Scotland's Economic Performance - March 2025 https://www.scottish-enterprise.com/media/jztnjvrg/scotlands-economic-performance-march-2025.pdf
95 See James Cloyne & Joseba Martinez & Haroon Mumtaz & Paolo Surico, 2024. "Taxes, Innovation and Productivity," Working Papers 979, Queen Mary University of London, School of Economics and Finance.
96 Freeports: What are they? What do we know? And what will we know? | Institute for Fiscal Studies
97 Performance of investment zones and freeports in England - Business and Trade Committee

In Chapter 4, I set out what I consider to substantive benefits of the Investment Zone initiative - and the strategic wisdom behind their delivery model, aligning both governments, regional leadership, industry and research institutions to catalyse growth and de-risk investment in a concentrated proximity. The UK's 12 Investment Zones have the option of establishing a tax site as part of their programme - providing a series of tax reliefs within a defined geography. Of course, the true effectiveness of this measure will take time to assess, but the displacement risk remains high - with limited evidence to date of these tax zones driving tangible growth outcomes.

Income tax

Since devolution, Scotland's income tax system has increasingly diverged from the rest of the UK, with higher rates for middle and higher earners. Whilst this raises revenue for vital public services, and the government infrastructure that underpins our innovative capacity, it also shapes Scotland's competitiveness in attracting and retaining highly skilled individuals, entrepreneurs, and investors. In the context of innovation-led growth, where mobile, highly skilled workers are in demand across sectors such as technology, life sciences, and green industries, perceptions of tax competitiveness can be a factor in business and location decisions.

The independent Scottish Fiscal Commission has shown that in the coming decades, Scotland will face a widening "fiscal gap" between projected income and day-to-day spending demand. Scotland must also consider the long-term pressures of an ageing population. Only by growing the economy, supporting higher wages and job creation will Scotland have the revenues needed to invest in public services.

There are both immediate behavioural effects from income tax divergence between Scotland and the rest of the UK, and longer-term economic impacts once differential rates influence investment and migration decisions. The IFS has recently presented some analysis of the divergence of Scottish and UK tax rates[98] using HMRC studies but the evidence is still limited. They note:

"Overall…the available quantitative evidence suggests important behavioural responses to Scotland's higher marginal and average income tax rates for those with the highest incomes – potentially a bit larger than assumed in the SFC's policy costings. Indeed, the central estimates of behavioural response from HMRC's two studies would suggest that previous increases in Scotland's top rate of income tax will have slightly reduced revenues rather than slightly increased them as the SFC's assumptions imply…."[99]

Hopefully future evidence from the Scottish Fiscal Commission might shed further light on these impacts.

A 2025 EY report found that 46% of senior executives in financial services saw Scotland's tax regime as a competitive disadvantage, whilst 36% said it affected their ability to attract top talent.[100] Similarly, a Fraser of Allander Institute survey found that although 57% of firms reported little to no effect from recent tax changes, 34% experienced moderate to significant impacts - particularly on recruitment, retention, and investment decisions.[101]

A more strategic approach is needed. Income tax policy should not be treated in isolation but considered alongside the whole tax system and complementary measures to support competitiveness including support for scale-ups, and reforms to business rates.

The Fiscal Framework produces benefits for Scotland's budget where the tax base grows faster in Scotland than the rest of the UK. However, the approach to date has focused on increasing revenue through increasing tax rates and freezing thresholds.

Ultimately, the goal should be a tax system that raises the revenue needed for public services whilst reinforcing, rather than undermining, Scotland's appeal as a place to innovate, invest, and build businesses.

Recommendations

- **The Scottish Government should produce a new trade and investment strategy for Scotland (see Chapter 7), which sets out clearly the role of public funding to crowding in mobile capital into Scotland's regions. It should specifically target scale-up capital and look at opportunities to deploy pension funds in this area.**

- **There should be a full review of Non-Domestic Rates, targeting enhanced relief to investment projects and premises in priority sectors for growth and comparative economic advantage. This should be aimed at growing productive businesses.**

- **The Scottish Government should work closely with UK Government and HMRC on how to improve UK R&D tax credits and the scope to incentivise decentralisation of investment in innovation and tech diffusion for productivity gains in firms. The Scottish Government should work with Scottish businesses to help to remove barriers to using R&D tax credits.**

- **There is evidence that the UK R&D tax credit regime could be improved, and that some of the support is not directed towards the most innovative forms of R&D. R&D tax credits at UK level could also be made more targeted, focusing on the most innovative opportunities, led by consortia which bring together universities and business. This might also 'crowd in' business investment into our research and innovation base. In addition, there is some evidence that targeting IP investment through the corporation tax regime at UK level could be helpful to innovative businesses.**

- **The effectiveness of tax zones should be kept under review to consider the spillover effects and, if they are deemed to displace activity, they should be replaced with direct public funding of investment and innovation.**

- **Scotland's higher marginal income tax rates could be a major disincentive in attracting high value jobs. Current higher taxes in Scotland help fund public services, but that needs to be balanced against the focus on growing the Scottish economy relative to that of the UK, by attracting jobs to Scotland. An incoming government should consider and actively report to Parliament on the economic growth effects which arise from the divergence/alignment of Scottish and UK tax bands and consider when the opportunity arises to create less distortion.**

98 IFS - The increases in Scotland's top rate of income tax may have reduced revenues – although significant uncertainty remains - 2024 https://ifs.org.uk/articles/increases-scotlands-top-rate-income-tax-may-have-reduced-revenues-although-significant
99 Ibid
100 Scotland's high income tax 'stifling job creation' – EY's report is found at https://library.ey.com/story/ey-fs-scotland-report/page/1?utm_source=microsite&utm_medium=17501962&utm_campaign=FSScotlandreport
101 Scottish Income Tax: Mixed reactions from the business community | FAI

Chapter 8
Trade & Investment Priorities

Scotland's economy, like that of many small countries, is a diverse and outward-facing one, with onshore GDP of around £210 billion annually. Built on a strong mix of traditional industries and modern innovation, it combines globally competitive sectors such as energy, financial services, food and drink, tourism, and higher education with emerging strengths in digital technology, life sciences, and advanced manufacturing. The economic landscape is shaped by a high concentration of small and medium-sized enterprises alongside a number of major international firms, with services, trade, innovation, and skills playing a central role in driving productivity and growth across Scotland's regions.

Scotland's strengths are reflected in its continued success in attracting FDI. EY's 2024 UK Attractiveness Survey[102] reports that Scotland's share of UK FDI projects rising to 15.8%, up from 14.4% in 2023 and well above the decade average of 11.5%. This growth came against a backdrop of declining FDI across the UK and Europe. The survey also reports that a quarter of global investors planning UK operations expect to choose Scotland, second only to London at 62%.[103] Whilst business services generated the most projects (61) followed by manufacturing (29), it is notable that R&D projects more than doubled from eight to 17, bringing what EY describe as *"high-value, knowledge-intensive jobs, fostering local talent development and innovation capacity"*.[104] Having said this, the EY Survey may not provide the complete picture of FDI, and recently released ONS figures on jobs and value created shows Scotland performs less well in relative terms[105]. Future trends will also be impacted by emerging trade barriers across the globe.

Government should prioritise high-value, knowledge-driven FDI that embeds local firms in global supply chains, supports regional clusters, and generates sustained, high-quality employment.

A number of sectors make up Scotland's outsized contributions to exports, inward investment, and global competitiveness. It is the combination of the natural capital advantages bestowed on Scotland (natural resources and geographical advantage), institutional strengths (world class universities and colleges, finance, skills), and a strong global reputation (brands, heritage) that lie at their core. Scotland's competitiveness is built a upon strong mix of traditional industries and modern innovation and combine globally-significant sectors such as energy, financial services, food and drink, tourism, and higher education with emerging strengths in digital technology, life sciences, and advanced manufacturing.

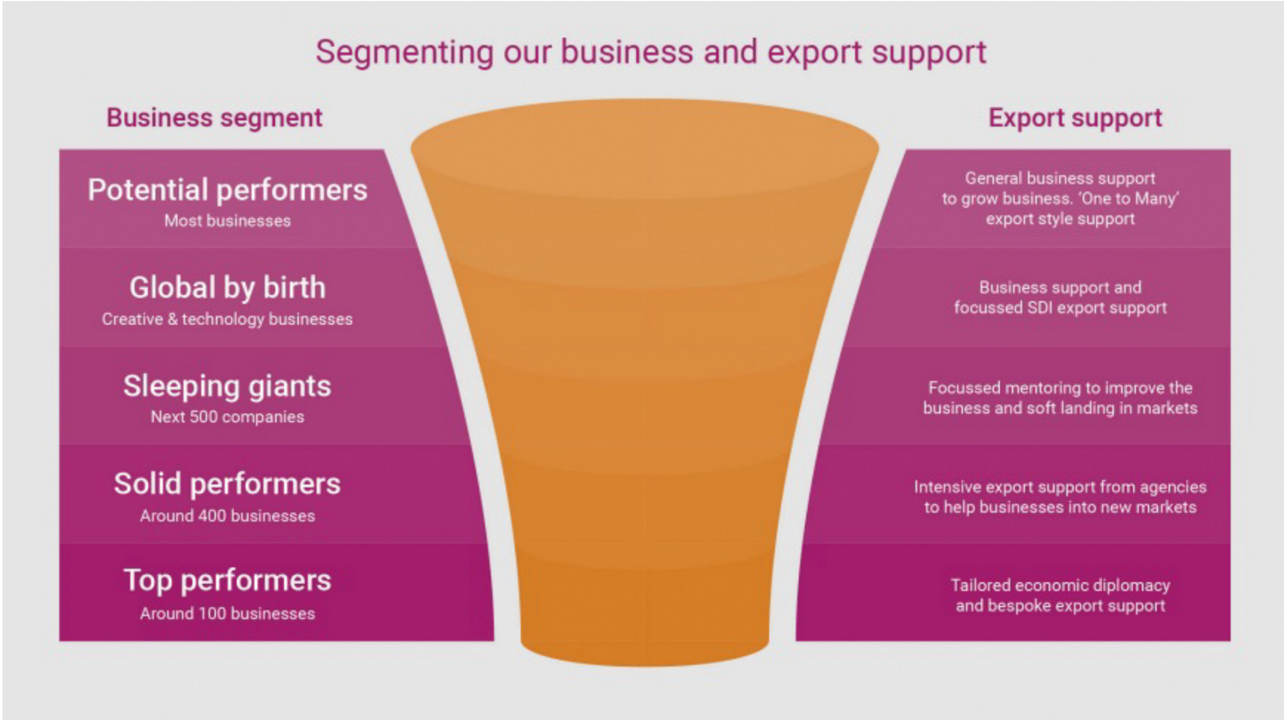
From a trade policy standpoint, the performance and resilience of these sectors are critical: shaping international relationships and creating spillovers across supply chains and regional economies. This report will not look at every sector in turn, there are many other detailed analyses of sectoral challenges and opportunities, but I will focus on some key areas for consideration.

The Scottish Government's 2019 plan for growing exports, Our Trading Nation, provides an analytical underpinning that helps consider areas of focus (see Figure 8.1). The plan sets out that only around 11,000 Scottish businesses, around 3% of the total, export goods or services. Data from Export Statistics Scotland show that the top 100 exporters account for around 59% of Scotland's total exports (over £19 billion), and the next 400 exporters contribute a further 23% (over £7 billion). In total, just 500 businesses, around 0.1% of the business base, generate more than 80% of all our exports.

Whilst this does not necessarily differ too much from the wider economy, where less than one percent

102 This survey provides a helpful indication of FDI trends, albeit favours 'traditional' forms of FDI and the influence of subsidy – so it may be less robust and has to be treated with caution.
103 EY UK Attractiveness Survey, June 2025 - ey-uk-attractiveness-survey-06-2025.pdf
104 Ibid
105 See Office for National Statistics (ONS), released 2 October 2025, ONS website, article, Foreign direct investment, UK subnational statistics: 2023 https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/articles/foreigndirectinvestmentexperimentaluksubnationalstatistics/2023

Figure 8.1 Our Trading Nation - Scotland's Business & Export Support



of businesses account for over half the turnover generated, it does highlight the importance of trade policy that produces tailored interventions, by scale and by sector. This was a strength of the approach articulated in Our Trading Nation[106], highlighting the type of export support required by business segment.

Given the time that has passed since Our Trading Nation's publication, the number and severity of external trade shocks and the strategic publication of the UK Government's Industrial Strategy, it would be helpful to now understand how those events have impacted the fortunes of these businesses, how our target markets have evolved and whether interventions available across UK and Scottish Government are being maximised.

One sector where the impact of international shocks has been felt more than most is within the energy sector. Energy sits at the core of Scotland's trade identity because it encompasses two complementary - and sometimes competing - export stories and shines a light on the geographical differences that exist within the Scottish economy.

Historically the North Sea oil and gas sector drove large export volumes, investment, and high-value specialist services (engineering, fabrication, subsea expertise). Although UK production has declined from peak levels,[107] the sector remains material for exports, employment and regional supply chains, particularly around the North East of Scotland. Continued production, decommissioning activity and service exports sustain international demand for Scottish skills and firms.

Alongside this, Scotland is emerging as a global leader in the deployment of renewables, especially offshore wind (fixed and floating) and onshore wind, with 46% of the UK installed wind capacity.[108] The transition to a lower carbon energy system creates exportable goods, services, and longer-term energy exports through interconnectors or green hydrogen. The renewables pipeline presents a structural opportunity to secure economic value in the Scottish economy, attract foreign investment, and anchor manufacturing/value-chain jobs domestically.

The importance of a competitive energy sector has significant implications for our ability to attract foreign investment, and or to prevent the leakage of our existing businesses. Energy prices are a critical factor for inward investment decisions, as they directly influence operating costs, competitiveness, and

106 Supporting documents - Scotland: a trading nation - gov.scot page 9
107 For more information on the Scottish context, see - Publication of the outputs from a programme of work to better understand our energy requirements as we transition to net zero - Energy system and Just Transition: independent analysis - gov.scot
108 Energy Trends: UK renewables - GOV.UK

long-term business sustainability. We are seeing this play out in the UK and Scotland now, with significant energy intensive industries highlighting that persistently high energy costs compared with those faced by international competitors have become a barrier to investment.

The energy sector is one where the levers of Westminster and Holyrood must work together strategically to de-risk productive investment in infrastructure and manage a once in a generation transition that has significant implications for our inward investment ambitions, as well as for the place-making and future economy of the North East of Scotland. This sector, more than many, is one where government can exert control over domestic deployment and has an opportunity to build on shared success to date to create a truly aligned economic and industrial policy.

It is this alignment of government policy making, matched by a willingness to innovate by private partners, that is required across all our key sectors to generate a stable and confident investment climate. Supporting innovation is fundamental to the ability of these sectors to continue to grow and export into global markets. We have comparative advantage across the clusters of health & life sciences, medical technologies, fintech, creative industries, advanced manufacturing, quantum, photonics and semiconductors. For example, the Life Sciences cluster in Scotland has turnover in excess of £10billion, employs over 45,000 people with exports valued at £4.4billion.[109] And, in uniting the aforementioned areas of quantum, photonics and semiconductors, a 'critical technologies supercluster' has formed in Scotland - with annual revenues in excess of £4billion[110] and aiming to grow to £10billion by 2035 - producing components and technologies of critical value to the UK's sovereign capabilities.

Of course, there will always be limits to how much domestic policy can insulate our key sectors from trade disruptions. We see this currently within the food and drink sector, where whisky exports have become subject to the imposition of tariffs as part of the US Administration's trade policy.

Food & drink are among Scotland's most internationally recognizable and resilient export sectors. Scotch whisky remains an anchor brand that supports bottling, packaging, tourism, and a dense cluster of distilling-related services. Recent industry figures show whisky exports are worth multiple billions annually and remain central to Scotland's goods export mix and international market engagement.

Whisky's reputation enables market access and pricing power that other sectors can emulate through place-based branding. Likewise, seafood (salmon, shellfish) also plays a critical trade role: Scotland is a major exporter of farmed salmon and high-quality shellfish to European and global markets. These products support strong seasonal and permanent employment, feed into high-value supply chains (retail, foodservice), and sustain relationships with EU markets that are vital for perishable food exports.

The exposure of these sectors to tariffs/regulatory barriers, currency volatility, and logistics constraints for perishable goods mean that maintaining smooth trade arrangements are a priority, and a focus on the gravity effects of trade are critical when designing interventions.

Sectors do not operate in isolation. Energy projects underpin manufacturing orders; whisky tourism boosts regional retail and transport; financial services enable cross-border deals that finance exports. Export strength in one sector produces demand for supporting professional services, components and logistics, amplifying trade impacts across the economy. Conversely, trade friction in one sector (e.g., tariffs on beverages) can transmit losses across supply chains and regional employment. Hence, protecting seamless market access and investing to 'move up the value chain' in each sector multiplies trade returns.

Recommendations

- **The Scottish and UK Government should build on existing policy advancements to develop a refreshed, joined-up investment and trade strategy for Scotland, with clarity on areas of focus and responsibility. This work should also prioritise specific measures to integrate high value FDI and domestic supply chains.**
- **Scottish and UK Government should produce a roadmap to reduce energy cost imbalances that are a significant barrier to FDI.**
- **Sustaining export competitiveness requires consistent investment in R&D, skills and international marketing - and so the Scottish Government and its agencies must prioritise the continued rollout of initiatives that can catalyse export-led growth. This should include strengthening export capacity and resilience across SMEs and key branded sectors and, importantly, expanding tailored export support and finance for SMEs to internationalise.**

109 See - About Life Sciences in Scotland - Life Sciences Scotland
110 New initiative launched to build £10billion 'Critical Technologies Supercluster' in Scotland – Technology Scotland

Chapter 9
Role of Government and Public Agencies and Funding for Growth

The influence of government through economic development agencies, and the part played by public financial institutions are key to designing and executing a successful regional economic development strategy. Growth requires business to invest more capital in projects, and the role of government and public agencies is critical to crowding in private investment. Public infrastructure either encourages or discourages private sector investment decisions.

Scotland's Enterprise Agencies have evolved over time. Scottish Enterprise (SE) is Scotland's national and international economic development agency, whilst Highlands and Islands Enterprise (HIE) and South of Scotland Enterprise (SOSE) are more locally rooted, providing more locally-delivered, on-the ground regional economic development support in the Highlands and Islands and Dumfries & Galloway and the Scottish Borders respectively. The three organisations are very different in size and scope, with SE being the only economic development agency with national and international scope.

The last time this agency landscape was reviewed was in the Enterprise and Skills Review (Phase 1: 2016-17; and Phase 2 in 2022, which led to the National Strategy for Economic Transformation).

As part of this report, I interviewed several businesses and stakeholders with experience of our economic development agencies. There was very consistent feedback across consultees for a much more streamlined and simplified agency landscape, despite positive feedback on the find business support in Scotland portal.[111]

A few major themes emerged:

First, the reported experience of SE as an agency typically depends on whether companies themselves have been able to benefit from its services. Many companies which had benefited from SE's input, to assist with easing their foreign direct investment into Scotland, an investment development, or with SDI's support into export markets for example, were very content with - and indeed complimentary of - the service provided. In contrast, some SMEs (or their industry representatives) with ambitions to develop export markets felt they were not sufficiently supported.

Similarly, companies who benefited from SE's High Growth Spin Out Programme (HGSP) felt the agency's contribution and intervention was very important. In contrast, some ventures and entities who did not find themselves to fit within the high-growth agenda, felt that the sources of business support were limited. This feedback is natural within any competitive support environment.

It is worth noting that there are impressive outcomes being realised from the HGSP, and that it is becoming an incredibly valuable component in Scotland's innovation ecosystem, a vital early step in the journey from discovery research to commercial application and employment. SE's latest annual report highlights that the organisation's HGSP and investment activities supported the creation of a record number of eight spinout companies and, beyond this, £53.4m committed to 117 innovative, high growth potential early staged companies - leveraging £152m of external investment.[112] SE's recent risk capital market report articulates the importance of Scotland's spin-out market strengths and endeavours such as these

111 https://findbusinesssupport.gov.scot/
112 Scottish Enterprise Annual Report and Accounts.

(2024 saw 2024 saw 52 spin-outs raise £176 million of investment).[113]This is a priority area where continued SE resource, prioritisation and expertise will prove invaluable for Scotland's regional growth ambitions.

A second point which follows from this beneficiary sentiment, is that the Scottish agencies are often not good at communicating precisely, with evidence, the impact that their initiatives and investment successes have on Scotland's productivity or GDP growth. This has led to some concerns in terms of accountability for the amount of public investment tied up in the agencies[114].

A connected point is that the National Strategy for Economic Transformation (NSET) is, in places, rather unfocused (see further observations on NSET within Chapter 5). Ideally, NSET should have been an opportunity for the Scottish Government's economic strategy and regional development strategy to become more concentrated on growing the economy, and on productivity growth. Instead of pursuing that mission, NSET's framework has evolved into a somewhat diffuse strategy. Indeed, SPICe has noted the difficulties in Parliamentary scrutiny of the Scottish Government's economic strategy because of the multiplicity of actions and indicators involved:

"...The progress update tells us little about how the Scottish Government navigates the trade-offs inherent in economic policy making – about what it has chosen to prioritise and not, and why. Of the 26 measures of success above, for example, which are the priorities? ..."[115]

If a strategy is to be successful to drive economic growth and regional economic development in Scotland, it needs to be focused much more precisely on key economic variables.

Third, a key point which a number of stakeholders raised was whether SE - as *the* predominant agency - should in fact play a key role as an arms-length agency in advising the Scottish Government on its overall economic growth and regional economic development strategy. Clearly SE would contend that they have expertise in this area, although many stakeholders felt that its strategic economic policy expertise had been depleted, or reprioritised, over time - an outcome symptomatic of the wider stress on Scotland's public finances.

Having spoken to many stakeholders and policy delivery experts, it is my view that Scotland's economic development agencies' role must be about detailed delivery and not strategy, and that strategic policymaking responsibility should be resting *within* the Scottish Government.

Most stakeholders articulated the need to have a clear delineation between enterprise agencies' role in delivery of government funding / support but that policy needs to be set and clearly articulated by the Scottish Government. As recommended elsewhere in this report (see Chapter 10), it makes sense for that economic strategy to be led at the most senior government level by very senior Cabinet figures, leaving the agencies with the task of delivering those actions.

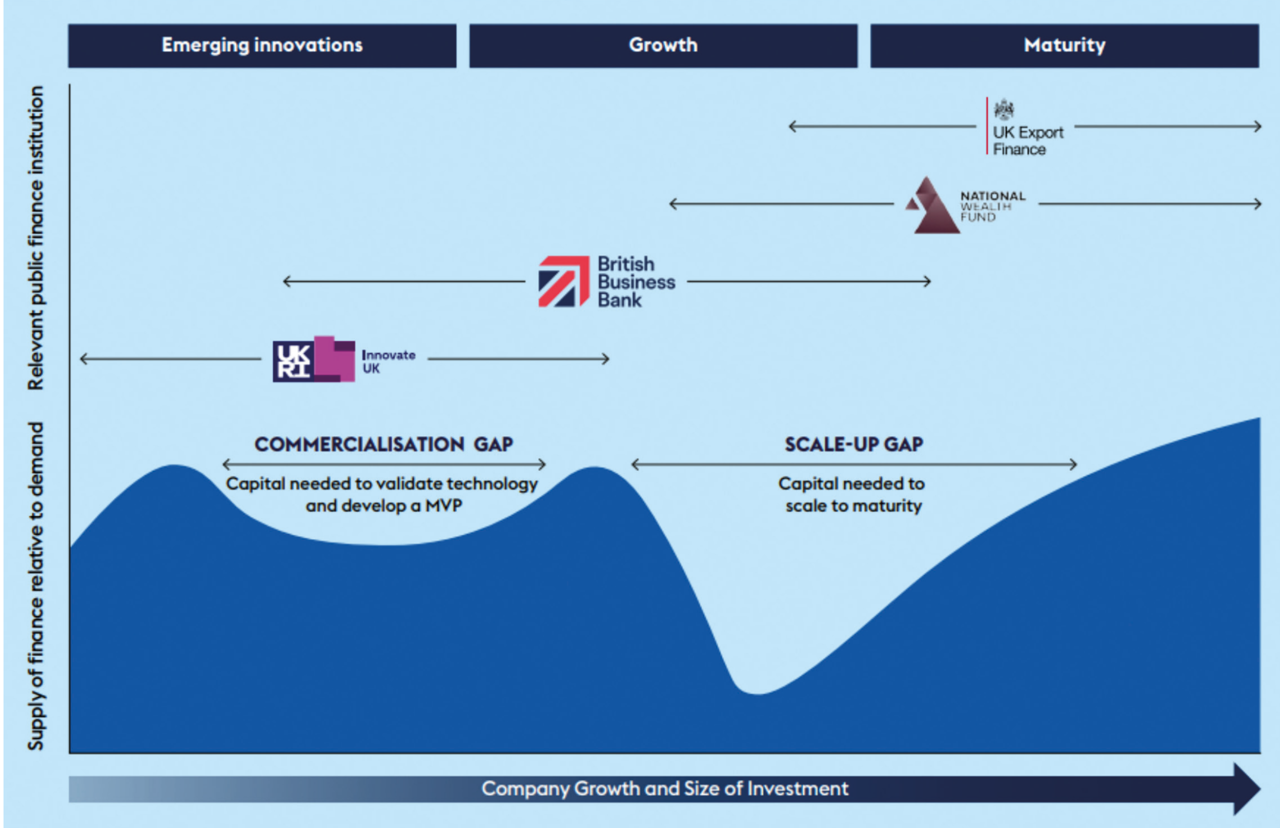
Beyond this normative of where policy and strategy should sit, there is much to be commended in having a delivery-focussed enterprise agency - an expert vehicle for the implementation of government's economic policy agenda. Stakeholders in other regions of the UK have pointed out the unique benefits organisations like SE can bring and are in part envious of its very existence. The organisation's new operating plan provides a clear communication of its delivery focus, and its mission-oriented approach to this.[116] And this can be easy to overlook from within the existing ecosystem.

In terms of this delivery, there is a feeling amongst stakeholders that it would be good to benchmark the performance of our economic development agencies not just against the objectives set by the Scottish Government, but also against similar agencies in similarly-sized economies. It is striking for instance that the SE organogram shows a staff headcount of 1,156 staff, which is larger than agencies for similarly-sized countries. For instance, Business Finland reports 760 staff, and Business Sweden around 500. Ireland's total staffing for its development agency plus Enterprise Ireland is closer to the SE total. However, the key point is that in terms of delivery and impact, it would be important for the Scottish Government to review its value for money and effectiveness by benchmarking internationally. It would also be helpful to do this benchmarking relative to the levels of investment made by Scotland's agencies compared to other national agencies. Any such exercise should also be clear about the different models that support this activity in other countries, and not overlook the differences in the balance between regional/municipal activity and more national level support.

Finally, a key point is that some stakeholders felt that our agencies can at times be influenced toward

113 Report on Investing in Ambition, Scotland's Risk Capital Market: Benchmark Analysis 2024
114 See for example the latest evidence session of the agencies at the Economy and Fair Work Committee: https://www.scottishparliament.tv/meeting/economy-and-fair-work-committee-september-17-2025
115 https://spice-spotlight.scot/2024/08/20/how-is-the-scottish-governments-economic-strategy-progressing/
116 Scottish Enterprise - Operating Plan 2024-25

Figure 9.1 UK Public Financial Institutions



Innovate UK is the UK's innovation agency and part of UK Research and Innovation (UKRI).

Innovate UK provides:
- Grants
- Loans
- Pre-procurement
- Tailored support

Innovate UK supports businesses seeking to develop and commercialise new products, processes and services alongside a growing network of Investor Partners providing aligned private capital.

British Business Bank (BBB) is the UK's economic development bank.

The BBB uses its £25.6billion capitalisation to increase the finance available to SMEs through:

- Investment into partner funds
- Direct investment into companies
- Providing debt, guarantees and loans through commercial partners

The BBB supports investors looking to partner with the BBB or SMEs looking for investment in the UK.

National Wealth Fund (NWF) is the UK government's policy bank and principal investor deploying capital at scale to support the growth and clean energy missions. It has £27.8billion to crowd in private finance through:

- Equity, debt and guarantee investments in capital intensive projects and companies, generally at later funding stages
- Advisory services and lending to local authorities (LAs)

NWF supports LAs and those seeking investment into large projects or companies.

UK Export Finance (UKEF) is the UK's export credit agency. UKEF drives growth by helping exporters access capital and manage the risk of not getting paid. UKEF partners with private sector finance providers to grow UK exports and international trade providing support for:

- Working capital loans
- Export insurance
- Guarantees to international buyers

UKEF supports UK exporters, businesses looking to export from the UK and international businesses sourcing goods and services from the UK.

The **Development Bank of Wales** provides equity financing, business and property loans to businesses in Wales.

The **Scottish National Investment Bank** provides debt and equity to projects and businesses based, or looking to relocate to, Scotland.

Invest NI helps new and existing businesses to compete internationally, and by attracting new investment to Northern Ireland, including by providing loans and equity investment in NI.

Great British Energy accelerates clean energy projects and investments in emerging technologies through co-investment with the private sector.

The Office for Investment (OFI) provides a bespoke concierge service to help the most strategically important investors navigate the UK landscape, including the public finance offer, working with the NWF, BBB, and other Public Financial Institutions.

investing in locations to align with their own historic actions and asset base. There are various dimensions to this issue, but in essence as part of a strategy for regional economic development there should not be a bias towards investing in specific regions of Scotland based on where a public sector or agency's property portfolio is located - or as a consequence of contorting (even with best intentions) an intervention to align with other policy or corporate decisions. The Scottish Government may wish to consider whether a public asset portfolio might be managed elsewhere within government, thus ensuring so far as possible neutral or evidence-led approach to regional economic development decisions.

One other important actor in Scotland in the area of regional economic development is the Scottish National Investment Bank (SNIB). The landscape for public investment has also become more complicated across the UK. With the transformation of the National Wealth Fund and the Creation of GB Energy the landscape in Scotland has become more complicated for SNIB.

The UK Government's Industrial Strategy provides a helpful infographic which helps, to some extent, in illustrating the intersections between these institutional actors in a typical funding journey for an innovative business (see Figure 9.1).[117]

Stakeholders generally reported favourably of their experience regarding SNIB. It was felt that SNIB had adapted well to the introduction of the new players in the UK landscape and had moved since their founding to meet business need in Scotland. It had also developed MOUs with other major UK players like GB Energy and NWF to avoid overlap. Clearly, there is an argument for ensuring good co-ordination in this area is maintained, and this is picked up in my recommendations below.

There is also a sense in which, as the UK Industrial Strategy evolves and Scotland's regional economic development strategy evolves to be congruent with this, SNIB itself will need to evolve. One such evolution, to help realise the investment necessary for attaining our industrial ambitions, could be the reconsideration of the Bank's mandate expressly to encourage and enable investment alongside the providers of larger pools of private capital, and if necessary, in a manner which moves beyond a commercial terms basis. The Bank need not to wait for market failure and may have a role to play alongside other large capital providers to catalyse the industrial change needed in Scotland. This flexibility can be observed in the functions of international peers, such as California's CalPERS or France's Bpifrance.[118]

It was good to hear that SNIB are fully aware of this challenge, and their willingness to be dynamic. It would also be good to articulate the risk-sharing between SNIB and UK-based public financing institutions. This is crucially important where R&D is impacting rapidly on a business sector: the faster adoption of critical new game changing, locally-generated R&D into businesses – especially SMEs – will require some element of public financing support.

The other important area where stakeholders commented is the need for the various agencies interfacing with business to be more joined up. To some extent, what we are seeing in many areas is a lack of local business support as some local authorities have hollowed out their business support functions, at the same time as a experiencing a growing demand from those businesses which do not 'fit' the priority of any agency.

Finally, a number of consultees recognised the importance of a change of culture across central and local government in Scotland (as set out in the recent RSE Report on Public Service Reform in Scotland).[119] We need our public agencies to actively encourage innovation, and demonstrate it too - which will mean a willingness to actively manage risk, which will require much improved governance and accountability models (including how external scrutiny actually operates) so as to 'positively reward and reinforce behaviours and outcomes that align with agreed public service reform values and ambitions (prevention, place, partnership performance').[120]

Recommendations

- **There should be further alignment of the remits of SE, SoSE and HIE, ensuring the clearest possible lines of responsibility.**

- **Similarly, there should be a clearer alignment between Scottish and UK level public funding institutions (SNIB, BBB, GB Energy, NWF) ensuring that businesses can better navigate 'panoply' of support agencies at schemes at local authority, Scottish and UK levels.**

- **Economic development policy should be formed entirely within the Scottish Government and agencies should focus entirely on delivery. Enterprise agencies should have their missions set by the Scottish Government, and be focussed and empowered on this delivery. This might necessitate resolving the skills and expertise required on the Boards of the enterprise agencies, with a focus shift more towards business need and away from policy development.**

- **It would be helpful to regularly benchmark the value for money delivered by the enterprise agencies through international benchmarking on staffing and resources invested in the agencies.**

- **The focus on priority missions in SE is welcome. However, I recommend clearer KPIs / outcomes targets for the organisation and the need to consistently evaluate indicators and imperatives such as:**
    - **Evidencing productivity gains as a result of SE activity,**
    - **Sectoral investment targets aligned to strategic priorities,**
    - **Targets for increases in business R&D and,**
    - **Increased risk appetite or tolerance to add value and true additionality to project development.**

  With clearer KPIs/delivery targets it would then be sensible for the Scottish Government to look towards some greater flexibility for SE and the enterprise agencies across financial years.

- **All parties should continue to recognise the pivotal role SNIB can play in improving regional economic growth and productivity growth in Scotland - furnishing the Bank, through its mandate or otherwise, with the means to ensure sufficient dynamism in delivery. For example, permitting the Bank to take a more active role in 'crowding in' private investment in more flexible circumstance, strengthening its ability to 'match' invest alongside large capital providing partners.**

117 The UK's Modern Industrial Strategy 2025 - GOV.UK p52
118 See Our Scottish Future: From Growth to Good a ten-year growth plan for Scotland p33
119 Royal Society of Edinburgh Public service reform in Scotland: how do we turn rhetoric into reality? (In Partnership with Audit Scotland) 2024 Public Service Reform in Scotland
120 Ibid

Chapter 9: Role of Government and Public Agencies and Funding for Growth

Chapter 10
Driving Growth Through Delivery in Devolution

Throughout this report, I have made the case for Scotland and the UK to develop stronger mechanisms to coordinate their economic growth and productivity ambitions. Achieving these outcomes - and delivering the necessary interventions along the way - will depend on decisions being taken by those who best understand their own regional economic circumstances (see Chapters 2 and 5), supported by seamless coordination across devolved and reserved powers where required (see Chapter 3).

England's largest regional economies are now enjoying the support, and prospective benefits, of a 'devolution revolution' of sorts - with the UK Government recognising two imperatives: that this more coordinated, localised delivery can deliver stronger economic outcomes, and that empowering regions to do so must be an ongoing commitment. We must therefore ask ourselves what this shifting context means for Scotland.

The very visible steps being progressed on devolution and growth in England (with recent legislation and the statutory establishment of Strategic Authorities and Combined Authorities) has perpetuated what may be perceived as a clear gap in regional development and its policy making in Scotland. [121] Evaluations of the now decade-old City Deals / Growth Deals programme in Scotland will be mixed, but there appears to be a general consensus that it led to the successful execution of infrastructure and growth projects which compelled an uplift in regional economic development in Scotland which otherwise would not have happened.

In a fiscal climate which is becoming ever-more constrained, and especially so at a local authority level, the joint attention of Holyrood and Whitehall is required more than ever - as is the coordination and effective regional governance[122] which the City & Growth Deals' funding implemented. The new metro devolution being progressed at pace in England, has left Scottish counterparts with little to point to since these Deals, and both Scottish and UK Governments now ought to address the question - and fill the void left - by setting out of what comes next; and do so promptly.

A step-change in Scotland's regional economic growth prospects relies upon this clarity of devolved investment and statement of intent, along with the resource and supportive structures to support effective delivery. Neither the UK's industrial strategic ambitions, nor Scotland's economic potential, can be realised without such an approach.

Devolution on its own is not enough. We need to continue to observe tangible delivery, spearheaded by the Scottish Government, as well as regional interlocutors.

In recent times, I would contend that the Scottish Government has strengthened its articulation of the need for economic growth, and its prioritisation in the Programme for Government. It ought to continue in this approach - and do so unashamedly.

Whichever political party takes the keys to Bute House in May 2026 should ensure that economic growth across Scotland's regions is at the forefront of its mission. Making a noticeable difference on economic growth and productivity outcomes will require consideration of the optimal structures and mechanisms to ensure coordinated portfolio decisions with purpose, prioritisation and - crucially - appropriate accountability.

121 Waite, Roy, McIntyre and MacKenzie - Next steps for city-region policy in Scotland (University of Glasgow and University of Strathclyde) 22 September, 2025.
122 See Audit Scotland's City Region and Growth Deals, 2020

A number of OECD governments have already placed productivity and economic growth at the heart of their policy agendas. The Scottish Government must take ownership of coordinating its policies so that economic and productivity growth are at the heart of its own programmes. Any true uplift in regional economic growth cannot be achieved without this. The original aim of the National Strategy for Economic Transformation (NSET) was to provide this much sought after co-ordination, but most consultees have pointed out that gaps remain, and that as a result progress on regional economic development has not been progressed at sufficient pace.

And whilst regional development may best be delivered from the ground up, the leeway and means to do so needs to be driven from Bute House down. It is legitimate to question where the delivery emphasis within NSET sits. The original thinking behind NSET was that there should be a focus on delivery, but most respondents to this review felt that NSET had not achieved its objectives, and this accords with the evidence of delivery of policy since devolution[123].

Cabinet Sub-Committees can provide an effective tool to this end. The Scottish Government has recently established a new Cabinet Sub-Committee on Investment and the Economy (CSC-IE), for the coordination of *"cross-cutting issues which have significant impacts on Programme for Government and commitments relating to economic growth"*.[124] This could prove to be a most welcome step. Having only held its first meeting in December 2024, and meeting on a quarterly basis, it will take some time yet to see if it delivers any meaningful change. But on existing evidence this development does not go far enough. The benefits of delivering true portfolio coordination, impetus and oversight stand a better chance of realisation if the Committee is chaired by the First Minister - and its focus has to be more directly channelled on growth and a new industrial strategy.

Another intervention which could assist in driving growth from and outwith the corridors of the Scottish Government would be to determine how the Director General Economy, Director General Exchequer and Office of the Chief Economist Directorate elements of SG, and the significant expertise therein, could best take on a function which parallels the strategic function of HM Treasury within UK Government. In view of the (deteriorating) fiscal environment, it is increasingly necessary to ensure maximum efforts are exerted to ensure value for money is properly considered, alongside all other necessary trade-offs, in policy development and government business. This may include strengthening the use of economic appraisals in policy and project delivery - and having Exchequer (or a revised central economic function's) considerable expertise not only involved in setting the framework for such appraisals but also integrating value for money and high-quality economic appraisals more deeply across government as a matter of course.

The Scottish Government could consider mandating that any economic policy proposition above a Cabinet-set threshold (say, indicatively, £10m) automatically requires an economic appraisal, and for this appraisal to be published before implementation, and then evaluated after a certain number of years (two, for example).

Such economic appraisals, considering a proposed policy or investments impact on regional economic growth, would not only be good practice in securing policy outcomes and value for money ideals, but would help demonstrate accountability. The Scottish Public Finance Manual, applicable to the Scottish Government - and a series of its offshoots - could offer an effective instrument to continue to imbed a refocused model of appraisal and accountability.

In practical terms, the Project Evaluation and Post-Implementation Reviews, which are required for any government investment project north of £5 million,[125] could be supplemented with an assessment which measures the direct or indirect contribution of an initiative's contribution to regional economic growth. Likewise, the rightly stringent requirements placed on the Senior Responsible Owner in Scottish Government major projects, which inter alia asks for a robust approach to identifying and realising a project's benefits, could be made to take explicit account of clear regional economic growth factors. The relatively new Business Investment Framework Guidance[126] explicitly retains space for Ministerial discretion, but also clearly - and helpfully - encourages the evaluation of relevant growth factors - like the entity in question's strategic importance to Scotland's economy at both regional and national level, its sectoral significance, capacity to promote entrepreneurship, develop new markets, or improve the productivity of businesses and regional economies. These assessment factors ought to be rolled out more widely in terms of how economic appraisal is undertaken in government more broadly and would, I think, help with the question of consistently checking for economic progress, alongside taxpayer value for money.

123 Goudie, G. Roy and D. Waite – Scotland's Economy After 25 years of Devolution Scottish Affairs vol 33, issue 4. https://www.euppublishing.com/doi/abs/10.3366/scot.2024.0521?journalCode=scot
124 See Cabinet sub-committees: factsheet - gov.scot
125 And which involves creation, acquisition, development or maintenance of an asset with a lifespan beyond the current financial year - see Supporting documents - Scottish Public Finance Manual - gov.scot.
126 Applicable to investment in, or the provision of financial support to, private businesses by the core Scottish Government or other public bodies bound by SPFM) - Annex A: Business Investment Framework - Scottish Public Finance Manual - gov.scot

Scotland needs a sharp and consistent focus on our shared goal of boosting economic and productivity growth. This is more than a policy choice to be weighed amongst other options, but instead it is a national mission that must underpin the governments' agenda and - by extension - our local and regional leaders when furnished with the powers and resources necessary to make it happen.

Recommendations

- **There should be the development of a strategic economic function within the Scottish Government which places productivity enhancement and economic growth at the heart of the Scottish Government. Its first priority should be to develop an Economic Growth and Industrial Strategy for Scotland, which sets out clearly how devolved policy levers are to be utilised to achieve the Scottish Government's growth aims.**

- **The prioritisation of economic growth in Scotland needs to be led from Bute House. The next Scottish Government should consider the creation of an Economic Growth/Productivity Cabinet Sub-Committee, chaired by the First Minister with participation by the Economy and Finance Cabinet Secretaries to oversee delivery of the economic and industrial strategy. The Sub-Committee's remit should be focussed squarely on economic and productivity growth, with the regional dimensions of this considered in its workplan. This Cabinet Sub-Committee should be empowered to monitor all dimensions of an ambitious economic development and growth agenda, from people/skills to private investment, to infrastructure needs.**

- **Scotland's larger cities should be able to access the level of policy flexibility and power as available elsewhere in UK – devolving beyond Holyrood - and both governments should articulate what will now come next after City / Growth Deals. Without this, a devolution gap will widen as regional authorities in metro England are empowered to a greater extent.**

- **There should be the development of a strategic economic function (drawing on the expertise of the Office of the Chief Economist, Director General Exchequer and Director General Economy) within the very centre of the Scottish Government to place economic growth and productivity enhancement at the centre of the organisation.**

- **Alongside this, policy making and investment delivery should come with enhanced accountability. The Scottish Government, and its delivery partners, could consider developing improved appraisal model that reinstates (and reinforces) value for money and high-quality economic appraisals throughout the commitment of public resources. This should include mandatory appraisals where a significant policy initiative is proposed, to be published pre-implementation, with a commitment to transparent evaluation milestones following delivery.**

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