Scotland's National Strategy for Economic Transformation

Delivering Economic Prosperity

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Image of peat sampling at Blawhorn Moss © Dougie Barnett NatureScot

Foreword

by the Cabinet Secretary for Finance and the Economy

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Scotland has extraordinary economic potential. Our natural resources, heritage, talent, creativity, academic institutions and business base in both established and emerging sectors are the envy of many across the world.

Every citizen holds Scotland's economic potential in their hands. Our economic growth and prosperity over many decades has been the result of entrepreneurial, talented and motivated workers in every sector, geography and demography working in a culture that rewards and celebrates innovation and initiative.

This strategy recognises the opportunities and the challenges facing Scotland. It sets out how, over the next ten years, we aim to deliver economic growth that significantly outperforms the last decade, so that the Scottish economy is more prosperous, more productive and more internationally competitive. We will do this through focused interventions, working in collaboration with businesses and other partners, building on our strengths in sectors like energy, financial services, creative industries and life-sciences and carving out new strengths in technology, space and decarbonisation. We have identified five key transformational programmes of action that can drive improvements in Scotland's economy: stimulating entrepreneurship; opening new markets; increasing productivity; developing the skills we need for the decade ahead; and ensuring fairer and more equal economic opportunities.

The next ten years have been branded the "decisive decade".

In the next decade, we face a choice to either lead or to lag behind other successful economies all whilst we recover from Covid, deliver net zero, tackle structural inequalities and grow our economy. We choose to lead.

This strategy is about delivering the best economic performance possible for Scotland within the current constitutional constraints. It takes decisive steps towards the creation of a wellbeing economy, and drives a green economic recovery to meet our climate and nature targets while ensuring we maximise the benefits as part of a just transition.

But with the full powers of an independent country we can, of course, deliver more. At present, macro-economic, fiscal, migration and other levers lie with the UK Government. We cannot ignore that fact when pursuing economic prosperity, nor that even the limited powers we currently have are being steadily eroded through the Internal Market Act. The economic prospectus for an independent Scotland is being prepared ahead of an independence referendum and will set out how those additional powers can be deployed to build greater prosperity over the long term.

Our approach has been informed by the Advisory Council for Economic Transformation and wide-ranging engagement with businesses, unions and other stakeholders.

Throughout the development of this strategy, one message has been particularly clear. As a country we will be judged on the outcomes we deliver, not the strategy we write. Words and intentions matter, but only actions deliver change. The task of transforming our economy requires an equally radical transformation in the way we deliver results. Government will provide clear and decisive leadership, but it can't and shouldn't do everything. Ours must be a country in which the public, private and third sectors respect each other's strengths, draw on each other's talents and work together to create and sustain an economy that works for all.

Executive Summary

Our ambition for 2032 is for Scotland to be successful. Success means a strong economy where good, secure and well-paid jobs and growing businesses have driven a significant reduction in poverty and, in particular, child poverty. It means a nation of entrepreneurs and innovators, with resilient supply chains and competitive advantages in the new industries generated by technological change, scientific advance and our response to the climate and nature crises. It means a society in which everyone can participate in economic success, in every community and in every region.

Our vision is to create a wellbeing economy: a society that is thriving across economic, social and environmental dimensions, and that delivers prosperity for all Scotland's people and places. We aim to achieve this while respecting environmental limits, embodied by our climate and nature targets.

The next ten years will be a time of incredible change and extraordinary opportunity – but success is not inevitable. The time for brave and bold action is now. The pandemic has hit our economy hard, forcing us to re-evaluate questions of economic value and national resilience and revolutionising the way in which some of our industries work.

As we recover we must map out a future role in a world where Brexit has undermined so many of the trading and collaborative relationships on which we have relied for many years and efforts must go into rebuilding, restoring and identifying new markets and relationships.

Whilst the foundations of Scotland's success exist, there remain long-standing challenges, with weak productivity compared to international competitors, a relative lack of new business growth and persistent poverty. We need to take action to shift the dial in these areas, not just by doubling down on the things that are producing results but by working together – government, public sector, business, trade unions, third sector and social enterprises – to deliver five bold new policy programmes of action.

These will:

- establish Scotland as a world-class entrepreneurial nation founded on a culture that encourages, promotes and celebrates entrepreneurial activity in every sector of our economy;
- strengthen Scotland's position in new markets and industries, generating new, well-paid jobs from a just transition to net zero;
- make Scotland's businesses, industries, regions, communities and public services more productive and innovative;
- ensure that people have the skills they need at every stage of life to have rewarding careers and meet the demands of an ever-changing economy and society, and that employers invest in the skilled employees they need to grow their businesses;
- reorient our economy towards wellbeing and fair work, to deliver higher rates of employment and wage growth, to significantly reduce structural poverty, particularly child poverty, and improve health, cultural and social outcomes for disadvantaged families and communities.

This strategy is intentionally focused on a small number of priorities; it does not seek to do everything. It focuses on five policy programmes with the greatest potential benefit and on how to achieve them, rather than address every potentially beneficial action for every industry.[1] The programmes have been carefully chosen, based on the evidence.

A sixth programme on delivery introduces a new streamlined delivery model in which all participants are clear about their roles and accept accountability for their actions. We will draw on the strengths of people and organisations from all sectors of the economy – a "Team Scotland" approach. In combination, these six programmes will transform the Scottish economy over the next decade and drive economic opportunities.

1 The detailed analysis of the Scottish economy underpinning this strategy can be found here.

1

Our Future Economy

The ambition of this strategy is not just to grow our economy but, in doing so, to transform our country's economic model so that we build an economy that celebrates success in terms of economic growth, environmental sustainability, quality of life and equality of opportunity and reward.

1. Our Future Economy

1.1 Our Vision

By 2032 Scotland's economy will significantly outperform the last decade, both in terms of economic performance and tackling structural economic inequalities. Our people will be at the very heart of an economy that offers opportunities for all to succeed and where everybody, in every community and region of the country, will share in our economic prosperity.

Internationally, we will be recognised as a nation of entrepreneurs and innovators, who will have embraced the opportunities of new technologies. We will have boosted productivity considerably and focused resources on opportunities that will transform our economy and our society. We will be a nation confident of our place in the world, attracting international investment in research and innovation, in the industries of the future, and an exemplar of a just transition to net zero.

Scotland will be recognised at home and throughout the world as:

- an international benchmark for how an economy can transform itself, de-carbonise and rebuild natural capital whilst creating more, well-paid and secure jobs and developing new markets based on renewable sources of energy and low carbon technology;
- a great place to live and work with high living standards, and a vibrant, diverse culture in which all sectors of the economy work to eliminate the scourge of poverty;
- the best place to start and to grow a business or social enterprise;
- a leader in its chosen areas of research and development, collaborating with other centres of excellence across the world and using these strengths to stimulate business opportunities;
- a country where economic power and opportunity are distributed fairly across our regions, cities and towns, rural and island communities;
- a magnet for inward investment and global private capital;
- an outward-looking nation, engaging internationally, exerting a meaningful influence on the policies, trends and events that shape our world; and
- a nation where people can continually upgrade their skills and help shape their workplaces to navigate a changing economy, and where employers have the supply of skills they need, and fully utilise these to grow and take advantage of opportunities.

As a consequence of the actions set out in this strategy, we will have achieved our vision of building a wellbeing economy (see Figure 1).

Figure 1: Our Vision, Ambition and Programmes of Action for Scotland's Economy by 2032

Vision

A Wellbeing Economy:
Thriving across economic, social and environmental dimensions.

Ambition

Fairer	Wealthier	Greener
Ensuring that work pays for everyone through better wages and fair work, reducing poverty and improving life chances.	Driving an increase in productivity by building an internationally competitive economy founded on entrepreneurship and innovation.	Demonstrating global leadership in delivering a just transition to a net zero, nature-positive economy, and rebuilding natural capital.

Programmes of Action

- Entrepreneurial People and Culture
- New Market Opportunities
- Productive Businesses and Regions
- Skilled Workforce
- A Fairer and More Equal Society

A Culture of Delivery

1.2 Our Commitment

We can only succeed and achieve our goals if we pull together as the nation of Scotland. This economic strategy calls for a national endeavour, drawing on the talents, resources and commitment of every citizen. The benefits of our success will be shared, and so must be the actions we undertake to deliver that success. We will draw on the strengths of people and organisations from all sectors of the economy in what is commonly described as a "Team Scotland" approach.

At a time of unprecedented change, our commitment as a government is to provide clear leadership and direction to pursue economic growth and prosperity, ensuring that Scotland has the infrastructure, resources, skills and talent to respond quickly and seize the opportunities before us.

In doing so, we recognise that the Government must continue to play a direct role in the economy, taking an entrepreneurial approach itself to drive forward innovation across the economy and to ensure more of the nation's wealth and services are managed for the collective good.

We are not blind to the immediate and long-term structural challenges facing the Scottish economy, and this strategy is upfront in grappling with these. Neither do we ignore Scotland's fundamental economic strengths which we must build on. We pledge to listen and respond to calls that are made on government, but in return we ask business to join us in relentlessly pursuing the strategy's ambition for a fairer, wealthier and greener country.

We recognise that it is our citizens who will actively transform the economy through work, innovation, and investment. As such, we are committed to working in partnership with these many individuals and organisations – business founders and leaders, trade unions and workers, local authorities, institutes of education and research and many others.

Achieving the economic prosperity we want also requires accountability. To ensure that the actions described in the strategy are taken, we will establish a robust governance structure co-led by business, with immediate access to Scottish Ministers, that will hold the public sector and the business sector directly to account for delivery of this strategy. As a first step, delivery plans will be finalised for each of the new programmes of action, within six months of the publication of this strategy.

New initiatives identified in this strategy do not mean that we are abandoning actions or initiatives that have proven to work. We will "double down" on the things that are shown to work. The strategy is aligned with our National Performance Framework, with existing plans targeted at specific aspects of our economy (see Figure 2) and regional and sectoral strategies. Whilst we will challenge the progress and efficiency of each of these plans there will be no letting up in our commitment to achieve them.

Figure 2: Alignment with Existing Plans

National Strategy for Economic Transformation

Regional Strategies	Entrepreneurial People and Culture	New Market Opportunities	Productive businesses and regions	Skilled Workforce	A Fairer More Equal Society	Sectoral Strategies
• Regional Economic Strategies • City Region Deals • Place Plans (for example Clyde Mission)	Scottish Technology Ecosystem Review	Scotland's Vision for Trade	Infrastructure Investment Plan	Future Skills Action Plan	Fair Work Nation	**Including** • Making Scotland's Future • Scottish Space Strategy • Tourism: Scotland Outlook 2030 • The Scottish Construction Industry Strategy • Food and Drink Ambition 2030: Industry Strategy for Growth • Life Sciences Strategy for Scotland 2025 • Scottish Retail Strategy
	Unlocking Ambition	A Trading Nation	Housing 2040	Population Strategy	Community Wealth Building	
	Scotland CAN DO	Inward Investment Plan	National Transport Strategy	National Mission for Jobs	Gender Pay Gap Action Plan	
	Scottish EDGE	Global Capital Investment Plan	Greenports	Green Jobs Fund	Fair Start Scotland	
	Women's Business Centre	Supply Chain Development Programme	National Planning Framework	Climate Emergency Skills Action Plan	No One Left Behind	
	Women in Enterprise Framework	Scotland: The Perfect Stage	Digital Strategy	Youth Work and Adult Learning Strategies	Culture Strategy for Scotland	
	Rural Entrepreneur Fund		Productivity Clubs			

Net Zero and Environmental Strategies

Environment Strategy	Climate change Plan Update	Just Transition Plans and Energy Strategy	Biodiversity Strategy	Circular Economy

National Performance Framework - Programme for Government - Covid Recovery Strategy - Tackling Child Poverty

1.3 Immediate Challenges

We recognise that this strategy is being published at a time when many households and businesses are still focused on survival rather than long-term planning and that life is precarious for many low-income families. We are still living through a pandemic and we acknowledge that it has both exacerbated existing inequalities and heightened awareness of the need to protect those at risk in society.

The pandemic has also highlighted underlying weaknesses in parts of our economy and exacerbated change in others – such as retail. Customer-facing sectors of the economy, such as hospitality, tourism and the culture sector, have been most affected by Covid restrictions. Although Scotland's economic output returned to pre-pandemic levels in November 2021, the pandemic has fundamentally altered our economy and society. However, over the longer term, according to the Office for Budget Responsibility,[2] Brexit will inflict greater damage on the economy than even the pandemic. This is becoming increasingly apparent given the current challenges in meeting our skills and workforce requirements.

In our view these challenges make this the very time to demonstrate leadership and set out a long term approach to our economy. That means, as well as delivering growth, we take on the big challenges of structural inequality, the transition to net zero, and securing a green recovery from Covid.

1.4 Long-Term Structural Challenges

Some of Scotland's economic challenges precede the impact of the pandemic. Our population is ageing and around one in five of Scotland's working age population is economically inactive.[3]

Despite our wealth, too many households continue to live in poverty as a result of structural inequalities. Healthy life expectancy is too low in the most deprived areas of our country. Tackling the underlying causes of inequality in our society and providing economic opportunity is vital in order to improve life chances.

Scotland's productivity lags behind that of many other advanced economies and whilst we continue to innovate too few of our ideas are turned into businesses and too few of our new businesses are scaling up successfully. For example, as a share of Scotland's businesses with more than 10 employees, high-growth enterprises account for 3.9% – lower than the comparable figure of 4.5% for the UK as a whole.

And yet if we address poverty this will in turn boost productivity. If Scotland's productivity matched that of the OECD top quartile, average annual wages would be almost 10% higher.

Whilst many parts of Scotland are performing well, there are deep-seated regional inequalities, with post-industrial areas performing less well and rural and island areas facing particular challenges such as a falling labour supply, poorer access to infrastructure and housing challenges which are holding back local businesses.

The transition to a net zero economy presents Scotland with the further challenge of achieving a just transition that delivers positive employment, revenue and community benefits, in contrast to the industrial transitions of the 1980s.

Our ability to address these long-term structural challenges is made more difficult by a lack of economic powers. For example, our ability to directly effect change in the labour market is limited as long as employment law remains reserved. And without migration powers we cannot design and implement an immigration system to address our demographic challenges.

2 Economic and fiscal outlook – October 2021 – Office for Budget Responsibility (obr.uk)
3 The economically inactive figure includes full time students.

1.5 Investing in Our Strengths

Despite these short-term and long-term challenges, Scotland has enviable strengths. We perform well internationally on a number of important indicators of economic performance. We have more top universities per head of population than any country in the world and a quarter of Europe's offshore renewable energy potential. Scotland is in the top quartile of OECD countries for higher education R&D, the percentage of the population with tertiary education and young people's participation in the labour market.

Scotland has a proud history as a trading nation and is an increasingly connected, global economy. We start from a strong position in the innovative technologies that underpin the industries of the future and produce high-quality products and services, such as our food and drink, our creative industries and our major events and tourism offer, that are in demand across the world.

Being bold and transformational isn't just about new industries and markets, it's about backing our greatest assets and existing industries, supporting them to improve, to be more productive and creative, to transition to net zero and to be more resilient to economic shocks in ways that ensure that we, as a country, maximise the opportunities for more, better paid and fairer employment that lifts living standards.

1.6 Embracing New Opportunities

This strategy aims to maximise our economic strengths, tackle our weaknesses and build a wellbeing economy (see Box A). It does so by identifying the greatest economic opportunities for Scotland over the next decade, the most obvious of which is the just transition to a net zero economy.

A just transition must focus on protecting jobs and diversifying our economy whilst contributing significantly to sustainable growth and meeting our net zero commitments and can also make a meaningful contribution to reducing child poverty. In other words, it should create new jobs, businesses and open up markets in new sectors as well as supporting the transition of existing sectors, in a way that has fairness and equality built in. Restoring nature and investing in our natural capital and land-based economy will support Scotland's role in tackling the climate and nature crises, while also creating new opportunities for nature-based businesses and jobs, spreading the benefits of a just transition to our rural and island economies.

Scotland's statutory target of achieving net zero by 2045 provides the ambition to drive action and innovation. Sectors like financial and legal services, food and drink, manufacturing, energy, creative industries, major events and tourism have the international reputation, expertise and opportunity to reap the benefits of a just transition, through a combination of early action and investment.

For industries like oil and gas, which will continue to be part of the energy mix while we transition to net zero, diversification using the expertise and skills built up over decades presents an opportunity of enormous significance. We are already seeing the benefits in the development of Scotland's offshore wind sector. While this transition will need to be managed carefully, by acting early, and by being leaders not followers, we can maximise the benefit of the transition for Scotland and develop industries and skills that can be exported around the world. It is by embracing these new opportunities that we will deliver economic prosperity.

Our ability to maximise our economic prosperity is constrained by Scotland's current constitutional position in which macro-economic, employment, energy and the majority of revenue raising powers are reserved to the UK Government. For example at a very practical level, the expansion of our energy sector is constrained by the energy regulator's decisions on charges for access to the power grid that disadvantage Scotland's energy producing areas. This strategy therefore focuses on actions that can be taken within current constitutional arrangements. It is the Scottish Government's view that the full powers of independence would enable an even more ambitious and joined-up approach to transforming Scotland's economy, delivering greater benefits to our population.

The rest of this document sets out the key interconnected policy programmes that will overcome long-term and short-term economic challenges, build on our economic strengths and secure international advantages in new economic opportunities, and secure economic growth and prosperity through a ruthless focus on delivery. A summary of the strategy is available here.

Box A: A Wellbeing Economy: Thriving Across Economic, Social And Environmental Dimensions.

A wealthier economy and a fairer economy go hand in hand: the most productive economies in the world also score highly on wellbeing indicators.

A wellbeing economy, based on the principles of prosperity, equality, sustainability, and resilience, is at the heart of our vision for the economy in 2032. It means taking a broader view of what a successful economy, society and country is and putting people and the planet at the heart. It will improve economic resilience and in turn reduce our vulnerability to future economic and environmental shocks, improving wellbeing for current and future generations. This builds on our previous inclusive growth approach, recognising that the narrow pursuit of growth at all costs, without resolving the structural inequalities in our communities or respecting environmental limits, is reductive.

Scotland is already leading this agenda on the international stage as a member of the Wellbeing Economy Governments network (WEGo) with New Zealand, Iceland, Finland and Wales, with Canada becoming a member in 2022. Scotland's National Performance Framework, first introduced in 2007, provides a clear long-term purpose and set of outcomes for Scotland's future wellbeing, and is our vehicle for delivery of the United Nations Sustainable Development Goals.

What we measure matters. Traditional economic metrics like GDP will remain an important measure but cannot be viewed in isolation. This strategy commits to publishing a new Wellbeing Economy Monitor (see section 6.4). This will include measures such as healthy life expectancy, fair work indicators, mental wellbeing, child poverty, greenhouse gas emissions and biodiversity.

Community Wealth Building is one example of our practical approach to local economic development that supports a wellbeing economy. We will also publish a Wellbeing Economy Framework, a toolkit to support local councils and regions across Scotland.

The principles of a wellbeing economy can't be achieved through simply redistributing wealth, they need to be hard-wired into everything we do in this strategy.

1.7 Bold Programmes of Action

There is a big prize for Scotland if we get economic transformation right.

The ambition of this strategy is not just to grow our economy but, in doing so, to transform our country's economic model so that we build an economy that celebrates success in terms of economic growth, environmental sustainability, quality of life and equality of opportunity and reward.

Our five bold new policy programmes of action will shift the economic dial and deliver our vision. They have been carefully chosen, based on the evidence and informed by the analysis in the accompanying evidence paper.[4] They tackle the long-term structural challenges, build on our economic strengths, and position Scotland to maximise the greatest economic opportunities of the next ten years in a way that will transform the very fundamentals of how our economy works.

These five policy programmes will:

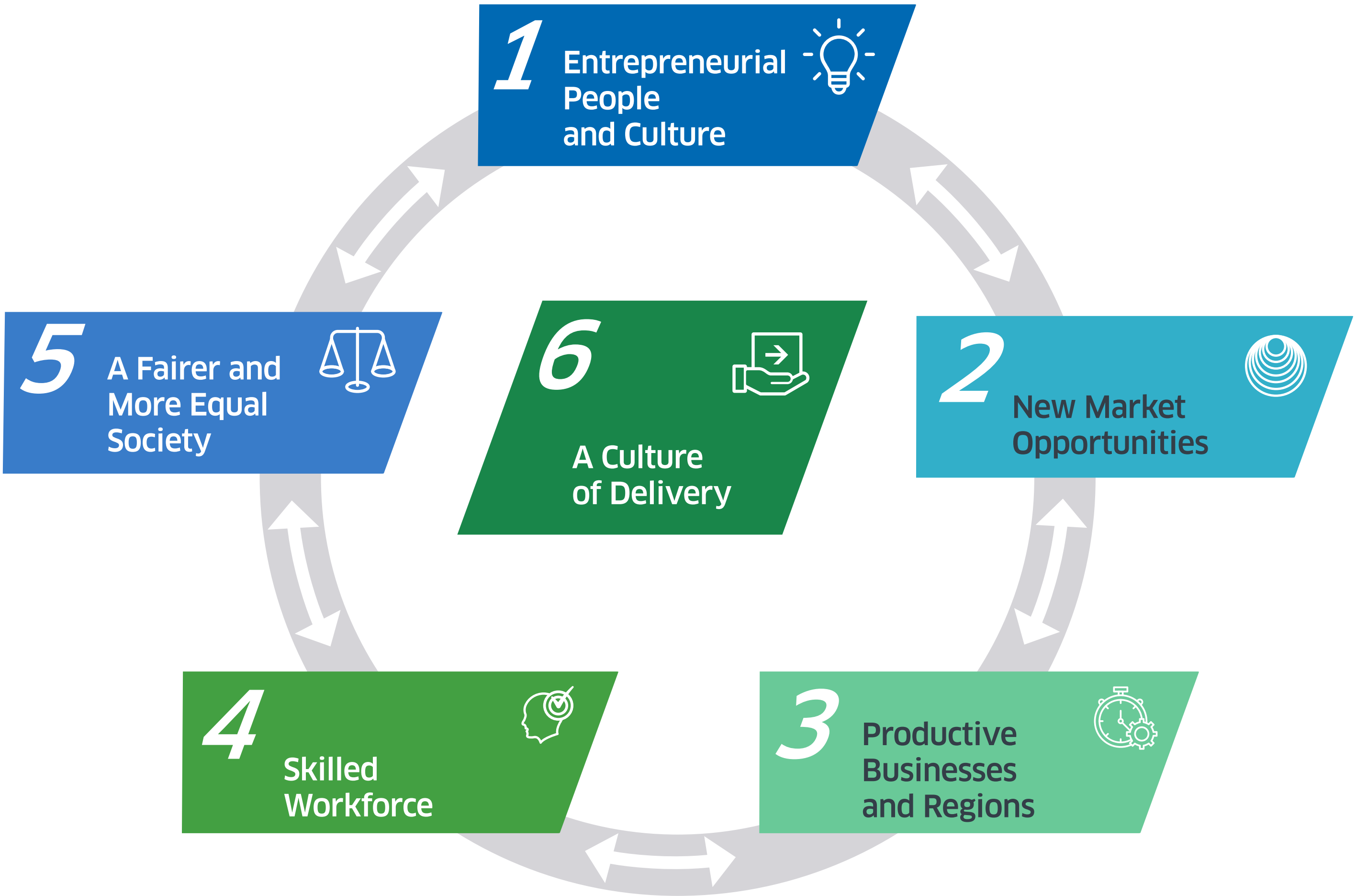
- establish Scotland as a world-class entrepreneurial nation founded on a culture that encourages, promotes and celebrates entrepreneurial activity in every sector of our economy;
- strengthen Scotland's position in new markets and industries, generating new, well-paid jobs from a just transition to net zero;
- make Scotland's businesses, industries, regions, communities and public services more productive and innovative;
- ensure that people have the skills they need at every stage of life to have rewarding careers and meet the demands of an ever-changing economy and society, and that employers invest in the skilled employees they need to grow their businesses; and
- reorient our economy towards wellbeing and fair work, to deliver higher rates of employment and wage growth, to significantly reduce structural poverty, particularly child poverty, and improve health, cultural and social outcomes for disadvantaged families and communities.

The five policy programmes are all interconnected, mutually reinforcing (see Figure 3) and should not be seen in isolation. A new delivery programme forms the sixth programme of action. Modelling contained in the accompanying evidence paper estimates that this strategy could increase the size of the Scottish economy by at least 4.9% (or £8 billion) more than it otherwise could have been in 2032.[5]

Our economic model seeks to position Scotland as a more entrepreneurial nation, driving the innovation needed to seize new economic opportunities. That, in turn, should increase the productivity of organisations, both public and private, and boost overall regional and national productivity. When more productive organisations work with a more productive public sector to invest in upskilling the workforce, to break down structural barriers to participation and to fairly share the benefits of success, we can increase wages, reduce poverty and inequalities. That then enables more people to work in more entrepreneurial ways, repeating the cycle.

4 The detailed analysis of the Scottish economy underpinning this strategy can be found here.
5 The modelling incorporates the key components of this strategy, such as exports, inward investment and capital investment, but the modelling framework does not allow all of the transformational actions of the strategy to be captured.

Figure 3: Policy Programmes of Action Form a Cycle with Delivery at the Centre



Entrepreneurs and an entrepreneurial mindset are vital at a time of change. It is people who make the difference. We will create a culture in which entrepreneurship is encouraged, supported and celebrated, and where Scotland is recognised as one of the best countries in the world to start and grow a business.

Rapid global decarbonisation will represent a profound change, far outwith the control of any government or sector. The transition to net zero is not just an environmental imperative but an economic opportunity – one where Scotland will become world-leading and secure first-mover advantage.

We will deliver a step change in our productivity performance and address regional inequalities in economic activity as well as boosting traditional and digital infrastructure across every sector, and every region, of the economy.

A skilled population is fundamental to business productivity and economic prosperity. We will refocus our activity on the transition to net zero, the digital revolution and lifelong training, making sure that employers have the skills they need.

Significantly reducing poverty boosts our economy but achieving it requires better wages and fair work. We will ensure that work provides a sustainable standard of living and a genuine route out of poverty.

This strategy is intentionally focused on a small number of priorities; it does not seek to do everything. It focuses on the programmes with the greatest potential benefit and on how to achieve them. In combination, these bold new programmes of action will transform the Scottish economy over the next decade and drive economic opportunities.

Entrepreneurial People and Culture

2

Entrepreneurs and an entrepreneurial mindset are vital at a time of change. It is people who make the difference. We will create a culture in which entrepreneurship is encouraged, supported and celebrated, and where Scotland is recognised as one of the best countries in the world to start and grow business.

2. Entrepreneurial People and Culture

2.1 Our Aim

To establish Scotland as a world-class entrepreneurial nation founded on a culture that encourages, promotes and celebrates entrepreneurial activity in every sector of our economy.

2.2 The Opportunity

Entrepreneurs and an entrepreneurial mindset are vital at a time of change. It is people who make the difference. It takes ingenuity, creativity and determination to spot and take advantage of the opportunities that uncertainty creates.

High growth start-ups and scale-ups can create skilled jobs, pay higher wages, drive increased productivity and radiate innovation across the wider economy. Entrepreneurial thinking in the public and third sectors can improve services, increase efficiency and result in the commissioning of new products and services that can then be exported across the world or help to address societal challenges. This requires us to create a culture in which entrepreneurship is encouraged, supported and celebrated, and where Scotland is recognised as one of the best countries in the world to start and grow a business.

Perhaps more than any other domain of the economy, it is in the creation of new companies, and the scaling up of successful companies, where data shows the greatest gap between current performance and Scotland's potential.

Scotland has had a number of high-profile scale-ups such as Skyscanner, FreeAgent, Rockstar North and, most recently, Current Health. Nevertheless, Scotland currently lags most OECD countries in indicators of entrepreneurial dynamism, with a total rate of early-stage Entrepreneurial Activity (TEA) of 7.3% in 2019, compared with 10.5% in England, and 12.4% in Ireland. Scotland would need another 60,000 businesses to match the equivalent rate for England. Scotland like other countries also suffers from a gender gap with regards to business start-up rates with the TEA for women, at 5.3%, consistently below that of men, which was 9.3% in 2020. The TEA for ethnic minorities, at 12.3%, is significantly higher than that of the general population, showing the value of diversity to the Scottish economy.

Our approach is therefore threefold. First, we will seek to dramatically increase the total number of new businesses created in Scotland – of all sizes and across all sectors. Second, we will seek to achieve a step change in the percentage of Scottish start-ups and existing mid-sized businesses that grow to scale. Third, we will seek to build entrepreneurial mindsets right across the economy – in start-ups, scale-ups, SMEs, large corporates and government.

2.3 The Foundations of Success

Scotland already has many of the essential ingredients of a successful entrepreneurial nation – world-class colleges and universities producing exceptional people and cutting edge research, an active investment market and respected initiatives and organisations such as CivTech, Converge Challenge, Scottish Edge, Young Enterprise Scotland and Scotland CAN DO. We also have a business start-up rate amongst 18-24 years olds double that of the population as a whole.

We have also already begun to take action to drive increased entrepreneurship by recognising the ethical and economic imperative of tapping into a more diverse talent pool to drive the creation and growth of new businesses through, for example, the commitment of £50 million over the lifetime of this Parliament to support more women into entrepreneurship.

Scotland has taken the first steps towards the creation of a network of tech-scalers, as recommended in the Scottish Technologies Ecosystem Report.[6] These tech-scalers will form a national network of institutions dedicated to the intensive schooling of tech entrepreneurs in the best available leadership, commercial and scaling techniques and will, for the first time, provide our best tech start-ups with a truly world-class developmental environment (see Box B for definitions).

These programmes are positive foundations. We will now go further by working to embed an entrepreneurial culture and by engaging more people in entrepreneurship right across society, particularly those groups where there is real potential, including women, ethnic minority communities, and young people. We will foster entrepreneurship from an early age, recognising that today's young people are our entrepreneurs of the future.

We will seek to build entrepreneurial mindsets across all enterprises and organisations, including in the public sector. In doing so we must overcome current social and economic barriers to starting a business and make entrepreneurship an attractive and accessible road to social mobility and economic fairness.

It is important to be clear that our focus on boosting entrepreneurial activity is not about a false stereotype of creating a small number of successful individuals; it is much broader. Entrepreneurship across the wider business base can drive social mobility, create fulfilling jobs and deliver the economic prosperity necessary to sustain thriving local, and rural communities and positively disrupt traditional sectors that might ordinarily be considered as less productive. In particular alternative business models such as cooperatives, social enterprises and community-owned businesses can deliver strong outcomes on fair work and benefits to local communities.

6 Scottish Technology Ecosystem Review

Box B: Definitions of Scalers, Incubators and Accelerators	
Term	**Definition**
Tech-scaler	World-class incubation and developmental environments for high-growth internet economy start-ups. Tech-scalers will provide a mix of commercial education, physical co-location, peer learning, networking and the capacity for full virtual access to high-growth businesses all over Scotland.
Start-up scaler	An extension of the tech-scaler concept. Over time, the focus of the tech-scaler network will be shifted from software-based start-ups to all high-growth start-ups, irrespective of sector.
Pre-scaler	Highly supportive entry pathways into starting and scaling new businesses. Pre-scalers will provide new environments in local communities where prospective entrepreneurs and very early stage businesses can receive first-rate support and advice to develop products, access funding and adopt sound commercial strategies. They will be closely linked to the start-up scalers and will have access to the support services provided by them.
Incubator	Incubators provide start-ups and early stage businesses with resources young companies find difficult to access. They are generally medium to large in size, with long-term time horizons, offering co-location working facilities, and enabling market square activities and networking opportunities. Generally, incubators do not provide business education.
Accelerator	Accelerators support start-ups and early stage businesses through short-term mentoring and training. They are typically small in size, and offer co-location working spaces, market square activities and businesses education. The tenure for start-ups admitted to accelerators typically ranges from a few weeks to a few months.

2.4 Our Programme of Action

Project 1: Embed First Rate Entrepreneurial Learning Across the Education and Skills Systems

We will	Who
Promote the best available **project-based entrepreneurial learning across the school and post-16 education curricula.** Build a new partnership between business and our education system, offering every school, college and university a network of relationships with high-quality start-ups and entrepreneurs **providing inspirational role models** and mentors who can show young people what can be achieved and develop a culture that celebrates entrepreneurship. This will focus initially on schools in areas of multiple deprivation.	Government, Public Sector, Business and Partners
Embed entrepreneurship in the Young Person's Guarantee to cultivate the business leaders of tomorrow by exposing them to first-rate start-up techniques and experiences and presenting business start-up as an aspirational, realistic and deeply fulfilling career choice.	Government, Public Sector, Business and Partners
Adapt and review Scotland's apprenticeship system so that it is available for start-ups and early scale-ups to use, focusing in particular on providing opportunities for women and other under-represented groups and on specific skills, such as digital.	Government and Public Sector
Develop an entrepreneurial campus infrastructure, working with the college and university sector to establish campuses as hotbeds of start-up creation. This will include, for example, incubation spaces, seed funding, central banks of technical expertise to help budding entrepreneurs develop minimum viable products. and summer schools targeted at generating new business ideas.	Government and Public Sector
Develop innovative, industry-led pathways to redirect the best entrepreneurial talent into building new companies. This could, for example, include working with industry to create corporate venture studios – programmes focused on building new start-ups from the innovation needs of large corporate industries such as financial services, aerospace and telecoms.	Business and Partners

Project 2: Create a World Class Entrepreneurial Infrastructure of Institutions and Programmes Providing a High Intensity Pathway for High Growth Companies

We will	Who
Expand the scope of the current tech-scaler programme, shifting its focus over time from software-based technology businesses to become **"start-up scalers"** – world-class incubation and developmental environments for all high growth start-ups irrespective of their sectoral domain or ownership model.	Government and Public Sector
Create a national system of "pre-scaler hubs" that will stimulate the very earliest stages of high growth commercial and social entrepreneurship and provide the expanding scaler network with a steady supply of promising new businesses. This will widen access to entrepreneurship by providing a clear entry point for very early stage founders, including those leaving formal education, supporting them to conceive new ideas, start companies, design and develop products and support early tests of market traction.	Government and Public Sector
Develop and align private sector incubators within our national entrepreneurial infrastructure and leverage external networks to identify potential talent and build Scotland's international reputation as a start-up nation.	Business and Partners
Attract the world's best private sector accelerators to Scotland and support high potential Scottish start-ups to participate in relevant accelerator programmes elsewhere in the world and bring their learning, contacts and experiences back into the Scottish economy.	Government and Public Sector
Set targets and focus on **providing access to support programmes from amongst the most under-represented groups**, particularly women, those on low incomes and those without qualifications at further or higher education, including the six priority groups at greatest risk of child poverty. This would include the offer of financial support for those who are unable to afford time out from a full-time job or caring responsibilities to develop ideas. An early priority will be to deliver our commitment to review how we support more women into entrepreneurship.	Business and Partners
Appoint a Chief Entrepreneurship Officer in the Scottish Government to work in partnership with industry and investors to drive forward our ambitions on entrepreneurship, including support for businesses with alternative ownership models, and working across the wider skills system.	Government and Public Sector

Project 3: Attract and Retain the Very Best Entrepreneurial Talent from at Home and Abroad

We will	Who
Attract international entrepreneurs to Scotland by rolling out an international marketing and engagement platform for Scotland's start up scene with a coherent branding strategy and through engaging in initiatives such as Wayra and expanding the CivTech Alliance Programme.	Government, Public Sector, Business and Partners
Attract entrepreneurial students from around the world by supporting Scotland's universities to provide post education pathways that help retain their expertise in our country.	Government, Public Sector, Business and Partners

We will	Who
Enhance Scotland's profile at key international set pieces such as international conferences and make use of Scotland's strong international networks and diaspora that can help can attract talent and investment.	Government, Public Sector, Business and Partners
Build strategic partnerships with key entrepreneurial ecosystems in other countries to create company exchange programmes, new commercial partnerships and international trade opportunities for Scottish businesses.	Business and Partners

Project 4: Build an Entrepreneurial Mindset in Every Sector of our Economy

We will	Who
Expand the application of entrepreneurial thinking and approaches to public service reform and ensure staff at every level working in the public and third sectors are exposed to entrepreneurial training as part of ongoing professional development. Implement metrics to reward entrepreneurial approaches and activity within public sector bodies.	Government, Public Sector, Business and Partners
Make the use of the CivTech programme a mandatory part of the way in which the big change programmes of government are delivered and launch a new National Challenge Competition for Economic Transformation (see Box C) that brings innovators and communities together to develop better solutions to the challenges that matter most to people in Scotland.	Government and Public Sector
Build on the success of CivTech, leveraging public procurement to stimulate more business start-ups and support Scottish scale-ups delivering products and services that can be proven in Scotland and exported to other governments wrestling with similar challenges.	Government and Public Sector
Proactively promote business start-up opportunities to those at risk of redundancy through the Partnership Action for Continuing Employment (PACE) programme.	Government and Public Sector

Box C: National Challenge Competition on Economic Transformation

We want to encourage pioneers and entrepreneurs to help reshape the Scottish economy. To do this, our new National Challenge Competition for Economic Transformation will further the strategy's principles and complement the mission-led work of the Scottish National Investment Bank.

This competition will provide funding of up to £50 million to the project or projects with greatest potential to transform Scotland's economy. It will set challenges and seek to attract the widest possible range of ideas and expertise.

The challenges will reflect the fairer and greener economy issues that matter most to Scottish communities and provide the greatest potential in delivering our vision of a wellbeing economy. Successful projects will be cross-cutting, impactful, and boost the delivery of this strategy's programmes of action.

We will work with CivTech and its international partners, social innovators and the new Chief Entrepreneurship Officer to deliver this National Challenge Competition. Everybody in Scotland will be welcome to apply and offer solutions and we will take steps to ensure that we address potential barriers to participation.

New Market Opportunities

3

Rapid global decarbonisation will represent a profound change, far outwith the control of any government or sector. The transition to net zero is not just an environmental imperative but an economic opportunity - one where Scotland will become world leading and secure first-mover advantage.

3. New Market Opportunities

3.1 Our Aim

To strengthen Scotland's position in new markets and industries, generating new, well-paid jobs from a just transition to net zero.

3.2 The Opportunity

As the global economy accelerates towards a net zero future and artificial intelligence, genomics and other scientific advances change the way we live, new markets will be created and new industries will emerge. Scotland has the potential to build world-leading industries in areas where our human and natural capital and technology and research capabilities provide the basis of global competitive advantage. Realising that potential requires a coherent and focused set of strategic interventions including a new Net Zero Industrial Strategy that successfully blends inward investment with the building of strong indigenous local supply chains to develop strategic clusters.

Scotland already occupies a position of global leadership in the design, development and operationalisation of a range of current and future key industries including:

- **renewable energy**, with Scotland enjoying a quarter of Europe's wind potential and home to globally leading businesses in tidal energy as part of a wider energy industry with strengths in the company base, financial capital, infrastructure, knowledge and knowhow;
- the **hydrogen economy**, with vast generation potential of renewable hydrogen for export markets;
- the decarbonisation of transport, particularly the development of a **high-value manufacturing** base for low-volume, high-value zero-emission vehicles;
- **space**, leading Europe in end-to-end capability for small satellite design, manufacture and launch, including earth observation data solutions that are critical in tackling climate change;
- the **circular economy**, where resources are kept in high-value use, creating new market, innovation and job opportunities that will be key to achieving our targets for net zero and nature;
- the **blue economy**, utilising the potential, and sustainable management of our ocean, sea and coastal resources;
- **sustainable farming & forestry, nature restoration, eco-tourism**, and nature-based solutions to climate change mitigation and adaptation;
- our **financial services and fintech** sectors including Scotland's leading positions in responsible and ethical finance;
- **industrial biotechnology**, where Scotland has developed innovative technology that can transform traditional industries and offer greener alternatives to fossil fuels;
- enabling and emerging technologies such as **photonics and quantum** technologies which can contribute to improved productivity of traditional industries and underpin the industries of the future and where Scotland enjoys a world-leading position;
- **digital technology** including AI and cyber security, building on Edinburgh as the Data Capital of Europe and Dundee's global leadership in gaming;

- one of the biggest **life sciences** clusters in Europe, which played a key role in tackling Covid, with world-leading expertise in drug discovery and precision medicine, medical technologies and pharmaceutical services, advanced therapies, digital health and care, animal health and agritech;
- **food and drink innovation** including Scotland's long-standing strengths in premium food and drink products, a key export market, and the transition to technologies of the future, including our world-leading position in vertical farming; and
- **creative industries, major events and tourism**, which draw on Scotland's long-standing cultural assets and reputation for expertise in delivery, innovation, and growing strengths in digital skills and technologies.

But we will be agile and alive to further new industries that could emerge over the next decade.

Our existing Inward Investment Plan and Scottish Enterprise's National Programmes are already aligned to support these sectors. Our forthcoming Innovation Strategy will describe how we will build competitive advantage in these and other areas where our research and existing business base provide us with a competitive advantage. The just transition to net zero offers Scotland a particular opportunity building on our historic expertise in energy, our engineering skills and reputation. The next ten years are critical if we are to generate significant economic opportunities from that transition. The development of our regional Just Transition plans is already underway, and will identify green industrial opportunities and set priorities, whilst also making a meaningful contribution to tackling child poverty.

These will range from the construction and development of on- and off-shore energy generating technologies, to the development of a hydrogen economy, the decarbonisation of heat in buildings and construction, innovation in the circular economy and opportunities resulting from improved land-use and forestry including increasing the proportion of timber used in construction.

Our new Net Zero Industrial Strategy, our Supply Chain Development Programme and our Making Scotland's Future programme will maximise opportunities for the use of Scottish manufactured components and ensure that high-value technology and innovation that is developed in Scotland can be manufactured in Scotland.

Our approach to new market development will be built around the creation of world-leading clusters (see Box D).

In tandem with our just transition to net zero, we will also strive to build a nature-positive economy (see Box E), designed to help reverse biodiversity loss by 2030 and support international efforts to tackle the global nature crisis. This will create significant new opportunities for nature-based businesses and jobs across Scotland, particularly in rural and island areas. It will also help to rebuild the natural capital that underpins our prosperity, health and wellbeing.

3.3 Foundations of Success

The Lloyds Banking Group and Oxford Economics Green Growth Index[7] ranks Scotland as the number one region in the UK for green growth potential and opportunity. This reflects Scotland's existing green industrial base which supports a growing number of green jobs and innovation activity, the take-up of relevant skills and training and the development and use of renewable energy infrastructure.

We now have the opportunity to go further. As just one example the ScotWind programme of offshore wind farm developments is truly historic. It puts Scotland at the forefront of the global development of offshore wind, represents a massive step forward in our transition to net zero, and will help deliver supply chain benefits and high-quality jobs that will make the climate transition a fair one. ScotWind is also the first programme to see commercial development of floating windfarm technology, putting Scotland and Scottish industry in a position of global leadership, built upon our capability in subsea engineering.

The scale of energy generation potential resulting from Scotland also boosts the potential growth of a hydrogen economy. Our Hydrogen Action Plan sets out the actions, including the need for the creation of transformative regional hydrogen hubs, to become a leading nation by 2045 in the production of reliable, competitive, sustainable hydrogen including for export.

In addition, as innovators in the idea of a just transition, we are already considering the impacts of the move to net zero and how we can manage them in a way that will benefit Scotland economically, socially and environmentally, securing a prosperous and sustainable future for this generation and generations to come.

Much of the supporting infrastructure necessary to help companies realise the opportunities of new markets has also been established. For example, the Net Zero Technology Centre is working to develop and deploy technology for an affordable net zero energy industry.

In other sectors our network of innovation centres, focused on areas such as industrial biotech, data, digital health and care and precision medicine, and the UK's only Fraunhofer Institute, are helping drive the pace of innovation.

In 2019, Scotland ranked 7th among OECD countries for Higher Education R&D (HERD) but only 24th (3rd quartile) for Business Enterprise R&D (BERD), although recent interventions on boosting R&D grants mean we are running ahead of our target to double Scotland's BERD by 2025. Scotland punches above its weight in science and research, accounting for 12% of UK research output. Scotland has been the highest-performing part of the UK outside of London in attracting foreign direct investment for the past seven years.

We are putting in place the necessary institutions and finance to catalyse and take advantage of the new markets and opportunities set out here. This will enable the Scottish financial services industry to reap the benefits of the new energy opportunities. The establishment of the Scottish National Investment Bank, capitalised with £200 million each year, is supporting investment in sustainable technology, services and industry and in innovation and industries of the future, adding to existing investment streams.

We are also equipped to build the international trade and investment relationships we want Scotland to have, as set out in Our Vision for Trade,[8] which also ensures that our approach to trade contribute to wider economic, social and environmental outcomes. Through our Export Plan[9] we are taking a targeted sector and country approach to raising the GDP share of Scotland's international exports to 25%. Our Inward Investment Plan[10] focuses on attracting investment in sectors and opportunities where Scotland has strong advantage and where there is potential for positive spill-over impacts to the wider economy. Our Global Capital Investment Plan[11] sets a clear path for attracting private capital to support business growth, infrastructure and, crucially, given the scale of the challenge and opportunity, Scotland's transition to net zero.

7 The UK Green Growth Index – Lloyds Banking Group plc
8 Scotland's Vision for Trade
9 Scotland: A Trading Nation
10 Shaping Scotland's Economy: inward investment plan
11 Investing with Purpose: global capital investment plan

3.4 Our Programme of Action

Project 5: Build on Scotland's Strengths to Win an Ever Greater Share of Domestic and International Market Opportunities

We will	Who
Deliver on our export plan which takes a targeted sector and country approach to raising Scotland international exports. Includes actions to scale up trade promotion and Scotland's overseas reach & profile and actions in Scotland to ramp up our support for firms' export capacity.	Government, Public Sector, Business and Partners
Promote Scotland as an innovative test bed for new technologies and markets and coordinate action across the public sector to leverage our spending power and the CivTech business incubation model to stimulate innovation in our health and other public services. The creation of an International Innovations capability within the Scottish Government will lead on the global economic and societal opportunities created through our expertise in public service innovation.	Government and Public Sector
Provide public sector R&D grant support & finance to businesses to further increase Business Enterprise R&D spend in sectors with the greatest economic opportunity, in particular our key industries (see section 3.2).	Government and Public Sector
Provide capital investment to support renewable hydrogen production to make Scotland a leading nation in the production of reliable, competitive and sustainable hydrogen. The first tranche of investment focus on driving technological progress and advance innovation and cost reduction within the emerging sector.	Government and Public Sector
Deliver on the ambitions of ScotWind and future renewable energy developments including on developers' commitments to invest at least £1bn in the Scottish supply chain for each GW of capacity. The Scottish Offshore Wind Energy Council (SOWEC) has been identified by both industry and government as the key vehicle for taking forward the strategic supply chain opportunities from ScotWind. SOWEC is leading on the development of a Collaborative Framework Agreement to encourage the sector to come together and work collectively to support the delivery of the volume of offshore wind projects from the ScotWind leasing round.	Government, Public Sector, Business and Partners

Project 6: Support the Development of Scottish Supply Chains, Laying the Foundations of a Net Zero Industrial Strategy

We will	Who
Expand our Supply Chain Development Programme to improve the capacity, capability and development of Scottish supply chains. This will include maximising the manufacture of high-value goods and equipment in Scotland and identifying **Scottish companies with the skills, capacity and capability to bid for, win and deliver contracts in our key industries** (see section 3.2) and provide access to enterprise and innovation support that specialises in these areas. **We will work with recipients of major government-led funding to leave a legacy of stronger supply chains in Scotland.**	Government, Public Sector, Business and Partners
Adopt a cluster building approach to strengthen our position in new markets (see Box D) which can attract inward investment and talent, stimulate new business growth and boost research and innovation. This will be a structured approach, including an accreditation process and international benchmarking, focused on our identified key sectors.	Government, Public Sector, Business and Partners
Review our strategic approach to public ownership so that public companies are managed, developed and initiated for the public good and work collaboratively to provide support and advice to identify opportunities to establish successful public companies.	Government and Public Sector

Box D: Cluster Building

Clusters, whether geographically focused within Scotland, or, as appropriate for certain sectors, spread across Scotland in various locations, allow us to build coherent attractors and focal points where success breeds success and which create maximum economic impact and opportunities for growth. Clusters attract inward investment, provide opportunities for local businesses and new business creation and attract talent which benefits from multiple employment options and limits risk.

When co-located with technology development, such as around a university or innovation centre, clusters also boost research and innovation. Scotland's fintech sector was identified a number of years ago as a potential new market cluster bringing together our strengths across financial and professional services, digital and data capability as well as the vibrant start-up community and skills base.

Fintech Scotland, as the lead industry body, provides a clear focal point for the development of strategy and actions to support the cluster. The Scottish cluster was identified in the recent UK-wide Kalifa report as a model of best practice.

Collaboration between clusters is being driven by the Scottish Cluster Ecosystem Alliance. This was initiated by ScotlandIS, the membership organisation for Scotland's digital technology industry which achieved Silver Accredited Cluster Management status in 2020 – the first organisation to do so.

Key success factors which we would emulate as we build clusters around new market opportunities include:

- clarity of focus with a clearly articulated strategy and rationale as to the scale of the opportunity and Scotland's global strengths and potential.
- clear articulation of geographical focus, and rationale for that focus – either within specific location or locations, or as a Scotland-wide cluster.
- clarity on the links between key technologies and the global competitive advantage of clusters, ensuring that Scotland can retain competitiveness in the supply chains for each identified cluster.
- the creation of an industry-led cluster-builder organisation, which facilitates close working between public and private sectors and academia.
- clarity on international positioning, with a clear understanding as to Scotland's global strengths, who our competitors are, and who potential international partners are.
- alignment of policy, and investment support, across government, agencies, universities and others, including skills pipeline.
- clarity on our inward and capital investment offers, and how this is positioned to attract international private investment to the cluster and to attract talent.

Scotland's Greenports are a key element of our cluster building approach, creating globally competitive manufacturing centres of excellence in net zero industries.

Project 7: Attract and Deploy Significant Domestic and International Private Investment in Scotland

We will	Who
Establish an investor panel, chaired by the First Minister, to attract investment to a pipeline of projects in Scotland that support our transition to net zero and to bring investor intelligence to policy and regulatory development early in the process.	Government, Public Sector, Business and Partners
Improve access to private capital for business investment and growth. Working with financial institutions and the investment community and through the Scottish National Investment Bank and our enterprise agencies to deliver on our Global Capital Investment Plan, focusing on sectors where Scotland can demonstrate a real international comparative advantage.	Government, Public Sector, Business and Partners
Expand and enhance our Green Investment Portfolio to clearly set out the sectors and projects across Scotland seeking private finance to achieve net zero, sending a powerful market signal that Scotland is ready to meet increasing green investor appetite after COP26. Our **Green Market Solutions Programme** will identify where additional government action is needed to support investment.	Government, Public Sector, Business and Partners
Establish a values-led, high-integrity market for responsible private investment in natural capital (see Box E) to build on Scotland's international renown for its nature and its environmental policy framework on land and sea, and supported by a national project pipeline for nature-based solutions.	Government and Public Sector

Box E: A Nature-Positive Economy and Natural Capital

At COP26, the First Minister endorsed the Leaders' Pledge for Nature,[12] an international commitment to reverse biodiversity loss and create a "nature-positive" world by 2030. The pledge highlights the need to "transform and reform our economic and financial sectors" to safeguard the wellbeing of people and planet.

Recent global studies have shown the health of the world's ecosystems is declining faster than at any point in human history, with a million species at risk of extinction. These trends are reflected in Scotland, where there has been a sustained net loss of biodiversity in recent decades.

This rapid decline in nature has profound implications for humanity. The World Economic Forum's 2022 Global Risks Report[13] identified biodiversity loss as the third most severe risk the world faces over the next 10 years.

Playing Scotland's part in tackling this crisis will mean transforming our economy, including a shift to more sustainable patterns of production and consumption. It will mean recognising the embeddedness of our economy in the natural world, and the need to live within the sustainable limits of our single, shared planet.

Doing so will also create new opportunities for Scotland to prosper. Globally, the World Economic Forum estimates that transitioning to a nature-positive economy will create up to $10 trillion in annual business value and create 395 million jobs by 2030.[14] In Scotland, the nature-based sector is already expanding rapidly, growing at more than five times the rate of all jobs between 2015 and 2019 and accounting for a third of all job growth in that period.[15] There is strong potential for future growth, in areas such as sustainable land and marine management, urban green infrastructure, green finance and research. Rebuilding Scotland's natural capital is key to the long-term productivity of the many sectors of our economy which rely on the resources and services nature provides.

The transition to a nature-positive economy – designed to help reverse biodiversity loss by 2030 – will support our international responsibilities, including the Leaders' Pledge, while also offering enormous opportunities for Scotland's prosperity and wellbeing. Aligning with the further development of Scotland's Environment Strategy,[16] actions set out in this economic strategy will support this transition, for example by supporting responsible private investment in nature-based solutions (see Project 7).

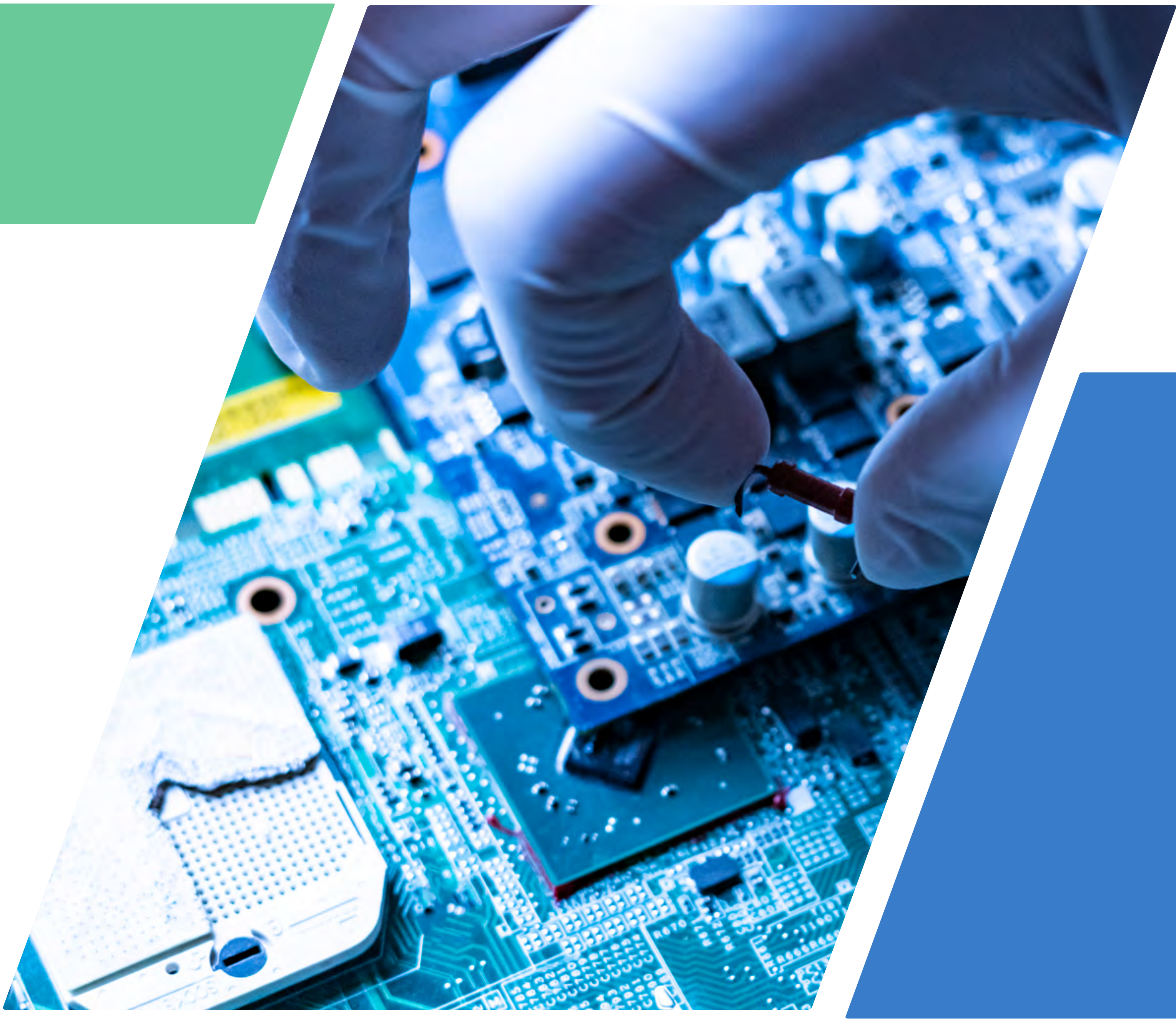
Natural capital is the renewable and non-renewable stocks of natural assets, including geology, soil, air, water and plants and animals that combine to yield a flow of benefits to people. Adopting a natural capital approach enables us to understand the role of our natural environment, alongside its intrinsic value, as an asset that underpins our economy and society.

It also helps us recognise the need to invest in the maintenance and enhancement of this asset, so that we can continue to enjoy, within safe environmental limits, the many economic, environmental and social benefits it provides.

Scotland has shown an international lead in natural capital thinking and the increasing investment in Scotland's natural capital, including public and responsible private investment, is both an important economic opportunity and essential to meet the pace and scale of our climate change targets, biodiversity goals and wider land use policy objectives.

The Scottish Government is committed to ensuring that local communities are empowered and benefit from investment in natural capital.

12 Leaders' Pledge for Nature
13 World Economic Forum: Global Risks Report 2022
14 World Economic Forum: The Future of Nature and Business
15 Nature-based jobs and skills for net zero – an initial assessment
16 The Environment Strategy for Scotland: vision and outcomes



Productive Businesses and Regions

4

We must deliver a step-change in our productivity performance and address regional inequalities in economic activity as well as boosting traditional and digital infrastructure.

4. Productive Businesses and Regions

4.1 Our Aim

To make Scotland's businesses, industries, regions, communities and public services more productive and innovative.

4.2 The Opportunity

Productivity is driven by a multitude of factors, including quality of jobs, skills, entrepreneurship, levels of investment and innovation, and quality of infrastructure and connectivity. Improving productivity will increase the competitiveness of Scotland's enterprises, regions and the economy as a whole. It raises household incomes and generates the tax revenues required to invest in our public services and critical national infrastructure. International evidence shows that economies with strong productivity score highly on the indicators of a wellbeing economy.

All the policy programmes in this strategy are interconnected, and while the other programmes will also drive productivity improvements, through for example reducing structural inequalities, this programme focuses on the opportunities from digital infrastructure, leadership, pioneering new approaches and addressing current geographical disparities to deliver prosperity for all Scotland's people and places. We can also improve the productivity of our public services. The public sector in Scotland is one of the largest employers but there is scope to increase the positive impact this sector has on the economy.

Scotland has closed the productivity gap with the rest of the UK in recent years, but our productivity performance remains below that of other small advanced economies. Our productivity performance varies across different sectors and there are long-standing regional inequalities with regional differentials in GVA per capita and a range of other indicators of a wellbeing economy including quality of jobs or public services, the health of citizens, the index of multiple deprivation and child poverty. We need to boost productivity across the whole economy. This will require different approaches for high productivity sectors than it will for low-productivity/low-pay sectors while recognising that the success of our internationally tradable sectors – manufacturing and services – is key, as they provide the wealth on which our domestic services sectors rely.

Good progress is being made in extending and improving the resilience of Scotland's broadband and mobile infrastructure through programmes such as Reaching 100% (R100) and Scottish 4G Infill (S4GI). However, organisations in all sectors of the economy have been slower to adopt digital technology than comparators and, in particular, to transform their business and operating models to boost productivity as a result of cloud computing and the intelligent use of data.

It is vital that every region in Scotland benefits from, and contributes to, a more productive and innovative economy. Every part of Scotland has unique strengths, assets and opportunities and all businesses and communities, rural and urban, can bring innovation and creativity and support the resilience of the economy. This strategy intends to work with businesses, public bodies and citizens in every part of Scotland to ensure that local economic plans reflect the greatest economic opportunities for communities. Our Community Wealth Building approach will use public and private investment through procurement and other means to create new employment opportunities, help local businesses to expand, and place more assets in the hands of local people and communities.

National success cannot leave any region behind. This strategy will not, in detail, outline the critical interventions in each local economy, but we do intend to ensure strong regional economic strategies and local economic development plans covering every area of Scotland to enable this work to progress (see Box F for further details on the role of Scotland's Regional Economic Partnerships). It needs to be built from the grassroots, rather than imposed top-down by government. This will include a unique socio-economic plan based on supporting and growing the number of Gaelic speakers. Ensuring that Scotland's cities are able to compete, and win, against other major European or world cities, remains an important approach to driving productivity improvements.

Box F: The Role of Regional Economic Partnerships in Driving Productivity

Scotland's Regional Economic Partnerships bring together key economic actors to enhance regional interests, focus and align resources, sharing knowledge and expertise. This partnership working results in nuanced economic strategies and related action plans that will accelerate economic prosperity. Distinct approaches to regional economic opportunities include the following:

The North East's partnership, including public sector and Opportunity North East, developed the Regional Economic Strategy which provides a shared vision and ambition for the region to strengthen through diversification. The strategy's Action Plan has a sustainability theme, building on the diversification of the regional economy and broadening the business base. Opportunities are associated with the circular economy, carbon capture and storage, and energy transition to support the evolution to low carbon. To further diversify the regional economy, the RES also emphasises opportunities related to on Tourism, Life Sciences, and Food and Drink. The partnership has a key role in aligning this strategic work with wider investment such as the Energy Transition Fund, the Just Transition Fund and the North East Economic Recovery Skills Fund. Core projects such as the Energy Transition Zone (ETZ Ltd) exemplify an approach that optimises the opportunities in offshore wind, hydrogen and Carbon Capture, Utilisation, and Storage (CCUS) to create a globally integrated energy hub focused on net zero.

The Ayrshire Growth Deal includes the HALO Enterprise and Innovation Centre, which opens early in 2022, and is delivering projects focusing on Community Wealth Building and Working for a Healthy Economy. Further business cases are in development for large scale projects related to Aerospace and Tourism. Both the Scottish Government and the UK Government are investing up to £103m each over 10 years, with the Ayrshire Councils contributing a further £45.5m to the Deal. Building on the Deal, Ayrshire REP are currently developing a Regional Economic Strategy that aims to take a Community Wealth Building approach to economic activity across the region, catalysing the Deal approach and embedding it as a tool for ensuring inclusive growth.

The Edinburgh and South of Scotland region has a vision to become the data capital of Europe, whilst ensuring that the social and economic benefits of this capability extend to all. To help the region achieve this vision, the £1.3bn City Deal focuses on key themes including: Research, Development and Innovation, and the Integrated Regional Employability Skills (IRES) Programme which aims to develop career pathways from the classroom to the workplace to meet current and future skills requirements in key sectors across the region. The ESES Regional Prosperity Framework sets a 20 year vision for the future of the regional economy up to 2041. Using the Deal as a catalyst, the RPF articulates long-term aspirational goals, focusing on Environment, Transport and Place, in order to guide the future direction of shared regional economic and related policies.

The Forth Valley region aims to formalise a Regional Economic Partnership during 2022, with the areas of focus relating to transport, tourism, business support and low carbon. There are also several ongoing and planned initiatives for the region, including the Falkirk Tax Incremental Finance scheme, Town Centre and Tourism Action Plans and the transformational programmes to assist the Grangemouth petrochemical complex in its transition to net zero.

Glasgow's Regional Economic Strategy identifies three Grand Challenges: Creating an Inclusive Economy; Enhancing Productivity; and Addressing the Climate Emergency. By addressing these challenges the Glasgow City Region aims to have "the most innovative, inclusive and resilient economy in the UK" by 2030. There are a number of transformational opportunities to reshape the economy for all. These cover the Foundational Economy; High Growth Sectors; Accelerating Climate Action; Health; Skills; Technology; and Place and are tied to the twelve regional programmes which make up the first phase of the Regional Economic Strategy Action Plan.

The Highlands and Islands has recently established a Regional Economic Partnership which will support collaboration on strategic issues to grow the region's economy. The REP will build on work to pursue strategic regional opportunities and create high value jobs in areas like renewable energy, space and the blue economy whilst recognising the significant cultural strengths, including the Gaelic language, and opportunities arising from more traditional sectors. In anticipation of rapid scaling of offshore wind activity in response to ScotWind and INTOG leasing rounds, the University of the Highlands and Islands (UHI), the Energy Skills Partnership, Skills Development Scotland, and Highland and Islands Enterprise (HIE) are actively expanding Global Offshore Wind training and certification, and advanced manufacturing training capability within UHI colleges (including industry-led provision), to meet demand for a skilled offshore wind workforce. HIE, local authorities and the Scottish Government are working with industry to secure affordable and timely grid capacity and address other barriers to deployment and Wave Energy Scotland and EMEC continue to further the region's lead on marine energy through technology deployment. Partners are engaged in cluster development to stimulate innovation and supply chain development in key areas such as offshore wind, hydrogen, heat decarbonisation and energy systems. Infrastructure to support these sectors is being considered for support through the Islands Growth Deal, including the development of the UK's first ultra-deep-water port in Shetland.

The South of Scotland's first Regional Economic Strategy has a 10-year timeframe and targets a significant shift in the region's economic performance, its outward profile, and the way in which wealth is created by and shared amongst people. The strategy has been developed following an extensive period of engagement and will deliver against six themes including: Skilled and Ambitious People; Innovative and Enterprising; Rewarding and Fair Work; Cultural and Creative Excellence; Green and Sustainable Economy; and Thriving and Distinct Communities.

An overarching ambition of the **Tay Cities Regional Economic Strategy** is to increase the number of businesses and create more, better paid jobs across the Tay Cities. Key targets include raising the regional employment rate above the Scottish average, increasing the 5-year business survival rate to above 50% and reducing the percentage of jobs that pay less than the living wage. There are a number of initiatives which are in place or being developed to support the region in its aims, including: the Michelin Scotland Innovation Parc to support net zero and the move to clean growth in the manufacturing sector, and the Forth & Tay Offshore Cluster which focuses on growing the offshore energy supply chain in East Scotland.

Further details of the regional perspectives of each Regional Economic Partnership is included in an accompanying evidence paper.[17]

17 Evidence from Regional Economic Partnerships

4.3 Foundations of Success

The National Infrastructure Mission, Infrastructure Investment Plan, the National Transport Strategy (NTS2), Housing 2040, Scotland's Digital Strategy and The Strategic Framework for a Cyber-Resilient Scotland are all driven by a determination to create and sustain a resilient national infrastructure that can support a high productivity economy. Scotland's Innovation Centres, National Manufacturing Institute Scotland and CivTech are all demonstrating how new ideas and commercial opportunities can spring from a successful partnership between businesses, academia and the public sector. The Global Capital Investment Plan (GCIP), the Inward Investment Plan, our enterprise agencies, city and region growth deals and Scottish National Investment Bank offer an ecosystem of financial and business support for innovative companies and entrepreneurs.

Scottish local government, our enterprise agencies and local groups of businesses and citizens are currently delivering strong regional and place – based initiatives. City region and regional growth deals are being delivered across the country through a partnership of national and local government and other regional players including higher and further education, enterprise agencies, and the voluntary and private sectors. These have inspired the development of a growing network of new Regional Economic Partnerships across the country that have an increasingly important role in increasing productivity and driving innovation on a regional basis (see Box F). There are also innovative private sector models (see Box G) which this strategy is supportive of.

Box G: Case Study: Opportunity North East as a model of private sector engagement in delivery of economic development

Opportunity North East (ONE) is a private sector catalyst for economic diversification in north east Scotland. ONE leads action, investment and transformational projects to deliver sustainable business growth and jobs for the future in the just transition to a low-carbon net-zero economy.

More than 80 business leaders shape priorities across entrepreneurial growth, digital transformation and low-carbon in the digital, food, drink and agriculture, life sciences and tourism sectors in Aberdeen and Aberdeenshire. Members drawn from the region's business community, its two universities and colleges, and regional and national partners sit on ONE's main and sector boards

Business founders, owners and leaders are engaged in ONE-led business growth, innovation, market development and leadership support. Accelerator programmes stimulate start-ups and spin-outs in digital, food and drink, and life sciences.

ONE leads the delivery of the BioHub, SeedPod and ONE Tech Hub projects for life sciences, food and drink, and digital in the region and is developing the Seafood Transformation Project, North East Adventure Tourism and Gourmet Food Festival projects with industry and partners.

ONE created the Energy Transition Zone concept and led the business case that secured £54 million of UK Government and Scottish Government funding. ETZ Ltd was established in April 2021 to spearhead the region's energy transition activity. ONE will contribute £5.7 million of funding to ETZ over the next five years. ETZ will play a pivotal role in establishing the region as a global leader in energy transition and a net exporter of products, services, technologies and skills.

The Wood Foundation has provided ONE with a 10-year £62 million funding commitment. Over the past five years, ONE project funding of £27 million has secured co-funding and investment of £75 million from public, private and philanthropic partners.

In ensuring all Scotland's regions are as productive as they can be, we must build an economy that is resilient to future external risks and shocks, taking a proactive approach to monitoring and assessing economic resilience and identifying key actions to mitigate against potential future shocks. As part of improving resilience, businesses have adapted their business models throughout the pandemic, including promoting working from home where possible. There are opportunities for further experimentation in ways of working post-pandemic, including hybrid working, to deliver good jobs and to help businesses attract and retain talent.

4.4 Our Programme of Action

Project 8: Improve Connectivity Infrastructure and Digital Adoption Across the Economy

We will	Who
Deliver the Strategic Transport Projects Review 2 (STPR2) to help make Scotland more accessible for residents, visitors and businesses; create better connectivity with sustainable, smart and cleaner transport options; and highlight the vital contribution that transport investment can play in enabling and sustaining Scotland's economic growth.	Government, Public Sector, Business and Partners
Provide an efficient and resilient digital infrastructure. This includes continued investment in improved broadband, fibre and mobile coverage for residential and business premises. Enhance the resilience of digital infrastructure through direct international links to the internet and the development of data centres aligned with renewable power sources.	Government, Public Sector, Business and Partners
Establish a Digital Productivity Fund focused on supporting business to improve firm-level productivity through the adoption and successful integration of new and advanced technologies.	Government and Public Sector
Develop joint programmes of action to increase digital understanding and adoption in sectors where business models have been transformed rapidly due to new technology. Examples include action to better use data and adopt cloud based services.	Government, Public Sector, Business and Partners

Project 9: Upskill Business and Public Sector Leaders, Pioneering New Approaches to Driving Productivity Improvements

We will	Who
Design and implement programmes on the practical actions business and leaders can take to boost productivity, at scale. This will include business development capabilities, ensuring our leaders have the skillsets to sell ideas, policies, products or solutions both within Scotland and globally.	Government, Public Sector, Business and Partners
Design and implement a Team Scotland leadership programme across the public and private sector to attract and develop the ambitious, skilled, empowered leaders that Team Scotland needs, with delivery capabilities and governance skills. A programme that embraces diversity and values-based leadership.	Government, Public Sector, Business and Partners
Appoint Productivity Ambassadors to promote understanding of driving productivity improvements, build international networks with their peers and deliver learning as part of the Team Scotland leadership programme. For example, early projects to be investigated are around shifting the culture of late payments between businesses to improve SME productivity and around considering the most effective ways to incentivise business improvements in productivity.	Government, Public Sector, Business and Partners
Establish a new measure of the resilience of the economy, monitoring, assessing and identifying actions to future-proof the productivity of Scotland's economy over the long term, including on issues such as climate adaptation, cyber security, international trade links and critical domestic supply chains.	Government and Public Sector

We will	Who
Launch the Centre for Workplace Transformation in 2022 to support experimentation in ways of working post-pandemic, including hybrid working, to deliver good jobs and to help businesses attract and retain talent, recognising the importance of the way workplaces operate and making the best use of employees' skills to enhance business performance and profitability.	Government, Public Sector, Business and Partners
Expand Scotland's SCDI-led network of Productivity Clubs for businesses to use peer to peer learning to identify opportunities to improve productivity.	Government, Public Sector, Business and Partners

Project 10: Realise the Potential of the Different Economic and Community Assets and Strengths of Scotland's Regions

We will	Who
Reinforce our commitment to regional collaboration through our Regional Policy Review and continue to work with Regional Economic Partnerships to deliver Regional Economic Strategies with strong regional economic policies and tailor interventions to evidenced regional strengths and opportunities. This includes identifying the most transformational interventions in each local economy, including infrastructure investment, attracting inward investment or supporting local networks of businesses. We will also work with regional partners, including trade unions and businesses to co-produce **Just Transition plans for every sector and region.** As part of developing the Just Transition plans we will ensure that all those impacted, particularly employees and communities, have a voice.	Government, Public Sector, Business and Partners
Introduce Community Wealth Building legislation that builds on the successes and learnings of all of the Scottish Government community wealth building local and regional pilot areas in urban and rural Scotland.	Government and Public Sector
Undertake and publish a review of how best to significantly increase the number of social enterprises, employee-owned businesses and cooperatives in Scotland, supporting regional regeneration and the wealth of local communities. This will learn lessons from best practice in other countries.	Government and Public Sector

5

Skilled Workforce

A skilled population is fundamental to business productivity and economic prosperity. We will focus our activity on the transition to net zero, the digital revolution, and lifelong training making sure employers have the supply of skills they need.

5. Skilled Workforce

5.1 Our Aim

To ensure that people have the skills they need at every stage of life to have rewarding careers and meet the demands of an ever-changing economy and society and that employers invest in the skilled employees they need to grow their businesses.

5.2 The Opportunity

Skills enable people to more effectively participate and progress in the labour market and lead fulfilling lives. Providing people with the opportunities to develop skills, irrespective of who they are and where they live, is key to ensuring everyone has the opportunity to participate fully in the labour market. For parents and carers to develop the skills and qualifications that will enable them to compete for jobs, and ultimately create a more diverse workforce, we must address the barriers faced by some, including transport and available childcare.

A skilled population is also key to business productivity and economic prosperity. The OECD has argued that for the UK "developing the right set of skills and making full use of them in the economy is a recipe for higher productivity, growth and inclusiveness".

The evidence shows that Scotland already performs well on tertiary education levels compared to the rest of the UK and other small advanced European economies. While data shows that the majority of employers are able to find the right people with the right skills to fill vacancies within their organisations the pandemic and EU exit have created labour shortages across almost all sectors. Last year around 21% of vacancies were reported as being hard to fill by employers due to a lack of skills, knowledge or experience among applicants. In the absence of devolved immigration powers, targeting inward migration from the rest of the UK can add to Scotland's skilled labour pool. A 25% increase in people relocating from the rest of the UK to Scotland would double net migration and add 100,000 people to Scotland's labour pool over the course of this strategy. Significant inequalities persist in educational attainment with around 10% of Scotland's working age population having low or no qualifications. Currently 22% of Scotland's working-age population are economically inactive (this figure includes full-time students). Understanding what policies can be deployed so that people can take part in the labour market is a significant opportunity.

Over the next 10 years, with the greater use of artificial intelligence, changes in the world of work, the decarbonisation of traditional industries and the emergence of new industries, skills requirements will change fundamentally. Digital, data, cyber security, creative and leadership skills are likely to be at a premium, whilst we know that the ability to collaborate and cooperate will be essential for the anticipated rise in caring roles and as technology replaces routine work and frees people to focus on the elements of human service that really matter to people. The precise shape of the changes are difficult to predict, but we do know that people will need to be adaptable and flexible and we recognise the need to provide access to information and advice, tailored to individual needs and circumstances. We will emphasise the importance of businesses and skills providers capturing equalities information to understand the diversity of the workforce and the reach of service provision.

Population challenges are being faced in many rural and island communities, and addressing these challenges will be vital to ensuring these communities can realise the ambitions of this strategy.

5.3 Foundations of Success

A range of initiatives are already in place to grow Scotland's population, and support skills development. This includes our response to the Scottish Funding Council Review of Coherent Provision and Sustainability,[18] Scotland's Population Strategy, the Young Person's Guarantee and the Future Skills Action Plan which is delivering a strong platform of work based learning. A considerable programme of reform is already taking place across Scotland's schools, including the implementation of the OECD recommendations through Professor Ken Muir's consultation and Professor Louise Hayward's review of qualifications. We will also build on the recent Careers Service Review to ensure that individuals considering their career choices at any stage of their lives can access the best information and advice.[19]

We are working with partners to address the under-representation of women in science, technology, engineering and maths (STEM) courses and careers, to ensure that Scotland's STEM sectors are diverse, equal and prosperous. Similar initiatives are addressing the gender gap within Scottish agriculture.

A key focus of skills provision is the implementation of the Climate Emergency Skills Action Plan. Our Green Jobs Skills Hub will gather and cascade information on skills shortages and opportunities throughout the labour market, enhancing intelligence and promoting more effective responses. The current land-based review of learning offers an opportunity to link across existing work in the Skills Action Plan for Rural Scotland and the Climate Emergency Skills Action Plan.

18 Scottish Funding Council Review of Coherent Provision and Sustainability
19 Careers by Design

5.4 Our Programme of Action

Project 11: Adapt the Education and Skills System to make it more Agile and Responsive to our Economic Needs and Ambitions

We will	Who
Develop proposals for a national digital academy focused around the provision of SCQF level 6 qualifications including Highers, to open up access to a wide array of subjects to a wider array of learners. This is likely to include broadening young people's access to subjects which may not be available locally, as well as supporting post-school learners to access learning later in life and around other commitments.	Government and Public Sector
Deliver the forthcoming national strategy on adult learning that will ensure that community learning is more consistent and comprehensive, underpinned by more strategic investment and building a stronger evidence base around needs, engagement levels, quality of provision, and support for professionals.	Government and Public Sector
Deliver key actions from the Scottish Funding Council Review of Coherent Provision and Sustainability including the development of more, shorter industry-facing courses; and enhancing approaches to strategic provision and skills planning based on learning from pathfinder projects to enable a more responsive, coherent education and skills system.	Government and Public Sector
Implement the next phase of the Green Jobs Workforce Academy and launch a new skills guarantee for workers in carbon intensive industries, providing career guidance and training opportunities, enabling people to seek employment in other sectors.	Government, Public Sector, Business and Partners

Project 12: Support and Incentivise People, and their Employers, to Invest in Skills and Training Throughout their Working Lives

We will	Who
Implement a lifetime upskilling and retraining offer that is more straightforward for people and business to access and benefit from. This will use evidence from the delivery of the National Transition Training Fund and Flexible Workforce Development Fund, and what we know works well from Community Learning and Development.	Government and Public Sector
Target more skills investment and support to working age people in poverty or at risk of moving into poverty (particularly the six priority family types). Ensuring that access to training for more marginalised groups is made as easy as possible, we will work with learners and delivery partners to better understand the steps we must take to improve provision, including in areas such as training at times that suit people with caring responsibilities, with additional support needs or that fit around current jobs.	Government and Public Sector
Develop a new Skills Pact to underpin our commitment to strong partnership working with both employers and unions. The Pact will focus on action we can take together to improve investment in skills and training and ensure provision better meets the needs of employers and employees. As part of this, we will work collaboratively with employers and unions to explore how we can increase employer investment in upskilling and retraining.	Government, Public Sector, Business and Partners

Project 13: Expand Scotland's Available Talent Pool, at all Skills Levels, to Give Employers the Skills Pipeline They Need to Take Advantage of Opportunities

We will	Who
Implement a focused Talent Attraction programme to attract key skills and talent from the rest of the UK. This will align with Scotland's identified key sector strengths and new market and cluster building opportunities and provide a joined-up "landing zone" for targeted employees and their families supported through our commitment to create a Migration Service for Scotland. We will work closely with industry partners, and the recruitment sector, to leverage best available data and ensure most effective targeting.	Government, Public Sector, Business and Partners
Progress the actions from Scotland's Population Strategy aimed at attracting, welcoming and supporting those who choose to make Scotland their home to help address rural and island population challenges and sectoral skills shortages in the labour market.	Government and Public Sector
Systemically address Scotland's labour market inactivity challenges. Assess trends within different labour market inactive groups and understand what steps can be taken to bring more individuals into the labour market – including through the use of childcare and transport provision, part-time/flexible working, support for employees with disabilities, and business start-up and work from home opportunities. This is inextricably linked to reducing child poverty, including the approach of pathfinders to test how to ensure holistic support enables parents to enter, sustain and progress in work.	Government, Public Sector, Business and Partners

6

A Fairer and More Equal Society

Significantly reducing poverty boosts our economy, but achieving it requires better wages and fair work. We will ensure that work provides a sustainable standard of living and a genuine route out of poverty.

6. A Fairer and More Equal Society

6.1 Our Aim

To reorient our economy towards wellbeing and fair work, to deliver higher rates of employment and wage growth, to significantly reduce structural poverty, particularly child poverty, and improve health, cultural and social outcomes for disadvantaged families and communities.

6.2 The Opportunity

Our aim is to create a society that is thriving across economic, social and environmental dimensions, and that delivers prosperity for all Scotland's people and places. A fair and equal society and a wealthier, greener economy are mutually reinforcing.[20] Economies that have stronger productivity growth also have higher wellbeing – good businesses recognise that well-paid and respected workers are productive workers.

Scotland has the opportunity over the next ten years to build a successful economic model that ensures that work pays for everyone through better wages and fair work. In this way, and in tandem with other government interventions, like the Scottish Child Payment, economic opportunities can significantly reduce levels of child poverty and in-work poverty, particularly for women, and eradicate low pay. We can improve life chances, achieve equality of opportunity for all to access and progress in work whilst at the same time mitigating the risk to employment through a just transition to net zero.

A fully-functioning childcare sector is a pivotal part of Scotland's national economic infrastructure, and will be vital to enabling parents and carers to return to work, or increase their working hours. We have committed to building a system of wraparound school age childcare, offering care before and after school and in the holidays, which will be free to families on the lowest incomes – as well as expanding the provision of funded early learning to all one- and two-year-olds, starting in the course of this Parliament with children from low-income households.

We have the opportunity to design and deliver employability services tailored for local areas and people, using place-based and person-centred design, building on our No One Left Behind approach.

Tackling poverty will substantially increase Scotland's economic performance, increasing the wellbeing of our citizens and enabling our business to increase their turnover. Tackling child poverty is an economic as well as a moral imperative. The cost of child poverty in Scotland was estimated to be more than £3 billion in 2021.[21] Around half of this cost is attributed to lower productivity and higher unemployment levels of those who have grown up in poverty.

20 Trends in Income Inequality and its Impact on Economic Growth | OECD Social, Employment and Migration Working Papers | OECD iLibrary (oecd-ilibrary.org)
21 The Cost of Child Poverty in 2021 – based on a UK figure of £37.7 billion estimated by the University of Loughborough

The evidence shows that while Scotland (along with Northern Ireland) has the lowest child poverty rate in the UK at 24% (compared to England 30%, Wales 31%), to meet our statutory 2030 target to have less than 10% of children living in relative poverty, around 140,000 children will have to be lifted out of poverty. 15.2% of employees still earn less than the real Living Wage, although this number has reduced by around a quarter in recent years.

Despite progress in reducing the gender pay gap (reduced from 18% in 2000 to 3.6% in 2021), more women than men still earn less than the real Living Wage. There are significant inequalities in economic and social outcomes including the disability employment gap (35.5 percentage points), and ethnicity pay gap, and a significant gap in healthy life expectancy for those in the most deprived areas (20 years).

We need to ensure everyone in Scotland earns at least the real Living Wage as a minimum. We recognise that we will not tackle Scotland's deep-seated poverty challenges without transforming the sectors where low pay or precarious work are most prevalent. Moreover, we believe that business models that rely on low pay are not sustainable and are incompatible with our vision and strategic direction. We will use all levers at our disposal and will work with business to address this issue. The use of conditionality on Fair Work practices that is enshrined in the bidding process for Scotland's greenports, ensuring that no bidder who cannot demonstrate adherence to Fair Work will win, is a model of how we will roll out these measures.

All the programmes in the strategy are interconnected, while our initiatives on promoting entrepreneurial culture in under-represented groups, community wealth building, and skills investment for working age people in poverty will contribute to a fairer and more equal society, this programme focuses on the opportunities from Fair Work and structural barriers to participation in the labour market.

6.3 Foundations of Success

Our ability to directly effect change in the labour market is limited as long as employment law remains reserved to Westminster. Nevertheless, we have used the powers that we do have to ensure that the economy is fair and inclusive and that people have the skills and capabilities they need to access good jobs. We have done this through our policies on Fair Work Nation, our No One Left Behind approach with Local Government and the third sector and our action plans to tackle the gender and disability pay gaps. Our Young Person's Guarantee will ensure every person aged between 16 and 24 will have the opportunity to study; take up an apprenticeship, job or work experience; or participate in formal volunteering.

Through Fair Work First we are applying Fair Work criteria to public sector contracts and grants to ensure that government funding serves to tackle in-work poverty and low wages by raising the incomes of the lowest paid and improving terms and conditions for all.

We will ensure that Fair Work principles and conditionality form the foundation of our approach to a just transition, starting with the Energy Strategy and Just Transition Plan, the Agriculture and Land Use Plan, and forthcoming regional and sectoral plans.

In August 2021 we launched a Living Hours Accreditation scheme with the Poverty Alliance to drive progress towards security of income and away from in-work poverty. In 2021 we took our commitment further in the Adult Social Care sector by providing funding to take pay for direct carers above the real Living Wage, with a minimum pay floor also set for 2022/23 that continues to go beyond the real Living Wage.

Our first Tackling Child Poverty Delivery Plan (2018-22) set out three key drivers to reducing child poverty, including increasing household incomes from work and earnings, reducing household costs and maximising incomes from social security. It also set out the six priority family types more likely to experience child poverty.[22]

Our existing employability and wider Fair Work action is a key part of this strategy, supporting parents to access work and to progress within the labour market – supported by holistic employability support, flexible working opportunities, sufficient working hours and payment of the real Living Wage. We will build on this within our next delivery plan to be published in March 2022 to ensure that work offers an effective and sustainable route out of poverty for families.

We believe that a progressive approach to industrial relations and to trade unionism is at the very heart of a fairer, more successful society. Trade unions are key social partners in delivering our economic and social aspirations. Accordingly, we recognise the importance of unions and collective bargaining in raising worker wellbeing and promoting progressive and fair workplace practices. The best Fair Work outcomes will be achieved where employers, workers, unions, government, agencies and third sector work together and take ownership for delivery of Fair Work collectively. In some key sectors this will involve enhancing the capacity to take collective decisions through forums involving employers, workers, unions and other partners negotiating minimum standards on pay, conditions and other aspects of Fair Work infrastructure.

Our Covid Recovery Strategy focuses on the efforts we require to tackle inequality and disadvantage. If our people are secure and have firm foundations then our communities, businesses, economy and society will be more resilient. Our third sector organisations have led the way in adopting innovative, person-centred, holistic services which wrap around families and individuals. The aims of the strategy are to: address the systemic inequalities made worse by Covid; make progress towards a wellbeing economy; and accelerate inclusive person-centred public services.

A Fairer Scotland for Disabled People: Employment Action Plan sets out key actions the Scottish Government will take to reduce the disability employment gap by at least half by 2038. We announced in December 2021 that we are doubling the Scottish Child Payment from April 2022 and we remain committed to extending Scottish Child Payment to children under 16 by the end of 2022. We have also committed to build a system of wraparound school age childcare, offering care before and after school and in the holidays, which will be free to families on the lowest incomes.

22 Our Tackling Child Poverty Delivery Plan has identified six priority family types at higher risk of poverty: lone parent families, the large majority of which are headed by women; families which include a disabled adult or child; larger families; minority ethnic families; families with a child under one year old; families where the mother is under 25 years of age.

6.4 Our Programme of Action

Project 14: Tackle Poverty Through Fairer Pay and Conditions

We will	Who
Apply Fair Work conditionality to grants, requiring payment of real Living Wage, and channels for effective workers' voice by summer 2022, and determine how these conditions can be applied to non-departmental public bodies. **Fair Work conditionality will be further extended** with clear standards and minimum requirements to cover all forms of Scottish Government support within the limits of devolved competence in line with the landmark agreement with the Scottish Green Party. We will use all levers at our disposal to deliver on this commitment – including the use of grants, reliefs and licencing provisions	Government and Public Sector
Deliver on the commitment to require payment of the real Living Wage in Scottish Government contracts from October 2021, including the forthcoming suite of new construction frameworks, starting with the £600 million Civil Engineering Framework.	Government and Public Sector
Work with employers and trade unions in sectors where low pay and precarious work can be most prevalent (including leisure and hospitality, and early learning and childcare) **to deliver sectoral Fair Work agreements, in partnership with industry and trades unions, that deliver payment of the real living wage, better security of work, and wider "fair work first" standards.** We will also promote the **benefits of collective bargaining to achieve higher standards of pay, better security of work and greater union representation.**	Government, Public Sector, Business and Partners
Build on the findings from the Business Purpose Commission Report in Spring 2022, to inform how businesses can deliver positive impacts on prosperity, wellbeing – including tackling child poverty – and environmental sustainability. This will recognise that businesses which take a long term (inter-generational) view of their stakeholder commitments fare better in times of crisis, including during the pandemic. It will also promote the stakeholder capitalism model with business leaders, encouraging businesses to see employees, communities and citizens as stakeholders as well as consumers and where businesses are rooted in their communities.	Business and Partners

Project 15: Eradicate Structural Barriers to Participating in the Labour Market

We will	Who
Set out how we will **support parents to increase their incomes from employment as part of cross-government action to deliver upon the ambitious targets set through the Child Poverty (Scotland) Act 2017** within the next Tackling Child Poverty Delivery Plan to be published by the end of March 2022.	Government and Public Sector
Simplify the employability system by implementing No One Left Behind, combining funding streams and transferring investment from national to local governance to enable the delivery of person-centred, place-based integrated support. Fair Start Scotland contracts end in March 2023, offering significant opportunity for further investment through No One Left Behind.	Government and Public Sector
Ensure that Every Contact Counts in delivering an aligned and integrated offer of support for those seeking to move towards, into or progressing within the labour market. In this way we will ensure that individuals and families have access to the advice and services they need to thrive, including housing, health, affordable and flexible childcare and transport offers.	Government and Public Sector
Take further steps to remove barriers to employment and career advancement for disabled people, women, those with care experience and people from minority ethnic groups. We will set these out the forthcoming refreshed 'A Fairer Scotland for Disabled People: Employment Action Plan' and the Gender Pay Gap Action Plan, and a new ethnicity pay gap strategy and plan.	Government and Public Sector
Build on the principles of the Young Person's Guarantee, developing an all age guarantee of support for those most disadvantaged in the labour market, with an initial focus on parents from the six priority family groups at risk of child poverty.	Government and Public Sector
Establish a Centre of Expertise in Equality and Human Rights within Scottish Government, advancing our understanding and embedding equality and human rights within the economic policy-making process, as agreed in the Economy Recovery Implementation Plan.	Government and Public Sector

A Culture of Delivery

7

Success demands a culture of delivery and accountability in which objectives are shared and responsibilities are clearly allocated and accepted across the public, private and third sector.

7. A Culture of Delivery

7.1 Our Aim

To ensure we successfully deliver the interconnected policy programmes of action set out in this strategy and transform the way in which the Government and business listen to, support and work with each other.

7.2 The Opportunity

Achieving the ambition set out in this strategy is critically important for Scotland.

Success demands a culture of delivery and accountability in which objectives are shared and responsibilities are clearly allocated and accepted across the public, private and third sector. These must be built on a willingness to challenge and to adapt any aspect of this strategy that does not deliver and to draw on the strengths of people and organisations from all sectors of the economy in what is commonly described as a "Team Scotland" approach.

It requires strong leadership in the public and private sectors, with leaders working across these boundaries and learning lessons from the innovative approaches that have been implemented by other organisations, such as the third sector.

To deliver this strategy businesses need access to a range of support that is designed around the requirements of businesses and innovators, not the internal structures of the public sector, as well as increased access to investment, improved connectivity and stronger skills pipelines. Government needs actions from business such as investment in improving productivity, innovation, support for skills training as well as data on outcomes. This strategy should act as a compass to guide the actions of all partners.

Our enterprise and skills organisations work well together and have made real strides towards collaborative working, however our future economy requires us to radically rethink and reform the way in which they operate. We need to build a new model that reaches every community, rural or urban, and connects people and businesses with the support they need and leverages private sector networks, at home and abroad, in a more efficient way. This includes new tailored support for businesses with alternative ownership models, including cooperatives and social enterprises as well as in our rural and island areas, and we need more effective data and feedback on what our support delivers.

The state will continue to play a crucial role in making mission-based public investments and will do so in a way that drives forward wider innovation. Whilst government has shown we can take effective action with partners, for example developing Michelin Scotland Innovation Parc when faced with the closure of the previous Michelin factory, we need to bring the same purpose and energy to new opportunities like ScotWind.

And when businesses in Scotland achieve individual success we need to ensure that the success of one business reinforces another so that when our economy does well Scotland as a whole does well.

It will take time to deliver, but the prize is enormous.

7.3 Foundations of Success

Successful delivery of this strategy will require all of our partners to work together. These include:

- Scottish Government Ministers and officials.
- Industry Leadership Groups and sectoral organisations who will develop and deliver sectoral strategies aligned to this strategy.
- Scotland's businesses and entrepreneurs who have a right to expect that the services we provide will be designed around their needs and who in turn will invest in improving productivity and providing Fair Work.
- Regional Economic Partnerships which ensure that all of Scotland's regions are able to maximise their potential (see Box F).
- business organisations which represent the views of businesses and play the role of a critical friend to government as well as being an active partner in policy development and implementation, as confirmed by the Partnership Principles Agreement.[23]
- trade unions who give a voice to Scotland's workers and are central to the delivery of an economic model in which everybody has the opportunity to participate and share in its success.
- local government and our agencies, including Scottish Enterprise, Highlands & Islands Enterprise, South of Scotland Enterprise, Skills Development Scotland, Scottish Funding Council and Business Gateway.
- third sector groups, including local community organisations which are best placed to identify the actions and opportunities that matter to them and ensure that they share in economic success.
- further and higher education institutions which supply the skills and research base that drive economic transformation and are key economic actors in their own right.
- Scotland's international networks, including alumni, the Scottish diaspora, Global Scots and Scottish businesses, Scottish Development International's and the Scottish Government's own international networks.

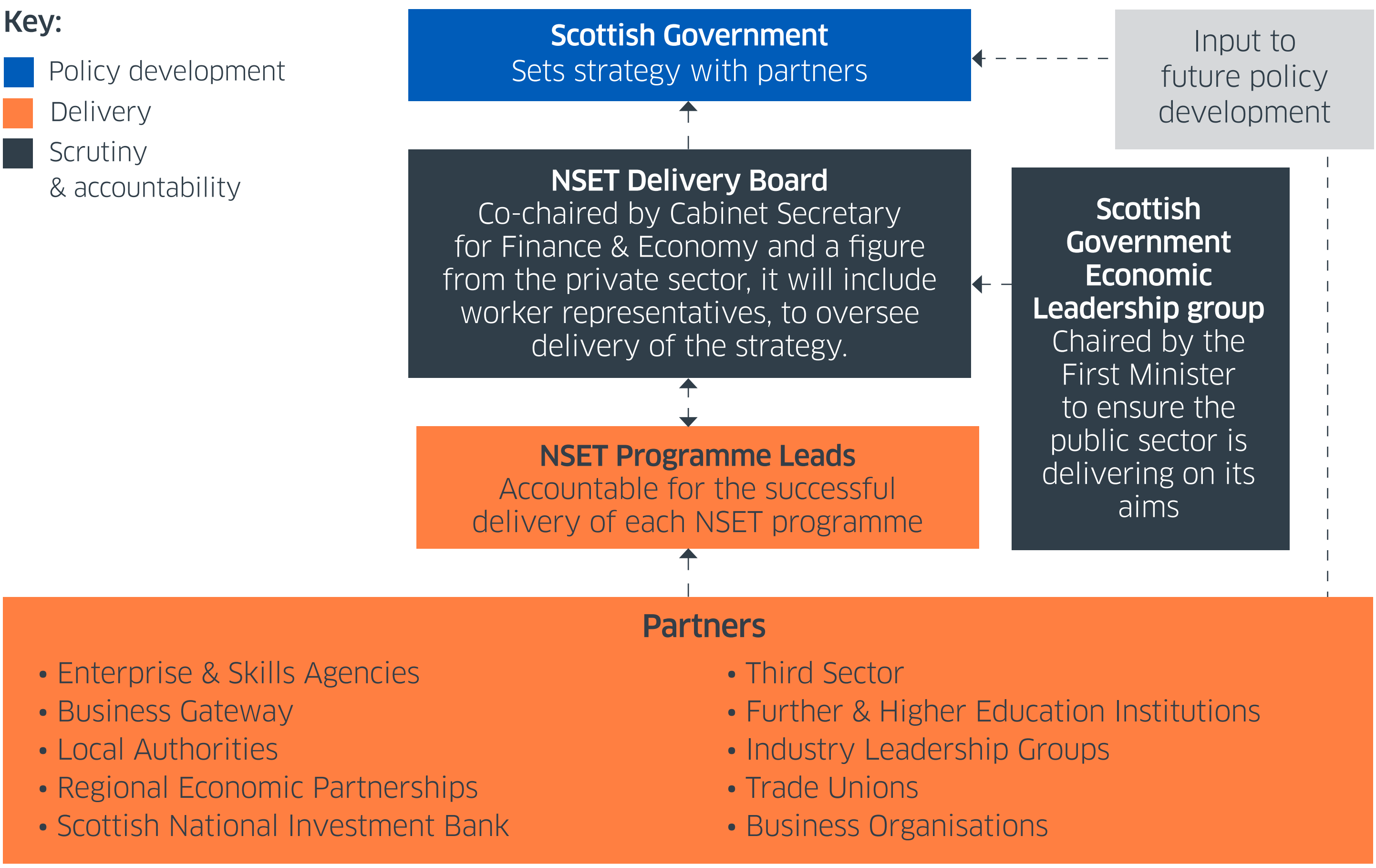
23 [Businesses and Scottish Government: joint principles agreement – gov.scot (www.gov.scot)]

7.4 Our Programme of Action

Project 16: Strengthen Accountability and Transparency

We will	Who
Restructure the Enterprise and Skills Strategic Board so that it becomes the National Strategy for Economic Transformation (NSET) Delivery Board. The newly structured NSET Board will be co-chaired by the Cabinet Secretary for Finance and Economy and a figure from the private sector, will include worker representatives and will hold to account the public sector, business and third sector partners for the delivery of this strategy (see Figure 4).	Government, Public Sector, Business and Partners
Establish a Scottish Government Economic Leadership Group. Ministerial group to be chaired by the First Minister to ensure the public sector is delivering on its contribution to this strategy.	Government
Introduce a common accountability framework with delivery partners with senior named leaders both inside and outside the Scottish Government responsible for delivering specific programmes, including establishing key milestones and agreeing metrics of success.	Government and Public Sector
Provide multi-year budgets through Resource Spending Reviews to provide greater certainty for business and delivery partners enabling industry to develop complementary programmes in support of their actions.	Government and Public Sector
Ensure the NSET Board has the best available data, drawn from the public sector, academic and private sources.	Government, Public Sector, Business and Partners

Figure 4: Governance Structure



Project 17: Transform the Way Support is Delivered to People and Businesses across Scotland

We will	Who
Establish a programme to radically transform the way in which the public sector in Scotland provides support for workers and businesses. Building on the work of the Business Support Partnership, this includes reviewing the products and services available, tailoring them to reflect the priorities of the strategy, and targeting grant support to delivery of local and national aims. It will provide businesses with greater clarity on the support they can expect at a local, regional, national and international level through clear and consistent communication.	Government and Public Sector
Ensure that strategic guidance to our key delivery agencies aligns with the priorities and delivers the programmes of action set out in this strategy and is consistent with multi-year budgeting that will allow delivery partners to plan ahead.	Government and Public Sector
Target support more effectively to businesses in every region of Scotland by introducing common data sets and systems to be used by every delivery partner. Work with business customers to design and develop the model and the supporting technical and data architecture for future services.	Government, Public Sector, Business and Partners
Work with stakeholders to consider how regulation can be used to support economic and societal aims and use this work to continuously improve the approach to regulation and guidance in the future.	Government, Public Sector, Business and Partners

Project 18: Measure Success

We will	Who
Finalise detailed delivery plans within six months of publication of the strategy, setting out how the programmes will be taken forward, demonstrating collaborative working with business. These will be strongly aligned with other strategic delivery plans, including the Tackling Child Poverty Delivery Plan, and will be published and overseen by the NSET Delivery Board. We will ensure delivery plans and their actions take full account of different regional circumstances, especially in rural and island areas.	Government, Public Sector, Business and Partners
Publish an annual progress report from the NSET board in order to enhance public accountability. The report will include equalities monitoring.	Government and Public Sector
Publish a wellbeing economy monitor, to build on Scotland's leading work on integrating wellbeing into its measurements and policy development and monitor how we are performing as a wellbeing economy (see Box A).	Government and Public Sector
Ensure a consistent approach to evaluation to drive continuous improvement and greater understanding of the return on investment and assessing the impact of support which will guide future spending decisions. This will scrutinise the performance of public sector investments and operating budgets over a longer time period, avoiding the risks of "stop start" initiatives or those that fail to translate to action at scale.	Government and Public Sector

8 Conclusion

As a consequence of the 6 programmes, 18 projects and 77 actions set out in this strategy, we will have achieved our vision of building a wellbeing economy.

8. Conclusion

Our vision for 2032 is to create a wellbeing economy: a society that is thriving across economic, social and environmental dimensions, one that delivers prosperity for all Scotland's people and places.

We all want Scotland to be successful. Success means a strong economy where good, secure and well-paid jobs and growing businesses have driven a significant reduction in poverty and, in particular, child poverty.

We will be a nation of entrepreneurs and innovators, with resilient supply chains and competitive advantages in the new industries generated by technological change, scientific advance and the climate emergency.

And our society will be one in which everyone can participate in our economic success, in every community and in every region.

Transforming Scotland's economy is a national endeavour and government, the enterprise and skills agencies, business, trade unions, third sector, local government, social enterprises and the people of Scotland all have a part to play. We can only succeed and achieve our goals if we pull together as one – a Team Scotland approach.

We want businesses to be exemplars, recognising and acting on their responsibilities to fair work and net zero. Taking action that protects and sustains our environment and natural world. Building a new mindset where all businesses see employees, communities and citizens as stakeholders as well as consumers. And where businesses are rooted in their communities.

This strategy marks a shift in our approach to delivery and it is the ruthless focus on delivery set out in this strategy that will unlock economic transformation and drive the economic opportunities across Scotland.

Acknowledgements

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There were more than 260 responses to our semi-formal consultation which set out the challenges we face and offered creative and ambitious solutions for the economy we want to see going forward.

Industry Leadership Groups, Regional Economic Partnerships, the Enterprise and Skills Strategic Board along with our enterprise and skills agencies helped us shape and test our vision, approach and Actions.

We have worked closely with business organisation representatives and a wide range of stakeholders to ensure those interests are reflected in the strategy.

The recommendations from the recent citizens' assemblies have also been considered throughout the development of the strategy.

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