

Scottish Borders Economic Profile

June 2013

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Executive Summary

The position today

It is five years since the Scottish Borders Regional Economic Strategy was refreshed. The key purpose of this Economic Profile is to provide an evidence base for the Scottish Borders Economic Strategy 2023. It also acts as a general source of economic intelligence and as a reference guide. Since the previous review in 2008¹, there have been significant developments in both the local economy and the wider policy environment. There is a greater degree of momentum behind the need for economic development in the Scottish Borders; driven by the recession and economic downturn, company closures, rising unemployment and a decline in public sector investment. This level of economic vulnerability and fragility did not exist when the previous strategy was developed. These changes have highlighted the need for a new strategy so that the direction of, and influence on, economic development is firmly in the hands of businesses and key public sector agencies.

In response, Scottish Borders Council has identified the need for an updated Economic Strategy, and an accompanying Action Plan, aimed at promoting economic development in the Scottish Borders up to 2023. The context for the development of the strategy reflects the broad policy approach currently being pursued and emerging from the European Commission, UK Government, Scottish Government and the South of Scotland Alliance. This includes:

- Raising SME competitiveness (raising innovation, increasing exporting, promoting enterprise and business, supporting agriculture & fisheries);
- Increasing employment (raising skills levels – employability and workforce development);
- Promoting low carbon – moving towards a low carbon economy;
- Focusing on key sectors of the economy – both traditional and opportunity;
- Improving connectivity, including ICT and Borders Railway;
- Improving business infrastructure, including land and premises;
- Maximising European funding and national investment opportunities;
- Maximising the place – town centres, activity tourism and location; and
- Working in partnership across the public sector and with business.

¹ Scottish Borders Regional Economic Strategy, Ekos, 2003, refreshed 2008

The challenges

The Economic Profile shows that our economy faces a number of key challenges:

- i. The Scottish Borders economy performed relatively well before 2007, with economic output – or *Gross Value Added (GVA)* – expanding by on average just under 4% in the 10-year period ending in 2009. Year-on-year, GVA in the Borders was increasing, but in line with the economic downturn the rate of change went from just under 6% in 2007 to 1% in 2008, and has experienced a negative change of around 4% in 2009.
- ii. While 73% of working age people are economically active, just above the Scotland average, the level of economic activity in the Scottish Borders has fallen. This is against the national trend where Scottish economic activity has been consistent over the same period.
- iii. Average earnings are lower in the Scottish Borders, operating consistently below the Scottish average. Since 2001, wages for people working in the Borders have increased by only 5%, compared to an increase of almost 38% at the Scottish level.
- iv. Compared to Scotland, we have a higher reliance in employment terms on wholesale/retail, manufacturing, health and public sector activity, and lower than average levels of employment in financial, professional and business support service sectors. We also have a higher proportion of employment in managerial and senior occupations, indicative of the reliance, in employment terms, on the public sector for employment – for both the Scottish Borders and Scotland as a whole.
- v. The demography of the Scottish Borders shows we have proportionately less young adults and more people over 65 than the rest of Scotland. This identifies a common challenge for rural areas with high levels of out migration of young people and an increasingly ageing population.
- vi. The unemployment claimant count rate has been rising and although it remains below Scottish levels, there are now more than 2,102 people in the Scottish Borders claiming unemployment benefit. Within this, there is a significant growth in youth and long-term (6 months and 12 months) unemployment. In the short-term, the challenge is to attract all types of jobs, and capitalise on the dynamism of the economy and its ability to create businesses that can survive.
- vii. To make the Scottish Borders a more attractive place to live and work and arrest the out-migration of our young people, the area needs to offer alternative options to stay in the area; locate to the area; and/ or raise the value of employment on offer – this is a key challenge looking forward to 2020.

The opportunities

The Economic Profile also highlights a number of opportunities:

- i. **Focusing on our competitive advantage** – including niche manufacturing (in textiles particularly), tourism, construction, creative industries, farming and retail of food and drink. Within these key sectors, our opportunity is to grow their value – in terms of wealth and employment creation, and in generating revenues from export sales (exploiting in the short term the weak exchange rate for sterling). In doing so, the economy will generate demand for higher skills as demand for value increases.
- ii. **Supporting further diversification in the economy** – building on early signs of adjustment towards a more diverse economy. Since 2008 the Scottish Enterprise 'priority sectors' have performed relatively well across the region. The Scottish Borders has a reasonably sized employment base in the areas of tourism, creative industries, food and drink, and financial and business services.
- iii. **Supporting opportunities for higher value employment** - particularly in 'Knowledge Intensive Business Services' to shift the reliance for employment from the public to private sector. This will play a key role in driving the Scottish Borders' economy. The Borders Railway will have a catalytic effect it will have in delivering associated infrastructure will help facilitate this shift.
- iv. **Encouraging entrepreneurial activity and inward investment** - although the business base continues to be dominated by SMEs (and particularly micro-businesses), in comparison with other regions the Borders has historically has a high level of new business start up and survival rates.
- v. **Capitalising on our location** - the concept of 'place' being fundamental to competitiveness. The place not only provides the physical, social and cultural infrastructure for businesses, it attracts and retains a workforce for the future. What the place has to offer is recognised as a key piece of the economic development jigsaw, and we must maintain and enhance the quality and vibrancy of our places to continue to attract communities and visitors to use them.

Looking forward

Our economic future will be affected by:

- **Economic influences** (lower value economy, rising unemployment, dependency on public sector services and recovery from the recession);
- **Environmental influences** (climate change, low carbon economy, natural environment), and;
- **Market drivers** (aging population, health, and quality of life).

While our economy is vulnerable, we offer an excellent quality environment to ‘pull’ people who want to enhance their quality of life with the option of working remotely where required. The Economic Strategy must ensure the Scottish Borders remains an attractive place for skilled people to live so that a workforce is available for businesses locating, expanding or starting up.

The major question for the economic outlook for the Scottish Borders is how the local economy can recover and grow from the economic downturn. Pre-recession, the most significant policy change driving the economy was the increased focus on innovation and higher value activity to secure competitive advantage, as lower value activity increasingly suffered in the face of competition from low cost economies globally. Although the economy had to adapt relatively quickly, any improvement in performance may have been compromised in response to the financial crisis and subsequent economic downturn. The new Economic Strategy needs to continue to focus on higher value activity and the resulting productivity gains to business and the economy. However, it also needs to protect our natural assets and the environment that helps attract people and businesses to live and work here in the first place.

In growing the value of the economy, we must maximise our location at the hub of economic activity in the Carlisle-Edinburgh-Newcastle triangle of city regions. **Our priority must be to aim to offer the best environment for businesses - a mix of an attractive physical environment for workers, higher specification industrial and business premises with appropriate ICT infrastructure, transport connectivity and an appropriately skilled labour pool.**

If we achieve this, our rural economy can still prosper in the higher value 21st Century economy. High-value jobs will only form a small proportion of total jobs and generating large numbers of these jobs in a rural economy is a medium to long-term aim. Communities across the Scottish Borders will have a different role in employment generation - some may remain more self-contained, for example, Jedburgh or Kelso; others will continue to provide a valuable labour source for the adjacent city regions, for example the Peebles and Galashiels travel to work areas. But as rising travel costs nullify any wage gains to be had from out-commuting, so delivering quality employment opportunities within easy access for our people must also be a priority for the Strategy.

Introduction

The Scottish Borders

It is five years since the Scottish Borders Regional Economic Strategy was refreshed. However, even in this short period, there have been significant developments in both the local economy and the wider policy environment. In response to these changes, Scottish Borders Council has identified the need for a new strategy for the economy, and an accompanying Action Plan, aimed at promoting economic development in the Scottish Borders up to 2023. This economic profile will provide the evidence to inform the development of a new strategic plan for the Scottish Borders economy. It is important to acknowledge that the economic prosperity, wealth and competitiveness of the 'place' is continuously evolving, particularly in the current economic context of a recession, slow recovery in the UK and Scotland, and modest outlook for short to medium term.

In an area of 1,800 square miles, just over 113,000² people live in the Scottish Borders. It is a rural economy and lacks many of the characteristics associated with a competitive economy of high skills, high value jobs, strong transport links and quality of employment sites and Information and Communications Technology (ICT) infrastructure. Economically, residents of the Scottish Borders look both within and outwith the area for employment and leisure. The economy is more reliant on certain sectors for employment and is therefore more susceptible to changes externally that can impact on future prosperity. This profile provides an evidence base to develop actions that equip the Scottish Borders' economy to overcome the challenges and uncertainties it faces.

Previously ...

The previous Economic Strategy provided the framework for the Council's economic development activity, and the work of the Community Planning Partnership. There were three headline objectives to increase productivity, prosperity, and to ensure an appropriate supply of labour in order to deliver the Strategy's vision to create a diverse and innovative economy sustaining high quality jobs and prosperity for the people of the Scottish Borders. Broad actions for the economy were identified, around four strategic themes of 'business', 'people', 'place' and 'communities'.

Since 2003, key achievements include:

- i. Business development support focusing on diversification and innovation (through Scottish Enterprise and the Business Gateway);
- ii. Implementation of a programme to encourage and support creativity and innovation in businesses in the Scottish Borders (through SE's Innovation Support Programme and recently the South of Scotland Creative Clusters project);

² OSN - 2011 Mid year estimate

- iii. Strengthening of the linkages between the private and HE/ FE sectors (through increased engagement between the Council and Scottish Borders Campus and the South of Scotland Business Solutions 'knowledge hub' project);
- iv. Aligning economic development support to the priority industries agenda (through specific developments in the food and drink, tourism, textiles and creative industries sectors);
- v. Engaging with the private sector through intermediary organisations such as the Chamber of Commerce (through the Council's participation on the Chamber Board and a formal business engagement programme with a range of companies across sectors and geographies);
- vi. Ensuring the provision of high quality and relevant economic intelligence information on the changing trends in the economy is widely available;
- vii. Developing a clear approach to the Edinburgh City Region and the role of the Scottish Borders within that (through the SESPlan and South East of Scotland Economic Community Groups);
- viii. Continuing lobbying for improvements to the public transport infrastructure, European funding and business infrastructure (supporting the work of the South of Scotland Alliance);
- ix. Development and implementation of the Borders Railway Project with a reinstatement date of 2015;
- x. Developing a clear plan for spatial prioritisation in the Scottish Borders (through the Strategic and Local Development Plans);
- xi. Development and promotion of key employment sites to attract development and investment (for example through SE activity, delivery Cavalry Park, Ettrick Riverside and Galalaw; and the Council's Strategic Employment Land project);
- xii. Implementing a clear plan for the promotion of the Scottish Borders brand and aligning it with the inward investment proposition and promotion of the tourism offer (through the development of the 'Our Scottish Borders...' Branding; and a new inward investment website and campaign 'Make the best move of your life'...);
- xiii. Ensuring that business property and places accommodating economic activity has suitable ICT connectivity and there is universal coverage of high speed broadband access across the region (ongoing work through the Council's LEADER-funded community broadband project and the South of Scotland Alliance bids for £120m of funding from the Scottish Government, ERDF and Broadband Delivery UK);
- xiv. Development and implementation of a Tourism Action Plan for the Scottish Borders in partnership with VisitScotland and the Scottish Borders Area Tourism Partnership.
- xv. Supporting local event development in partnership with EventScotland, including Homecoming, Borders Book Festival, and Tour of Britain.

- xvi. Development of an agreed plan for town centre development in the Scottish Borders (through a number of town-specific Action Plans), and significant capital investments in town centre regeneration (for example, Heart of Hawick).
- xvii. Supporting rural development and farming, forestry and fisheries sectors (through the Scotland Rural Development Programme, the Scottish Borders LEADER Programme, the European Fisheries Fund, and the Business Gateway Farm Business Advisory project, as well as participation in relevant European, national and local groups);
- xviii. Ensuring economic development and implementation of all programmes and projects are 'rural proofed' (the Council has adopted a rural proof policy on all new/ refreshed policies or strategies).
- xix. Maintaining a focus on local food initiatives and branded local produce (through support for the Scottish Borders Food Network);
- xx. Building on the reputation of the Scottish Borders in niche areas of outdoor and activity tourism (through a number of marketing, events and product development initiatives including support for 7stanes, Cycle Scottish Borders and diving in Berwickshire).

A new Long-Term Economic Strategy

The 2008 strategy also contained a number of ambitions that have not been achieved, partially because the policy, economic and investment environment has changed, and not least that the key local economic development agency for the area, Scottish Enterprise Borders, was reconfigured first to a regional, South of Scotland remit, and now absorbed as part of a national purpose. This has meant that previously ring-fenced budgets for the economic development of the area have been centralised to SE national. Scottish Borders Council now provides the strategic lead on development of the local economy, working with partners and stakeholders in the Community Planning Partnership, but without the commensurate level of funding at its disposal.

Now there is an even greater momentum behind economic development in the Scottish Borders generated by the recession and economic downturn, company closures, rising unemployment and an anticipated decline in public sector investment and recruitment. This vulnerability did not exist when previous strategies were developed.

These changes have highlighted a need for a new economic strategy for the Scottish Borders to guide and inform the future economic prosperity of the area.

1 The Scottish Borders – The Evidence

1.1 Headline indicators

	Scottish Borders	Scotland
Profile		
Total population (000s) – 2011 mid year estimates	113	5,255
Gross Value Added (GVA) (£m, current prices) – 2009	1,513	108,098
Total employment, (000s)	53	2,464
Key Performance Indicators		
Gross Value Added (GVA) Average annual change, 2001 - 2011	3.9%	5.1%
Gross Value Added (GVA) per worker ³ , (£000s) (2011)	29	44
Employment rate - working age, 2011	73.1%	70.7%
Average (median) gross weekly earnings – workplace based, 2011	£398	£489
Average annual change in Average (median) gross weekly earnings – workplace based, 2001 – 2011	+0.5%	+3.4%
Average (median) gross weekly earnings – residence based, 2011	£452	£491
Average annual change in median gross weekly earnings – residence based, 2011	3.8%	3.5%
Gender pay gap (3-yr average): 2010	8.2%	7.2%
Change in Gender pay gap (3-yr average): 2007 – 2010	-1.3%	-3.7%
People		
Average annual population growth, 2001 to 2011	0.5%	0.5%
% of the working age population with degree level qualifications, 2010	24.0%	21.4%
% of the working age population with no or low qualifications, 2010	12.7%	14.7%
% of the working age population with no qualifications, 2010	10.8%	12.4%
Economy & Business		
Businesses per 10,000 adult population 2010	555	356
Place		
APS unemployment rate, 2012	5.7%	8.1%
Source: Various (Nomis, APS, Scottish Government)		

³ Based on the number of economically active persons within the working age population

1.2 An introduction to the Scottish Borders

The Scottish Borders is in a key location for Scotland's central belt and the North of England. It is home to 113,200 people, in an area of over 1,800 square mile (3,000 km sq).

Just under 55,000 people work in the area, but given its location within a wider area of economic activity, a number of people commute out of the area to work. If you live and work in the Scottish Borders, you earn just over 81% of the Scottish average wage; but if you live in the Scottish Borders and work outwith the area, on average you earn 92% of the Scottish average. This reflects the value of the employment available in the Scottish Borders economy.

In terms of its wealth and economic output, the Scottish Borders has a GDP per head of 64% of the EU average (2009 data⁴) which means that the area would qualify for "special assistance" through European Structural Funds, targeted at regions with GDP between 75% to 90% of the EU average and below in the current 2007-13 EU programme period. However, because the Scottish Borders is classified by the European Commission's statistics service as part of a NUTS 2 region⁵ with the East of Scotland, including Edinburgh, and not assessed at the sub-regional or NUTS 3 region level, its average GDP exceeds 100% and therefore the economic under-performance is hidden by the performance of the Edinburgh City Region economy. This continues to put the area at a real disadvantage when attracting investment in economic development.

1.3 Key findings

1.3.1 Headline Economic Performance

The Scottish Borders economy performed relatively well before 2007, with economic output –or *Gross Value Added (GVA)* – expanding by on average just under 4% in the 10-year period ending 2009. Year-on-year, GVA in the Scottish Borders was increasing but the rate of change went from just under 6% in 2007 to 1% in 2008 and has experienced a negative change of nearly 4% in 2009 (**Figure 1**).

However, the following two years have seen the Scottish Borders regain some ground with positive growth of 2.6% in 2010 and 3.1% in 2011. The average annual change in GVA for Scotland from 2001 to 2011 was 5.1%, and for Scottish Borders was 3.9%.

⁴ GDP 2009: EU - €23,500 / SB €15,100 / Scotland - €24,600 / East of Scotland - €25,100

⁵ Nomenclature of Territorial Units for Statistics a standard for referencing the subdivision of Member States for statistical purposes.

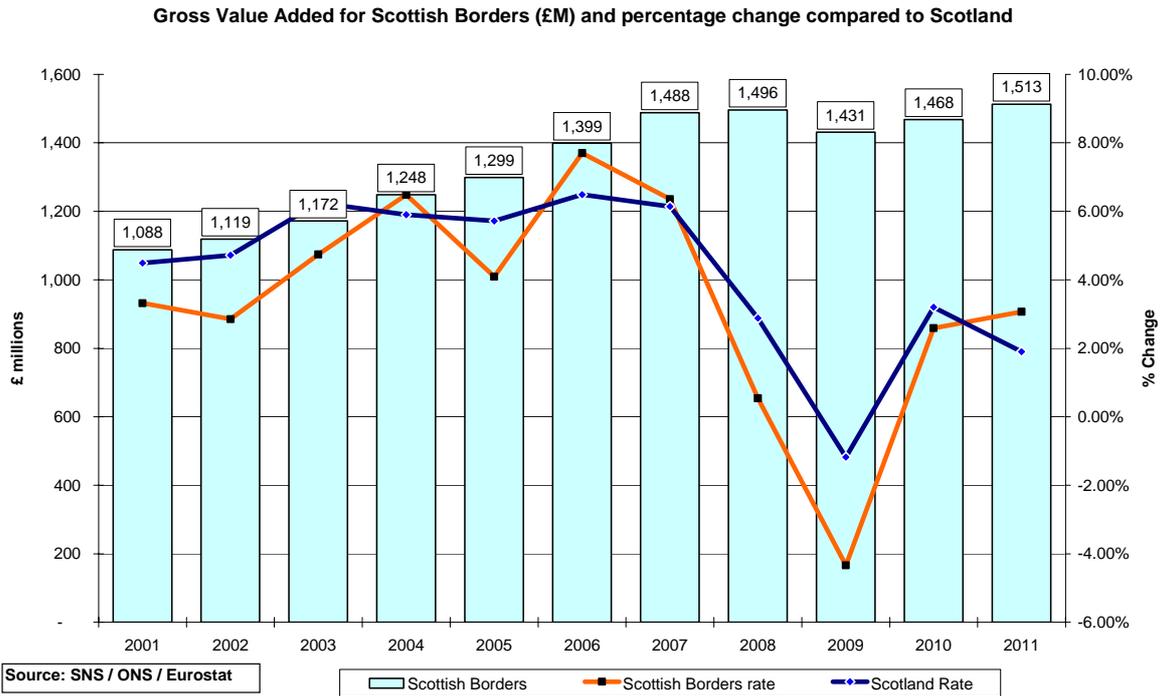


Figure 1: Gross Value Added for Scottish Borders (Source: SNS/ONS/Eurostat)

Broader measures of competitive economic performance are mixed. Indicated in the chart below (**Figure 2**), 73.1% of working age people are economically active, above the Scotland rate.

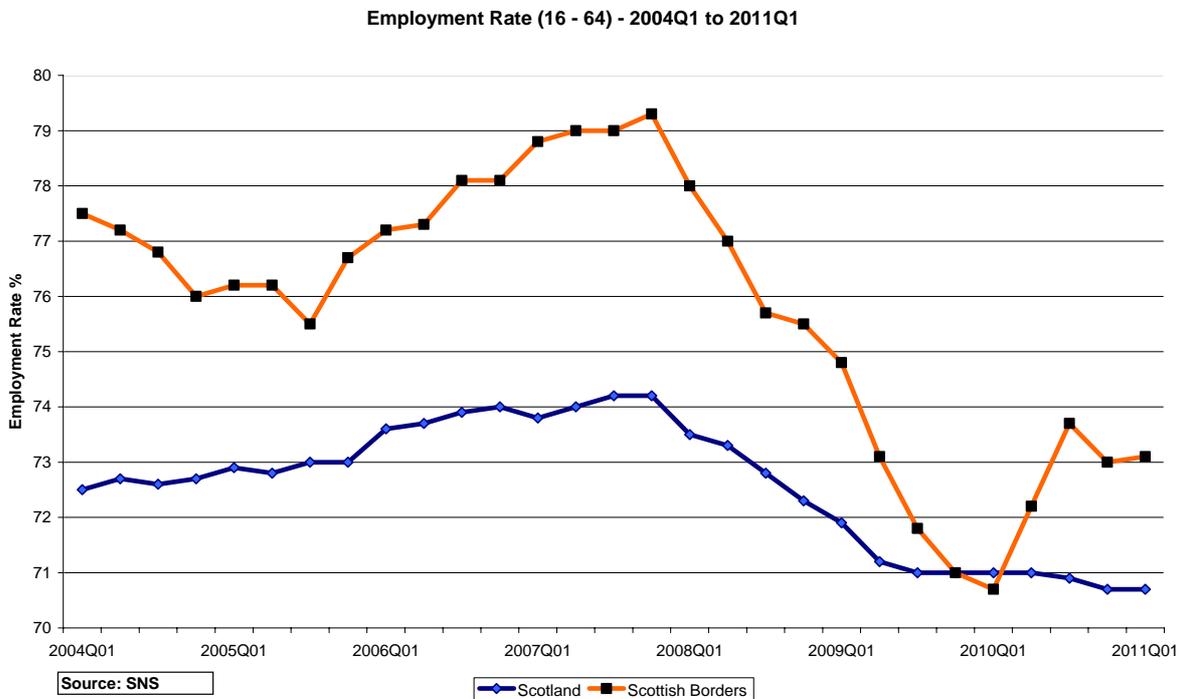


Figure 2: Employment Rate (Source: SNS)

The employment rate fell dramatically between 2008 and 2010 (**Figure 2**) and we are only now beginning to see a partial recovery, indicated in the chart above. However, these recent improvements have begun to level out with no short to medium term prospect of regaining employment levels of 2006 – 2008.

Indicated in the chart below (**Figure 3**), if you work in the Scottish Borders (workplace earnings) you earn £87 per week less on average than Scotland as a whole. Since 2004, wages for people working in the Borders have increased by only 22.8%, compared to an increase of 24.2% at the Scottish level.

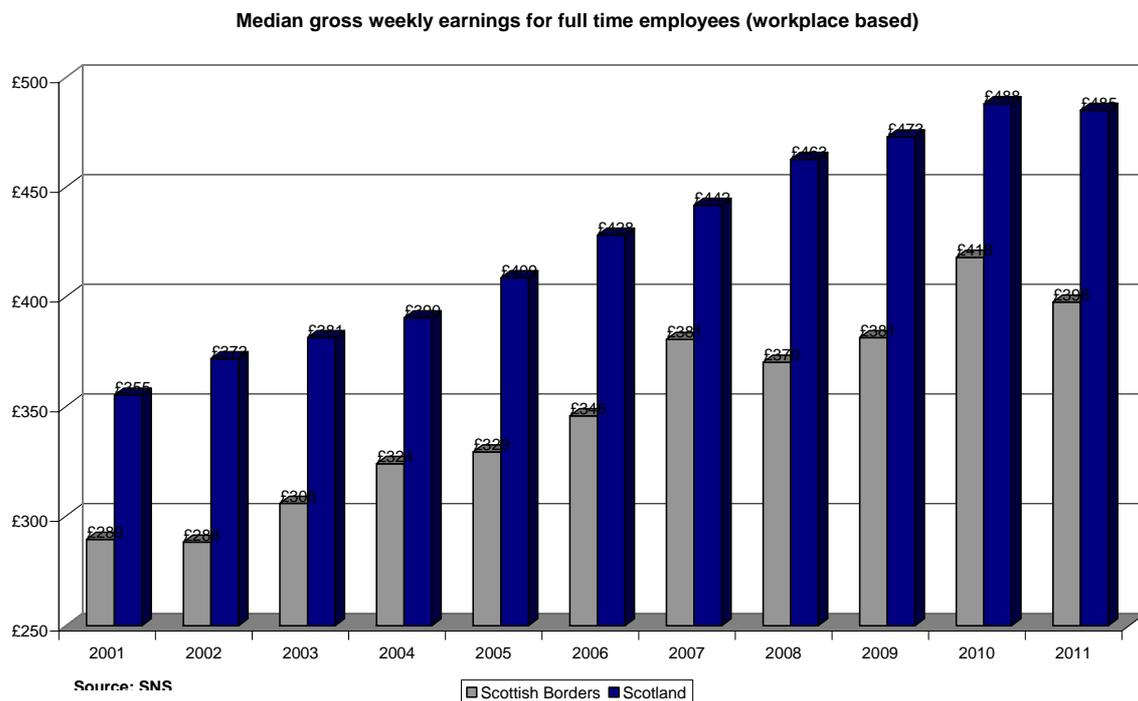


Figure 3: Workplace Earnings (Source: SNS)

As a result of this disparity, a large number of people who live in the Scottish Borders commute outwith the area to work, primarily to Edinburgh labour markets. The chart below indicates that if you live in the Scottish Borders (residence based earnings) you earn £39 per week less than the Scottish average. At national level, the increases since 2001 in both workplace-based and residence-based earnings have been the same.

On the whole, **people in working in the Scottish Borders earn significantly less than the Scottish average, and an objective of the Economic Strategy must be to narrow the wage gap.**

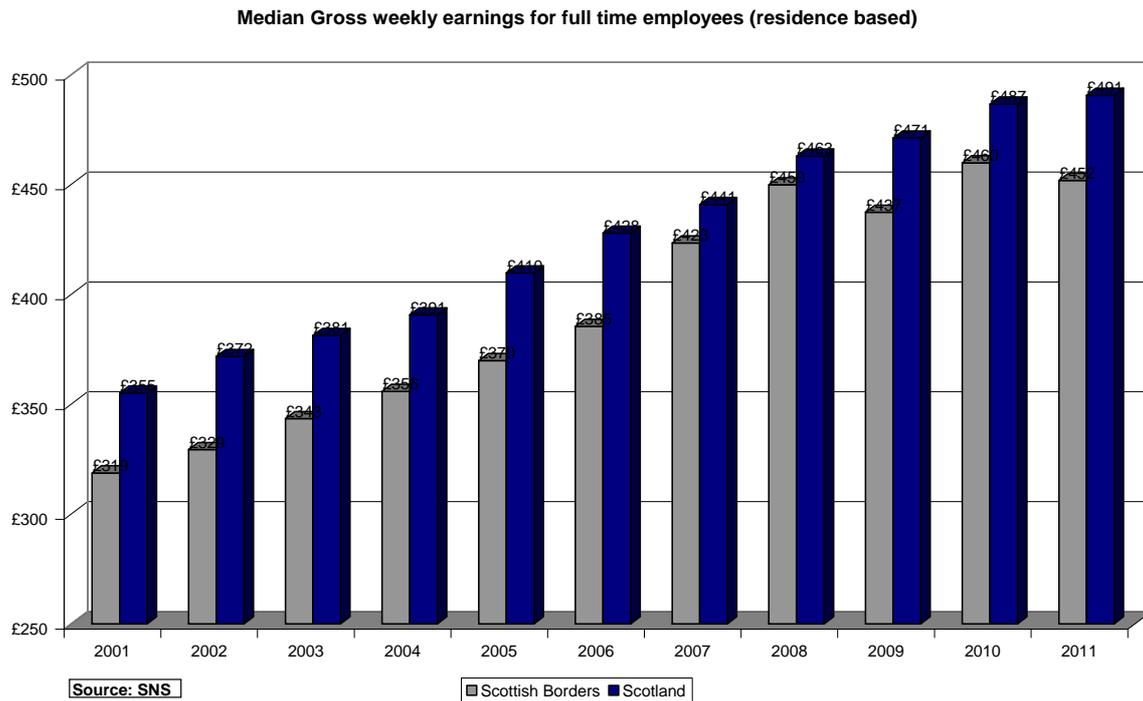


Figure 4: Residence Based Earnings (Source: SNS)

1.4 Strengths and weaknesses

The following sections analyse the strengths and weaknesses of the Scottish Borders economy according to competitiveness ‘drivers’ such as innovation, investment, labour supply connectivity or quality of life are combined under three headings of people (the area’s human capital, the amount of skilled people available to work), business (the value of the private sector) and place (connectivity, infrastructure, quality of life, towns and communities and its strategic leadership).

1.4.1 People

The chart below (**Figure 5**), indicates a 2011 population of over 113,000 people. It also indicates the year-on-year increases since 2001, and the higher rate of population change in Scotland compared to more modest growth in the Scottish Borders.

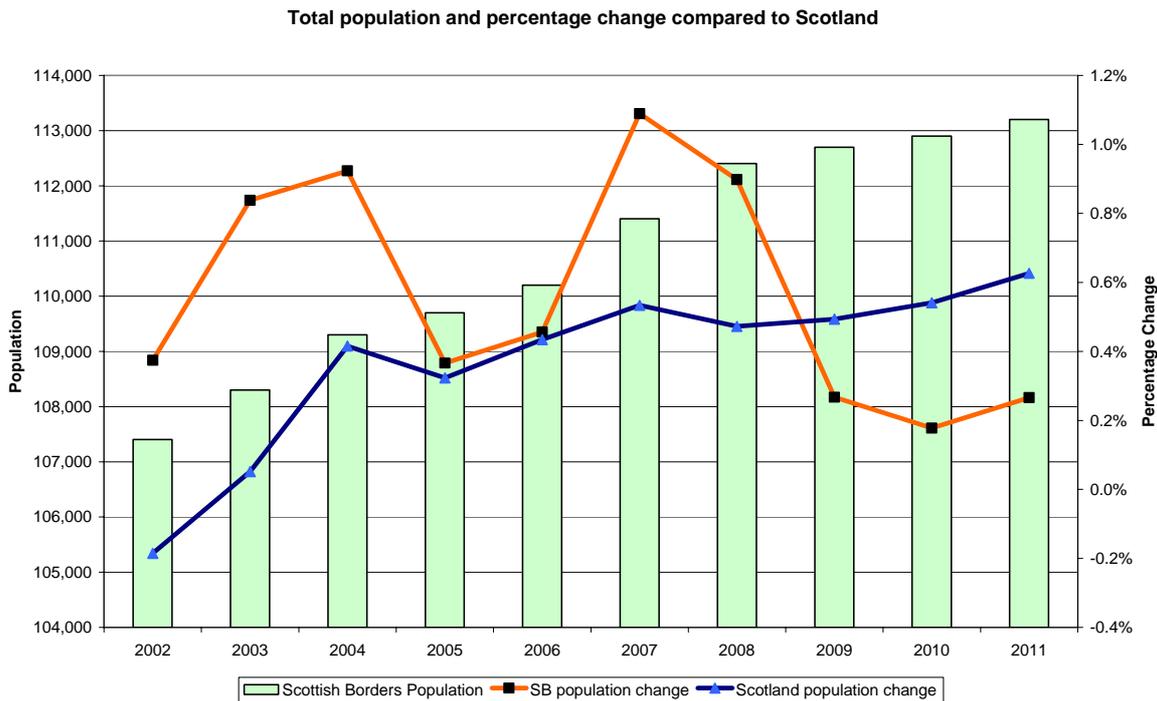


Figure 5: Total Population and Percentage Change (Source:)

The demography of the Scottish Borders may give some concern as it suffers an under-representation of young adults compared to Scotland. Latest population statistics (Figure 6) (2011), indicate that 18,060 people are in the 15-30 age cohort, some 16% of the population, compared to 21% for Scotland. The Scottish Borders also has a higher proportion of its population in the 65+ age cohort than Scotland as a whole, 21% compared to 17%, and with forecasts indicating an increase in people in the economically inactive age cohorts, there is inevitably going to be an increase in demand for health and other care services, a challenge faced across Scotland.

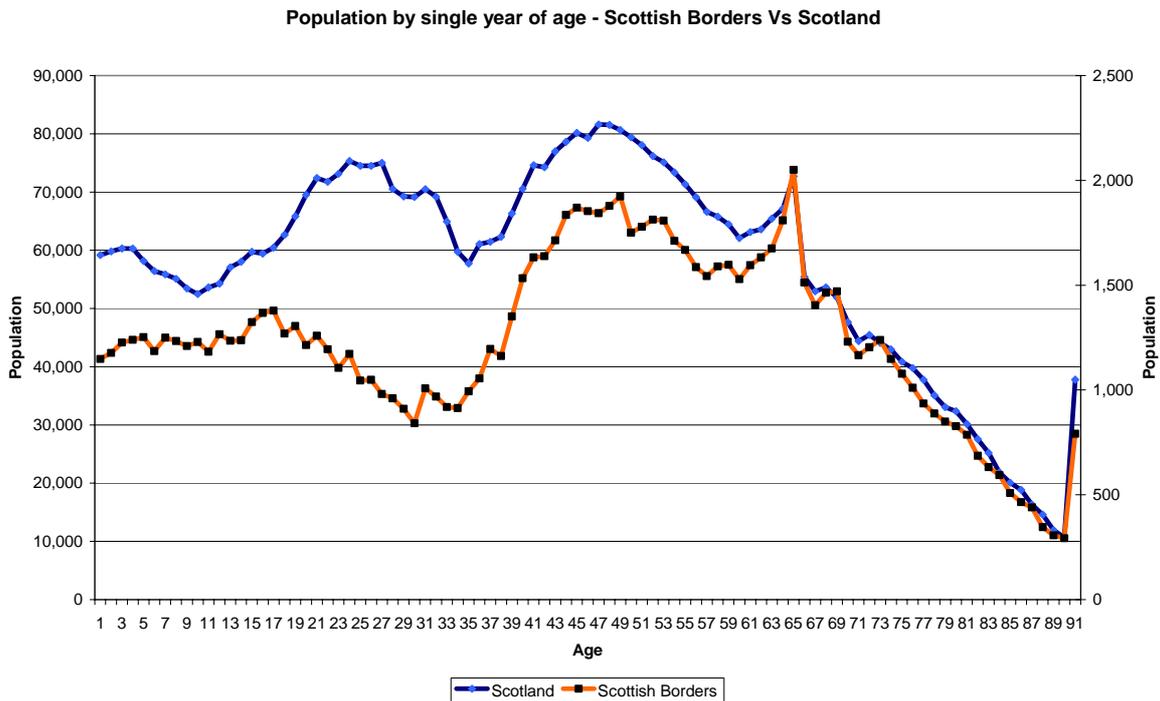


Figure 6: Population by Age (Source:)

The under-representation of younger people may be indicative of a falling-away of the younger population at higher education and/ or labour market entry stage, reflecting less higher education opportunities combined with a relative lack of graduate-level jobs, as well as a positive trend for younger people to seek new experiences. However for those remaining, they are likely to be lower-skilled, employed in lower-value jobs or starting lower-value businesses supported by the evidence on lower wages. **The focus needs to be on raising the value of the jobs on offer from businesses operating in the Scottish Borders.**

Demand for and supply of higher level skills are key to future economic prosperity, and although Scottish Credit and Qualifications Framework (SCQF) attainment levels are better in the Scottish Borders compared to Scotland, the chart below (**Figure 7**) indicates that there are still almost 9,000 people of working age with no or low qualifications, just under 14%. In an economy so reliant on out-commuting for work, as more skilled or mobile people move, the qualifications of the available labour pool in the Scottish Borders in turn is linked to the attractiveness of the area to investing businesses requiring higher value skills.

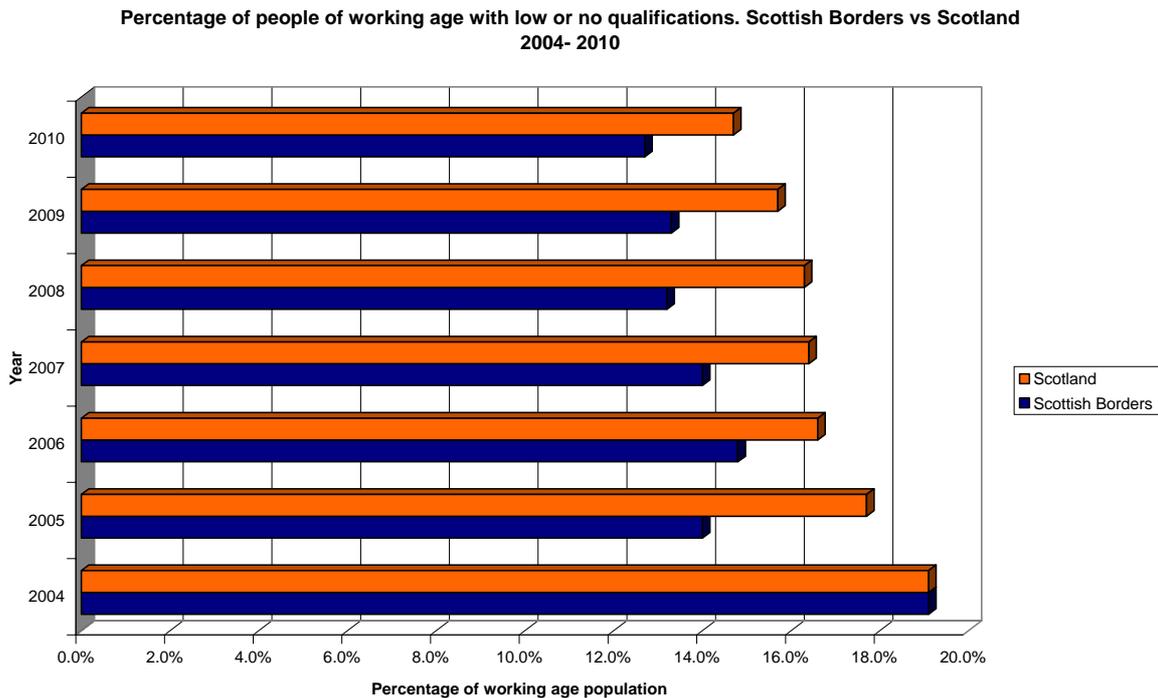


Figure 7 – Percentage of Working Age with Low or No Qualifications (Source:)

A UK government objective of the Leitch Review of Skills (2004) contains a target to exceed 40% of adults qualified to Level 4 and above by 2020. Skills for Scotland aims to support employers to identify the skills they will need in future to support their business objectives, and while this does not necessarily translate into demand for Level 4+ skills, attainment at this level in the Scottish Borders is lower than for Scotland, at 19% of working age population.

Encouragingly, the delivery of the Scottish Borders Campus, a co-location of HE/ FE in a single campus in Galashiels, is delivering 21st century learning facilities in the Scottish Borders and the resource seems to be positively viewed by local businesses. Higher education is available locally, but restricted to degree-level at Heriot Watt University’s Scottish School of Textiles and Design. **The focus need to be on encouraging working age people to raise their skills in response to demand from existing and locating employers in the Scottish Borders.**

Within this there is a balance between the ‘workforce skills’ demanded by employers, and the qualification demanded by learners. These two demands are not always easy to meet and a mismatch between employer and learner demand, and supply by the education sector according to its funding, can occur.

At secondary level, attainment levels are strong and improving across the region, highlighted in a recent report from the Council. The most recent figures below (**Figure 8**) across years S4 - S6 show strong performance for the Scottish Borders relative to the national average figures.

2011	Scottish Borders Schools %	National average %
5 or more awards at SCQF Level 5 or better by the end of S4	41	36
5 or more awards at SCQF Level 4 or better by the end of S4	81	79
5 or more awards at SCQF Level 3 or better by the end of S4	92	93
English & Maths award at SCQF Level 3 or better by end of S4	94	93
5 or more awards at SCQF Level 6 or better by the end of S5	13	12
3 or more awards at SCQF Level 6 or better by the end of S5	30	26
1 or more awards at SCQF Level 6 or better by the end of S5	48	45
5 or more awards at SCQF Level 5 or better by the end of S5	56	51
1 or more awards at SCQF Level 7 or better by the end of S6	18	16
5 or more awards at SCQF Level 6 or better by the end of S6	26	24
3 or more awards at SCQF Level 6 or better by the end of S6	38	35
Source: SBC, 2011		

Figure 8 – School Attainment Levels (SBC)

This translates into 93% of the eligible leavers in 2010/11 receiving an offer of a positive destination (comprised of higher and further education, training, employment & voluntary work) which compares well with the national figure of 89%. The proportion leaving school into unemployment is lower for the Scottish Borders at 7.5% compared to 10.8% nationally.

The Scottish Borders Claimant Count Unemployment rate has been increasing and is now at 3.0% (below the Scotland rate of 4.1%). There are currently 2,102 people claiming benefit in the Scottish Borders, compared to as few as 768 towards the end of 2007. Although unemployment rates in the Scottish Borders are relatively better than national averages, there are no signs that unemployment will fall back to pre-recession levels.

Youth unemployment is a concern – there are currently 620 claimants in the 18-24 age cohort, which although the level has fallen significantly from peaks in 2011 and 2012 of 800, it is still 13% above the average figure for the last 25 years.

Long term unemployment is growing significantly. There are 535 people that have been actively seeking work for more than 12 months, up 57% from January 2011 and up almost 800% on January 2008.

These data are reflective of fewer jobs in the economy. Public sector recruitment changes and redundancies in the private sector are contributing, and as more people become available to work, younger, less experienced and unemployed people become further removed from the labour market. These groups, in a less diversified economy, are more exposed when key local sectors experience a downturn.

The situation is further exacerbated as people are less mobile and able to take up jobs in wider labour markets. Stagnant wage levels, rising inflation and commodity prices are reducing real incomes and discretionary spend. The perceived gains from higher wages in Edinburgh labour markets are being eroded by increased lack of affordable public transport, costs of travel, and coupled with a stagnant housing market, workers become even more reliant on local employment opportunities. At the same time, declining household incomes in real terms is lowering consumer demand and constraining private sector growth and new job creation.

1.4.2 Business

The sectoral mix of the local economy is different to Scotland, and represents a significant challenge in shaping our economic future. The chart below (Figure 9) indicates the percentages of employment in broad ‘standard industrial classifications’ for the Scottish Borders and Scotland. These data exclude farm agriculture, but show the higher reliance, in employment terms, on wholesale/ retail, health and public sector activity, and manufacturing.

Manufacturing is well represented in the area supporting over 5,000 jobs, around 3% of Scottish manufacturing jobs⁶. Construction supports just over 2,500 jobs, just over 2% of Scottish construction jobs. Manufacturing is a traditional strength of the Scottish Borders economy, but faces strong competition from low-cost economies in the global economy. Protection to existing manufacturing employment in the Borders will be derived from specialised, niche and ‘unique location-specific’ production, particularly in the textiles sector, while there will also be wider tourism benefits.

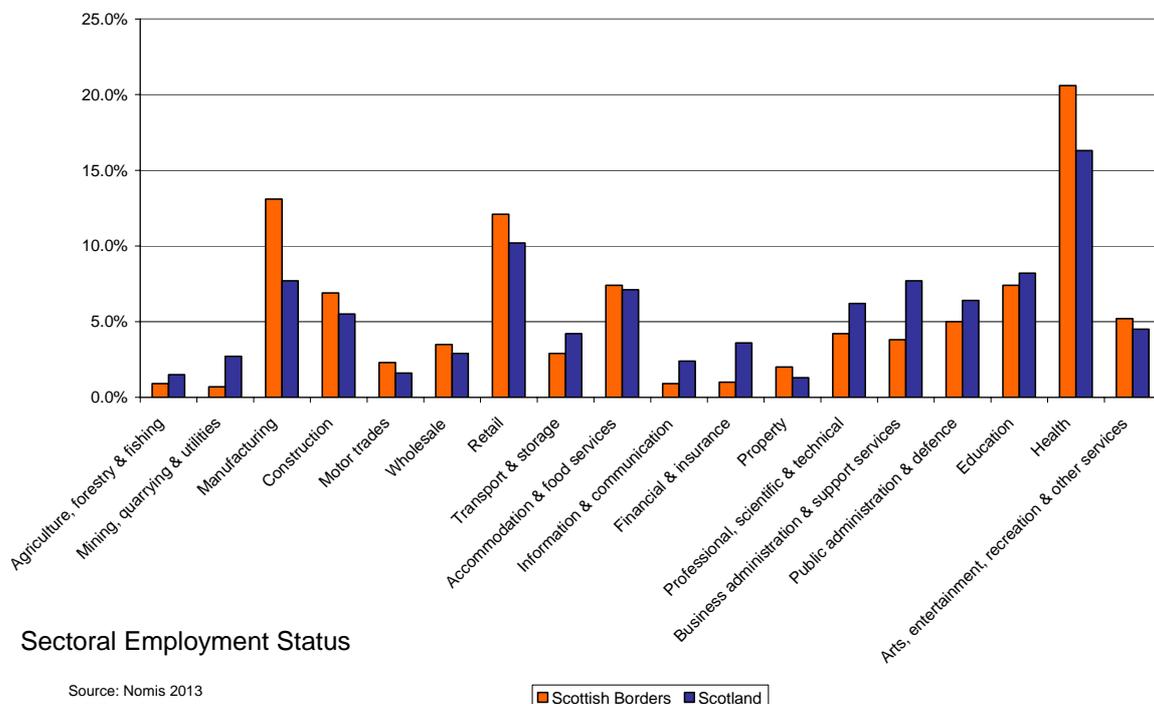


Figure 9 – Sectoral Employment Status (Source: Nomis)

⁶ These data are from business register and employment survey - NOMIS

Scottish Government agricultural census data confirms the importance of farming to the economy. It employs almost 1,400 full time employees, just under 10% of Scottish total. This contributes to 2,041 total employees, around 7.5% of the Scottish numbers. Overall, the total workforce, including occupiers and spouses is 4,152 (6.1% of total Scottish farm employment). The latest figures released (2012 report) show that the Borders has just over 1,500 separate farm holdings, equivalent to 5.3% of the national total. The Scottish Borders contains 6.1% of the total national farm land at 379,653 hectares. Scottish Borders farms produce 21% of the national wheat output, 8.5% of beef cattle and over 17% of total sheep.

The coastal area of the Scottish Borders faces significant economic challenges, primarily as a result of the decline of the local fishing industry and the difficulty in maximising opportunities to diversify. The value of landings and the number of fishermen employed in the local area has declined significantly since 2003 against the national trend. The value of landings in Eyemouth decreased by 2.9% compared to national increase of 53.9% in the same period. The number of fishermen employed has declined by 33.6% compared to a national increase of 2.5%. The value of seafood product to the local supply chain is estimated to be worth £20.9 million at 2010 prices, supporting an estimated 130 additional jobs in processing and trading and the local dive tourism sector is growing in importance, now estimated to be worth £4m per year (2010 prices) supporting 81fte jobs with potential for further growth⁷.

The chart below (**Figure 10**) looks at business site information and shows there are **at least twice as many business premises in primary industries, and a third less sites in higher value activity such as financial intermediary activity compared to Scotland.**

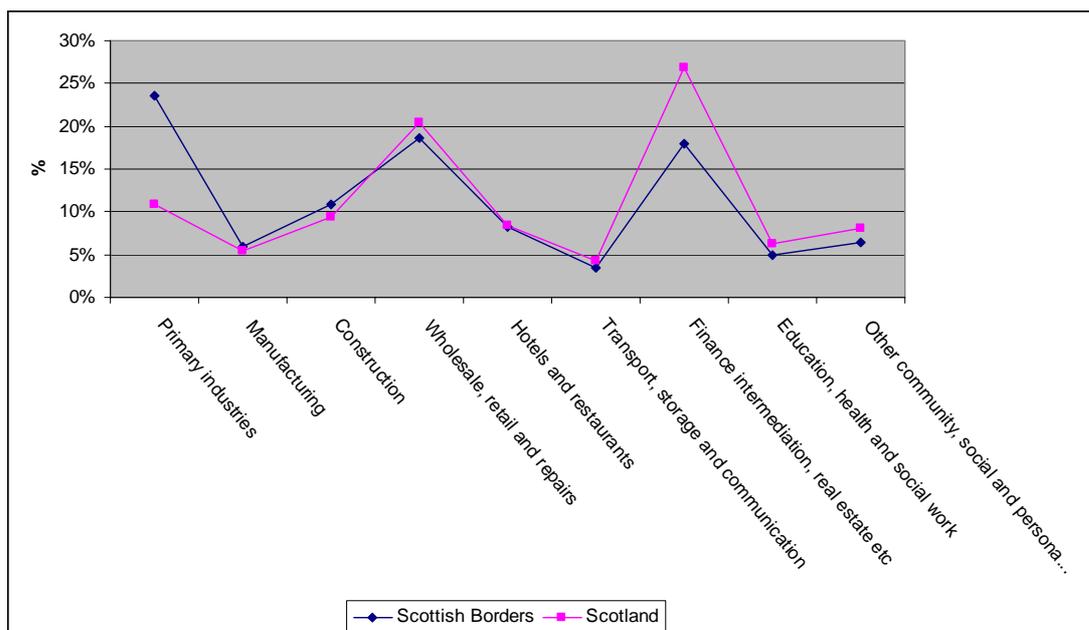


Figure 10 – Business Sites in Selected Sectors (Source: SNS, 2010)

⁷ Scottish Enterprise

Just under 90% of business sites in the Scottish Borders continue to have 0-9 people employed in them, compared to 84% at the Scottish level. 9% and 1% accommodate 10-49 and over 50 employees respectively compared to 13% and 3% for Scotland. In other words, **the Scottish Borders economy is heavily reliant on micro-business activity** for employment reflecting the reliance on farming, hotel/ restaurants, retail and construction activity.

In general there is **less R&D employment**, which reflects not just the type of businesses operating in the area but also the under-representation of HEIs, beyond the Scottish School of Textiles and Design. **A focus should continue to be on development of applied research at the Scottish Borders Campus and in the textiles sector, with its niche opportunities.**

A review of occupation data also provides an indication of the composition of the economy in the Scottish Borders. While the proportions of people employed across occupations is broadly in line with Scotland, when it comes to lower-skilled activity, there are higher proportions of people employed in process, plant and machine operator and elementary occupations at 8% and 17% respectively. The slightly higher proportion engaged in managerial and senior occupations may be indicative of a reliance, in employment terms, on the public sector.

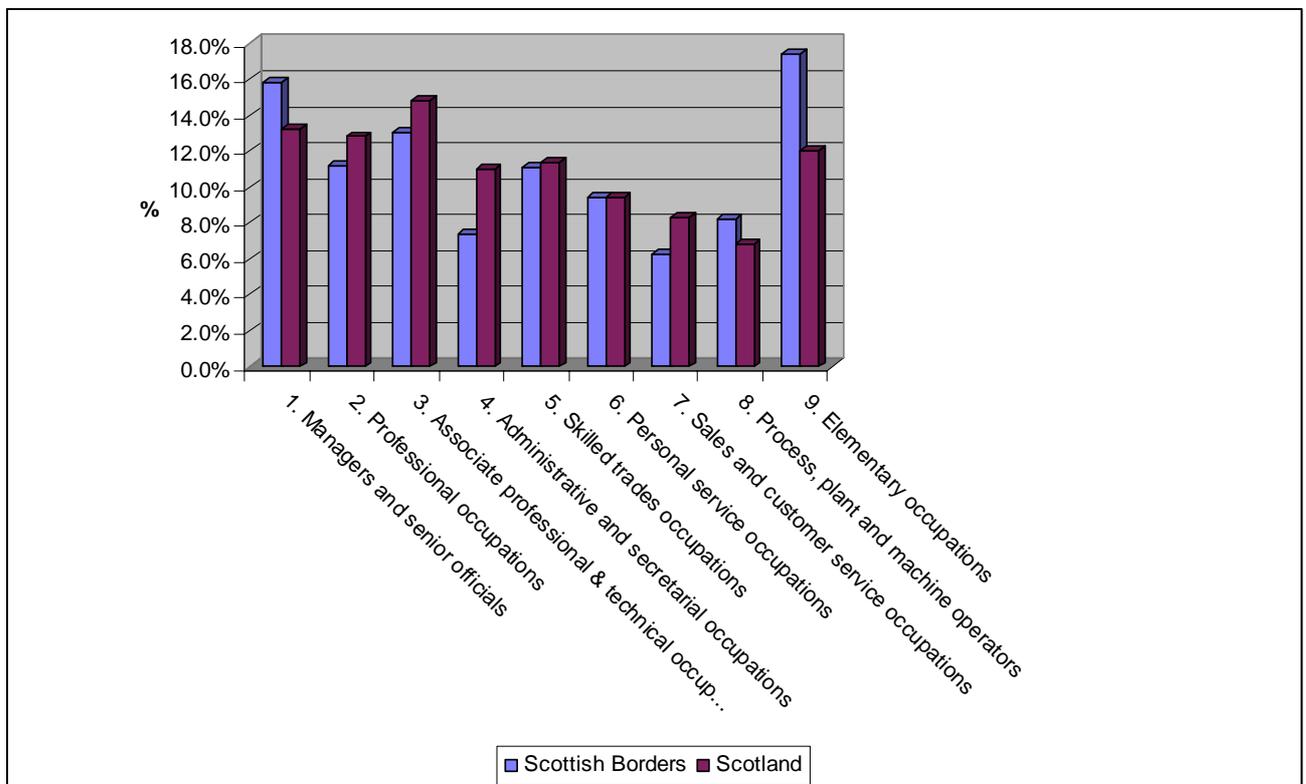


Figure 11 – Occupation data (Source: APS, 2010)

Compared to the UK, Scotland has a higher reliance on the public sector for employment, and in the Scottish Borders there is a greater proportion of people employed in the public sector than in Scotland, some 32% of total employment. Of all women in employment, 41%

are employed by the public sector (compared to 38% for Scotland). In the current economic climate, with policy to reduce the costs of delivering public sector services, there are implications for the economy of the Scottish Borders. The transfer of skills to private sector employers is challenging with less demand for these people and skills in the absence of a thriving private sector tradable services sector locally. **Business and professional services employment – particularly Knowledge Intensive Business Services – need to play a key role in driving the Scottish Borders’ economy and shifting jobs from the public to private sectors.** But in the short-term, it is important to attract all types of jobs.

The chart below (**Figure 12**) shows the economy does benefit from **higher rates of business density and business start-up**. 2010 data indicate that there are 555 businesses per 10,000 adults in the Borders, compared to 356 at the Scottish level. The higher rate of business suggests a competitive and entrepreneurial business environment in the area, and may also be indicative of a reliance on multi-entrepreneurship, for example in the tourism and construction sectors. **The future focus, will be to maintain this dynamism, and particularly focusing on survival as well as higher-value start-ups.**

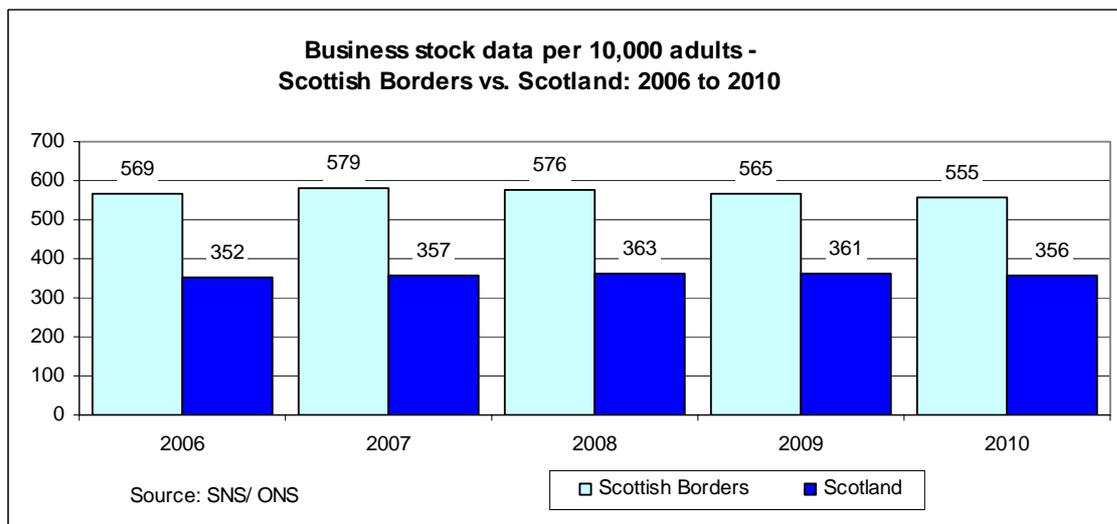


Figure 12 – Business Density Data (Source:)

1.4.3 Place

The concept of ‘place’ is fundamental to competitiveness. It is essential, not only in providing physical, social and cultural infrastructure for businesses, but in attracting and retaining a workforce for the future. The ‘offer’ of a place, is recognised as a key piece of the economic development jigsaw.

In terms of retail and local services, Galashiels, Peebles and Hawick are the main retail providers serving a larger catchment area. Galashiels trades well in both the convenience and comparison sectors with a total turnover of £206m. It is established as the dominant retail centre in the Scottish Borders⁸.

⁸ Scottish Borders Retail Study 2011, RDPC Ltd for Scottish Borders Council

Overall however, towns in the Scottish Borders cannot expect to *compete* as retail destinations, with the possible exception of Galashiels, and nor should they try to do so. Instead, the towns need to strengthen their current offers in order to retain and attract back households from their traditional catchment areas. But this alone is not sufficient to sustain retail, and businesses will need to attract new footfall, primarily from additional visitors spending longer in the area and returning for more visits. So there is a key link between vibrant towns of the Scottish Borders, the overall tourism offer, and a stunning natural environment with easy access to a range of popular leisure pursuits.

Across the Scottish Borders there is an overall vacancy rate of 10%, which is affecting the vitality and vibrancy of these centres. Analysis of vacancies by retail floorspace (as opposed to vacant units), indicates vacancy levels of over 20% in Jedburgh and Hawick.

Looking at 2007-2011 footfall data (**Figure 13**), there has been a steady decline in footfall in key centres in the area. The following chart indicates that there was just under 10,000 counts in Hawick in 2007, and this had declined to just over 8,000 in 2011, a 15% fall. Melrose, Kelso and Peebles saw a 17% decline, while Selkirk has experienced a 30% fall (no data available for Eyemouth).

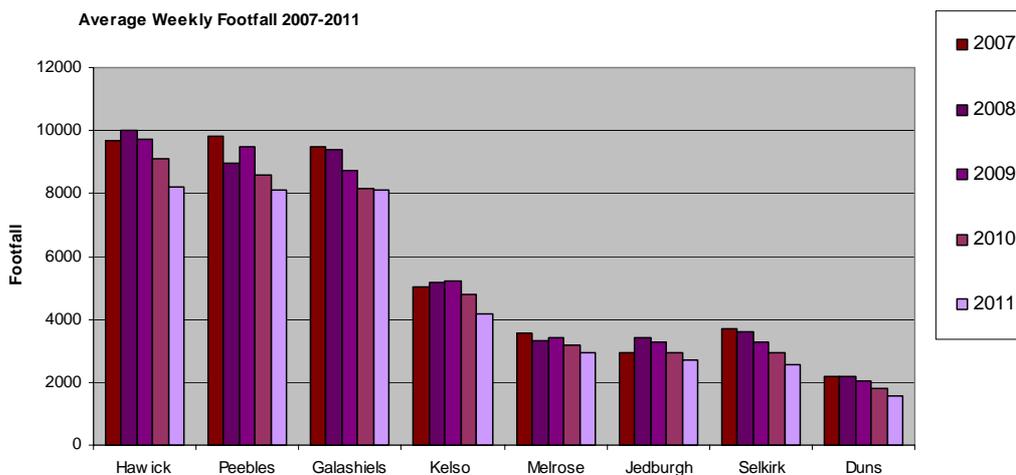


Figure 12 – Average Weekly Footfall (Source: SBC)

The focus needs to be on growing the vibrancy and increasing the vitality of town centres and ensuring their role as resident and visitor service centres.

The quality of life and the living environment is clearly one of the Scottish Borders’ strengths and attractions for residents, visitors and businesses alike. The area is predominantly rural, has attractive countryside and offers a broad variety of leisure attractions. Tourism is worth some £176m of expenditure from just over 1.9m tourists or 3.7m visitor days annually⁹, ranging from outdoor activities such as mountain biking, cycling, walking or fishing to museums and stately homes to marine based activity in the coastal region of the Borders.

⁹ Scottish Tourism Economic Activity Monitor, 2011, for SBC

Within this spend, an estimated £65m is spent on accommodation and food and drink sectors. **The focus needs to be on attracting more people to stay longer in the area.**

Average residential property prices in the Scottish Borders are amongst the lowest in the UK, enabling people locating to the area to obtain a higher standard of property than in city areas.

2 Context for the Economic Strategy

2.1 Trends, drivers and uncertainties

Given its geographic location, the economy of the Scottish Borders is subject to internal and external trends, drivers and risks or uncertainties across political and administrative boundaries as well as geographic ones. This section sets the area in its wider context.

2.1.1 An overview

The future wealth of the area will be shaped by a number of external influences and the preparation of the Economic Strategy (coinciding with work on the Local Development Plan for the Scottish Borders) will set the parameters for Scottish Borders Council and its partners to shape the area's own future.

Key trends, drivers and uncertainties likely to influence the future Scottish Borders' economy include **economic** influences (lower value economy, rising unemployment, over reliance on public sector services and economic recovery); **environmental** influences (climate change, emphasis on a low carbon economy, natural environment) and **market** drivers (aging population, health, and quality of life). As far as the Strategy is concerned, the economy, currently, is fragile, but the Scottish Borders offers a quality environment to 'pull' people that want to enhance their quality of life, maximise the leisure and recreation offer of the Scottish Borders and have the option of working remotely where required. The Scottish Borders must remain an attractive place for talented and skilled people to live so that a workforce is available for businesses locating here, expanding here or starting up here.

2.2 The policy environment

The future of the Scottish Borders is also being shaped by a wider policy environment which is devolving certain economic powers back to regional and local areas.

2.2.1 Europe

In the EU-27, predominantly rural areas account for 57% of the territory and 24% of the population. Though economic activity tends to concentrate in more urban areas, rural areas generate 48% of the Gross Value Added (GVA) in the EU-27 and provide 56% of the employment. The Scottish Borders is classified as a predominantly rural area by the European Commission's Agriculture and Rural Development DG.

The **EU 2020 Strategy** published in 2010 sets out a vision for Europe and focuses on four mutually reinforcing priorities:

- **Smart growth:** developing an economy based on knowledge and innovation
- **Sustainable growth:** promoting a more resource efficient, greener and more competitive economy.
- **Inclusive growth:** fostering a high-employment economy delivering social and territorial cohesion.
- **Economic Governance:** addressing fundamental economic problems, boosting growth and job creation through improved economic policy coordination across the EU

It proposes challenging targets around employment, investment in R&D, climate/ energy, (the '20/20/20' targets of reducing greenhouse gas emissions, sourcing energy from renewable sources and a reduction in energy usage) and education. In order to deliver the targets, the Commission proposes initiatives to improve access to R&D finance, improve the quality of people entering the labour market, accelerating the roll-out of high-speed internet, supporting the shift to a low carbon economy, improving the business environment and modernising labour markets. The strategy concedes that **stronger economic governance** will be required to deliver results and recommends that all national, regional and local authorities should implement EU 2020. **The Economic Strategy for the Scottish Borders must reflect the priorities of the EU 2020 Strategy.**

EU Cohesion Policy aims to reduce socio-economic disparities across Europe and support the Europe 2020 strategy and **target the spending of EU Structural Funds for the period 2014-2020**¹⁰, as well as influencing the reform of Common Agricultural Policy (CAP) and Common Fisheries Policy (CFP). The Report highlights the **contribution of the regions** and highlights that public investment is essential for the development of lagging regions, with regional and local authorities key players in their development. Interestingly for the Scottish Borders, it advocates an approach whereby specific regions design and deliver targeted interventions appropriate to their needs, within broad strategic drivers of:

- knowledge intensive and other service businesses, where the EU has a competitive edge;
- innovation in economic sectors;
- a single digital market within the EU, increasing access to broadband, and increasing the capacity to move people and goods by rail, road, air or water.
- investment in education, enterprise and innovation;
- meeting the challenges ageing population, and tackling social exclusion and poverty;
- protecting the environment and improving its quality, adapting to climate change and mitigate its consequences;
- diversifying financial assistance initiatives for businesses including loans and venture capital and encouraging more business advice, networking and clustering initiatives;
- concentrating on fewer priorities and focussing on outcomes rather than outputs.

¹⁰ Current Structural Funding through the Lowlands Uplands Programme for Scotland will cease in 2013.

The barriers to economic growth in rural areas include critical mass (i.e. demand), distance to markets, limited infrastructure, access to networks, and skills (supply and demand). The step changes required in rural economies must address the structural challenges compromising productivity levels. Rural areas need investment in business advice, research, skills development and infrastructure to support the development of more productive economic activity within the local economy.

The European Commission has now published the 2014-20 Cohesion Policy Regulation with a 'menu' of priorities identified to implement EU 2020. The Scottish Government anticipates that the priorities for Scotland could be **low carbon economy** (renewables), **access to finance for SMEs** (Scottish Investment Fund) and **smart specialisation**. The Commission's proposals suggest a strengthened role for local development, increased concentration of resources, and a greater focus on results, with new 'Partnership Contracts' to be agreed between Members States (and Regions) and the Commission outlining priorities for targeting funding.

The Scottish Partnership Agreement (NB Single Plan) will be produced at a Scottish level and will feed into the overall United Kingdom-wide partnership agreement. The Scottish agreement will be built from the 'bottom up' and will set out how the funds will, separately and together, maximise their impact on Scotland by prioritising the objectives that matter most to the Scottish Government. Scottish Borders Council, through the Convention of Scottish Local Authorities (CoSLA) has been **contributing to the case for local and regional levels to develop plans to develop the economy using new EU funding programmes**. The overall aim is to ensure that the funds that are eventually allocated to and confirmed for Scotland are used most effectively and to ensure that rural communities benefit from those funds and that they are targeted in the areas of highest priority need.

2.2.2 COMMON AGRICULTURAL POLICY

CAP reform 2014-20 aims to **increase competitiveness in the farming sector** and ensure CAP is fairer, more efficient and effective. Given the economic importance of farm agriculture to the Scottish Borders' economy, the Strategy is being developed to reflect the ongoing work on CAP reform. The reform proposal policy options will require farm businesses to be greener, more market focused, and delivering greater public benefits. CAP reform proposes the maintenance of direct financial support for European agriculture (Pillar 1) and complementary national Rural Development Programmes (Pillar 2) to address wider environmental and territorial challenges. It can be concluded that farm businesses will need to focus on comparative advantage (locally, nationally and internationally), and on increasing productivity through new technology and innovation.

It is critical for the Scottish Borders' economy that CAP reform continues to deliver support for an innovative and competitive agricultural sector. Total income from farming in Scotland is less than subsidies received (£589 million income against subsidy of £633 million (Source: Scottish Government 2009), so industry dependency on direct support is high. A

reformed CAP must also be better targeted to deliver economic growth and development priorities in rural economies, and better aligned with other European programmes.

The Commission's proposal to enhance the use of LEADER and 'Community Led Local Development' approaches across all EU funding (through a new 'Common Strategic Framework') is welcomed, as is the proposal to allow local development to be fully financed by the EU. Decentralising CAP funding through the Scotland Rural Development Programme would ensure economic benefits are better targeted.

2.2.3 COMMON FISHERIES POLICY

CFP reform 2014-20 aims to support a **prosperous and efficient fishing industry**. In achieving this, the reform must recognise the important contribution of fishing (including small-scale fishing) to local fisheries dependent communities, and targeted financial support is needed to continue to support fleet modernisation and measures of common interest including skills training, port facilities and economic diversification.

In the short term, in the 2011-2013 period, the Scottish Borders has been allocated £0.4m from the European Fisheries Fund for investment in a local fisheries development strategy that focuses on diversification of the fish catching and processing industry, renewables sector and tourism (including food and drink), for coastal communities in the Eyemouth and Berwickshire coast.

Beyond 2014 it is expected that further funding could be available for local development strategies from a new European Maritime Fisheries Fund (EMFF) and the area must continue to lobby for similar levels of support and access.

2.2.4 SCOTTISH GOVERNMENT ECONOMIC STRATEGY (2011)

The *Government Economic Strategy* focuses actions on six Strategic Priorities which will accelerate recovery, drive sustainable economic growth and develop a more resilient and adaptable economy.

- **Supportive Business Environment:** promoting wealth and jobs depends on the performance of business
- **Transition to a Low Carbon Economy:** reflecting Scotland's relative comparative advantage in the low carbon economy requires a solid foundation of skills, infrastructure, effective government and equity.
- **Learning, Skills and Wellbeing:** acknowledging that a skilled, educated and healthy workforce is essential to creating a more competitive and resilient economy.
- **Infrastructure Development and Place:** harnessing the strength and quality of cities, towns and rural areas. Scotland will be positioned to take full advantage of the opportunities offered by the digital age.

- **Effective Government:** is fundamental to the successful implementation of the Government Economic Strategy, as it is only by the actions of the public sector being fully coordinated and aligned that Scotland's potential is maximised.
- **Equity:** social, regional, and inter-generational - is also a key driver of growth and jobs. By ensuring that everyone has an opportunity to succeed - and by tackling the causes of the long-standing problems in Scottish society that act as a constraint on individuals and communities - the nation's potential can be maximised.

Key initiatives for the Scottish Government across these Strategic Priorities include:

- Introducing four Enterprise Areas in Scotland, including sites with a particular focus on low carbon manufacturing opportunities, so as to maximise their economic impact and attractiveness to investment;
- Providing advice and support to help SMEs grow, hire staff and take on apprentices;
- Continuing to deliver the Small Business Bonus Scheme and match the business rates poundage set in England;
- Promoting Scottish exports to capitalise on the significant opportunities in growth markets; with an ambitious target to deliver a 50 per cent increase in exports by 2017; as part of this the Government will look to strengthen trade support particularly in Scottish Development International's (SDI) Overseas Trade and Investment Centres;
- Streamlining investment in innovation and commercialisation to boost productivity and translate great business ideas into great business practice;
- Establishing a Next Generation Digital Fund to accelerate the delivery of superfast broadband across Scotland with a particular focus on rural areas;
- Better aligning our resources with European Funds to support our growth agenda across the whole of Scotland;
- Continuing to implement the modernisation of the planning system;
- Working with cities and city regions, recognising the critical contribution they make to the whole of Scotland, as drivers of economic growth, and developing a cities strategy to support more effective collaboration to optimise that growth;
- Developing a Regeneration Strategy that will support our most disadvantaged communities to become socially, economically and physically sustainable;
- Maximising the public sector's direct contribution to the economy through smart use of public procurement, in order to promote jobs and growth, boost training and apprenticeship opportunities and help SMEs compete effectively for contracts;
- Taking a strategic approach to our international engagement, including the deepening of trading links, to promote sustainable economic growth. That

engagement will take place across a range of areas where Scotland has expertise, from energy and climate change to education, culture and tourism.

2.2.5 SCOTLAND'S INTERNATIONAL TRADE AND INVESTMENT STRATEGY 2011-2015

Scotland Development International's (SDI) trade and investment strategy sets out a number of key goals that the Scottish Borders will need to contribute to so that Scotland maximises the benefits of global trade. It aims to achieve up to £2bn of net additional GVA to Scotland from international trade and investment. To achieve this there needs to be an increase in the number of exporters and up to 10,000 more businesses having the skills to 'go international'. It targets an increase of up to £1.7bn in international sales from assisted businesses.

The overall target will also be contributed to by attracting foreign investment, and promoting Scotland as an attractive business location and a global destination of choice for targeted low carbon opportunities. There is an emphasis on key sectors, and food and drink and tourism are highlighted as opportunity 'international' sectors, and two that the economy can compete in.

Other emphasis includes exploiting Scotland's education sector and the Scottish School of Textiles is well positioned to explore overseas commercial opportunities in the textiles sector.

2.2.6 SOUTH OF SCOTLAND COMPETITIVENESS STRATEGY (2007-2013)

The South of Scotland Competitiveness Strategy aims to address key structural problems and challenges in the area:

- a **workforce that is ageing and geographically dispersed**;
- economic **dependency on land-based and traditional manufacturing industries** such as textiles and food production and low productivity;
- **low workforce skills levels**, limited learning infrastructure; and shortfalls in built physical infrastructure.

Economic opportunities are highlighted – global excellence in some traditional industry sectors; core strengths in key sectors of the Scottish economy including a quality tourism product; a good track record in early and secondary education providing sound basis to develop a more highly skilled and productive workforce; strong entrepreneurial tradition with higher than average levels of business start up and survival rates and innovative micro-enterprises; and a high quality environment offering good opportunities for attracting people to the area.

In response to UK economy recession, a refresh in 2009 highlighted seven key areas:

- Working Age Population
- South of Scotland Knowledge Economy
- Skills in the Workforce and Wider Community
- Increasing Connections with City Regions
- Realising our full Business Potential
- High Quality Place
- Sustainable use of our Coastal, Land and Cultural Assets

Much of the economic development of the area has been supported by the 2007-2013 Lowlands and Uplands Programme for Scotland (LUPS), and in particular Priority 4 Rural Development. Within this, the South of Scotland, through the Alliance, successfully lobbied for a ring fenced £19m for diversification of rural industries and supporting the development of shared services (eg business infrastructure). The current Programme has now been allocated to projects.

From 2013, it is expected that a similar level of funding could be available for the whole LUPS area but not ring fenced for the South of Scotland, under the competitiveness strand of European Cohesion. The Strategy will have an important role in informing and influencing the strategic and political lobbying to ensure delivery at the Borders level, and in an increasingly difficult investment climate to attract match funding.

2.2.7 SCOTTISH BORDERS COUNCIL

In May 2012 Scottish Borders Council launched 'Ambitious for the Borders', the partnership agreement for the Programme of Local Government. This provides a high level commitment to put economic development at the heart of the Council's purpose:

'We will ensure economic development is the key driver for the new Council Administration'.

This will be achieved through a number of key Economic Development priorities:

- Setting up a business loan fund to provide appropriate financial support to business
- Reforming procurement to facilitate local suppliers
- Working with partners including the South of Scotland Alliance, and the Scottish Government to ensure optimal next optimal next-generation broadband and mobile phone coverage for businesses and households
- Using the European Fisheries Fund, Coastal Communities Fund and European Regional and Rural Development Funds to the best advantage of our communities
- Developing plans to revitalise our high streets within the Borders
- Supporting our communities through a focussed programme of regeneration and rural development with an emphasis on working with the Scottish Government
- Continuing support for the Borders creative arts industries

- Strengthening our targeted marketing strategy to attract businesses into the Scottish Borders and building on the opportunities provided by the Borders Railway
- Working with businesses to identify and resolve barriers to growth and development

2.2.8 COMMUNITY PLANNING PARTNERSHIP

Community planning is a structure through which Scottish Borders Council works with other public sector bodies, businesses, local communities and the voluntary sector. The process aims to plan and deliver better services and improve the lives of people who live in Scotland. It was given a statutory basis by the Local Government Scotland 2003 Act with councils having the duty to facilitate and maintain community planning. Other agencies such as Scottish Enterprise (SE), NHS Boards have a duty to participate in community planning, and Councils may invite colleges, higher education institutions, business and community groups to participate.

Following the Scottish Government's enterprise reforms that transferred responsibility for local economic development (including Business Gateway services) to councils, a change in focus for SE on key sectors and high growth companies and a merging of skills and training activity to form Skills Development Scotland (SDS), the CPP process was given a clear responsibility for local economic growth. The implications in the short term were that SE are less involved in local economic development projects unless a project has a close fit to national priorities.

A key strand of the new CPP process is that business needs are being met and this Strategy will be one tool to demonstrate to the private sector that their views are being built into the economic planning for the area with more efficient use of their time and effort.

The emerging Community Plan for the Borders has four policy strands:

1. Early Intervention and Prevention
2. Place and Communities
3. Economy and Infrastructure
4. Future model of public service delivery

Delivery of the Economic Strategy & Action Plan will directly contribute to 'strands' 2 and 3, and indirectly to 4. In particular, the Economic Strategy and an integrated Action Plan is a key delivery mechanism of the Economy & Infrastructure theme.

2.2.9 SCOTTISH BORDERS SKILLS PRIORITIES

In March 2010, the Scottish Borders Learning & Skills Partnership developed its priorities for the development of relevant and appropriate skills for businesses and employers. It identifies four key themes for the 2010-2012 period.

- Information, analysis and forecasting – using national and local data to inform development and delivery of training
- Learning Pathways – developing school/ college partnerships and progression routes to enable young people to develop vocational skills
- Employability Skills – creating an effective employability service with a single contact point for clients to enable them to become economically active
- Workforce Development – developing a more coherent approach to engaging with local businesses and other employers to improve the level and utilisation of skills in the local labour market.

In summary, the Economic Strategy for the Scottish Borders will reflect the broad policy areas of:

- Raising innovation;
- Raising skills;
- Promoting enterprise and business;
- The low carbon economy;
- Focusing on key sectors of the economy – both traditional and opportunity;
- Improved connectivity;
- Improved business infrastructure;
- Increasing internationalisation;
- Maximising the place – town centres, activity tourism, location.

3 Scottish Borders – Looking Forward

3.1 Forecasts

3.1.1 Trends

In 2009, Oxford Economics provided data for Scottish Enterprise for the purpose of providing economic forecasts to use with the Economic Reviews for the Scottish Enterprise Regions. These forecasts were produced based on the then ‘current’ economic conditions and Oxford Economics’ considered view at the time of publishing (March 2009). In this sense, the forecasts are therefore subject to change in line with changing economic conditions – for example the economic downturn in 2009/ 10 period. However, for the purposes of this section, the following trends are noted for the 2009-2019 period:

- Average annual change in forecast GVA – 1.9% (below Scotland)
- Average annual change in forecast employment – 0.1% (zero for Scotland)
- Forecast unemployment rate (% of w/a population) – 2.3% (below Scotland)
- Forecast change in w/a population - 0.6% increase (below Scotland)

Since the publication of these data, in March 2011 the Scottish Government’s Office of the Chief Economic Adviser’s State of the Economy Report highlighted that Scottish GDP growth would remain volatile for “the foreseeable future”. It highlights that output would remain below pre-recession levels until well into 2012.

The report highlights that recovery has been strongest in the construction sector and attributes this to public sector investment. However with the Government’s capital budget due to decline in real terms by 2014/15, there is a concern whether private sector construction activity will have recovered sufficiently to offset the decline in budget. Given its employment value in the Scottish Borders, this concern will feed through to the Economic Strategy.

While employment declined in Scotland and the Scottish Borders in 2009 and early 2010, Scottish employment levels have been rising. The report indicates that the pick-up in employment was in four main sectors – construction, transport, storage & communication; and other services. There has been a corresponding decline in the ILO unemployment rate to 8% in Scotland (below the UK), but the Scottish claimant count rate, a more current measure of unemployment, has been increasing to 4.4% in April 2012 (vs. a UK rate of 3.8%). The current rate for the Scottish Borders is 3.0%. As far as the Strategy is concerned, conditions in the labour market will remain challenging in future.

3.1.2 Implications for the Scottish Borders

The major implication of the economic outlook for the Scottish Borders relates to its ability to recover and grow from the economic downturn. So the most significant change within the economy prior to the recession was the increased focus on innovation and higher value activity to secure competitive advantage, as lower value activity increasingly suffered in the face of stiff competition from low cost economies globally. While the Scottish Borders economy had to adapt relatively quickly, any improvement in performance has suffered in response to the banking crisis and subsequent economic downturn.

The Strategy will still need to focus on higher value activity and the resulting productivity gains so that the Scottish Borders competes and develops economically, and closes the productivity gap nationally, while protecting the natural assets of the area and within the context of a low carbon economy – a crucial concept in the context of EU, UK and Scottish government policies around sustainable development.

In growing the value of the economy, the Scottish Borders location, in the Carlisle-Edinburgh-Newcastle city regions, and its towns are an important hub for clusters of activity. They offer the only genuine potential for agglomeration benefits and networks, and the supportive environment for businesses. For the Strategy, this will involve a mix of an attractive physical environment, higher specification industrial and business premises (and appropriate ICT infrastructure), and an appropriately skilled labour pool.

If this is achieved, non urban areas can still prosper in the higher value and 21st Century economy. At the same time, the Strategy will acknowledge that high-value jobs will only form a small proportion of total jobs – it is a medium to long term proposition to generate large quantities of such jobs in rural economies. The role of communities in the Scottish Borders will differ. Some such as Kelso or Jedburgh are 'self-contained' while others in the Peebles and Galashiels Travel-to-Work Areas provide a valuable labour source for the adjacent city regions. Delivering employment opportunities within easy access for residents will remain a challenge for the Strategy.

3.2 Looking Forward

From the review of economic performance indicators, the strategy and policy drivers, and through the Economic Strategy consultation exercise, there are **a number of key challenges facing the Scottish Borders economy**. These are identified and grouped under three key areas:

- **How to Future Proof the Borders Economy;**
- **How to Maximise our Current Assets;**
- **How to provide Leadership and Direction.**

3.2.1 Future Proofing the Scottish Borders Economy – the challenges

- i. Reacting to and facing the economic downturn, and sustaining economic activity, ensuring that private sector employment opportunities are there to replace jobs that have been lost in manufacturing.
- ii. Capitalising on the Borders Railway – raising the profile of the Scottish Borders as a key business location and destination in Scotland.
- iii. Delivering reliable ICT, next generation connectivity and mobile phone coverage.
- iv. Enabling the Further Education sector to better understand what business needs. There is a mismatch between industry and FE and a challenge will be to match supply of skills to current and future opportunities – eg: care, retirement sector (housing, villages); hospitality, tourism, food and drink, and the ripple from that spend.
- v. Increasing educational attainment so that the workforce has the economically valuable skills likely to be required in the future.
- vi. Enhancing the competitiveness of Scottish Borders as a location acknowledging the diversity of the area's constituent parts.
- vii. Enhancing niche manufacturing and increase 'export-orientation' for local firms.
- viii. Attracting greater numbers of high-value jobs through a range of activities around talent attraction, skills, attractiveness, connectivity and employment sites.
- ix. Creating opportunities so that the 16-30 year-old age cohort are retained and attracted to live and work in the Scottish Borders.
- x. Updating Local Development Plan allocations and ensuring a range and choice of employment sites, particularly for higher value activity and other land uses that support the economy, and maximising the Borders Railway.
- xi. Increasing average earnings, and workplace earnings in particular.
- xii. Responding to changes in the public sector, with the higher reliance on it for employment and indirectly the purchase of goods and services in the Borders' economy, there will be a challenge to ensure that the private sector services sector is strong enough to recruit people that could be made redundant so that the skills are not 'lost' to the area. There is also a challenge to mitigate against the loss of expenditure from the effects of redundancies, wage freezes and decline in capital budgets.
- xiii. A longer term challenge is to achieve a shift in the age distribution to rebalance the population. Populations across the UK are aging but the effects are greater in the Scottish Borders.

3.2.2 Maximising our current assets – the challenges

- i. Protecting and maximising quality of life and rural/environmental assets, and strengthening the Scottish Borders brand. Assets include 'sectoral' brands of textiles and the 'made in Scotland' association, agriculture and food & drink production and tourism.
- ii. Supporting small businesses to recruit. Costs, risk and uncertainty are barriers there is a challenge to ensure that the barriers and risk to business that are recruiting are lowered.
- iii. Overcoming the mismatch in skills demand and supply. Workforce development, succession planning, and progression in work is all in 'demand' from the employer, compared to demand from the learner for accredited qualifications/ certificates.
- iv. Supporting small businesses to grow. A higher proportion of businesses employ less than 10 people – within this, there are a number of sole traders/ self-employed. A challenge will be to ensure that the most 'ambitious' ones are benefiting most from support through agencies.
- v. Enabling access to finance and investment. As the banking sector continues to restrict access to funding for businesses, there will be a challenge to businesses to finance operations, and therefore a challenge for diversification into new products/ processes, which is what the economy needs to invest in.
- vi. Maximising consumer trend towards locally produced goods and heritage, building on the impetus behind Food Fairs and farmers' markets in the area and the work of the Scottish Borders Food Network.
- vii. Exploiting the lifestyle trends towards activity pursuits and the reputation of the Scottish Borders in providing these opportunities.
- viii. Protecting the quality environment which helps to attract people and businesses to the area in the first place.
- ix. Optimising the Scottish Borders Campus and its infrastructure to deliver higher skills provision in the local area.
- x. Maintaining, enhancing and building on the entrepreneurial talent in the area and generating a dynamic business environment.
- xi. Regenerating communities and town centres in the area, reducing higher vacancy rates, and ensuring town centres, and the retail and tourism sectors, are equipped to capitalise on growing areas of footfall from tourism/ leisure visitors.

3.2.3 Providing Leadership & Direction – the challenges

- i. Development of the Strategy, implementation and coordination across activities will require governance and leadership and an understanding of the various contributions to the local economy.
- ii. As resources decline there will be a challenge and need to prioritise, a plan or strategy that directs the local economy is needed.
- iii. For the economy to function, there needs to be demand for its goods and services. There is a challenge to ensure that business-to-business links are strong to encourage buyer-supplier links across sectors where they do not already exist.
- iv. There has been a reliance on the public sector – in terms of subsidy, grants and/ or employment. As budgets decline, and the role contracts, there will be a challenge to reduce this reliance.
- v. VisitScotland is charged with attracting people to visit Scotland, and SDI with attracting people to invest in Scotland. As part of infrastructure improvements from better access and connectivity, there is a challenge to coordinate agency activity and spend plans within the Community Planning Partnership to incentivise people and others to visit, and ultimately invest in the area.

The Economic Strategy document sets out our response to these challenges, and the activity required to meet them.

4 The Consultation

4.1 Consultation

In order to fully understand the economic situation, and to identify all of the issues affecting the economy, a range of one-to-one structured discussions were held. These targeted key officials in public sector partners as well as a range of contacts in local businesses. The consultation process has also involved strategic input from elected members. All of this has helped inform the development of the Economic Strategy and ensure that it is focused on the issues that will make a real difference to the Scottish Borders economy.

4.2 Vision to 2023

All participants in the consultation process for the Economic Strategy were asked to propose a 'vision' for the economy of the Scottish Borders. The following vision statements were proposed and have been grouped under a relevant common heading, which have then been captured in the vision statement for the Economic Strategy.

4.2.1 Skills

"By 2023, there are people and the skills to meet the current and future needs of business so that they can reach their employment and wealth generation potential".

4.2.2 Sectors

"The economy of the Borders to 2023 is a hub of developing technologies around traditional sectors of textiles, forestry and agriculture".

"The Borders will be a national leader for a location of multiple and a complexity of land uses".

"By 2023 Borders will be a place that is recognised for innovation, and the place to live and work. It will be an exemplar for rural Scotland - the best performing rural economy in Scotland where mutual support across businesses and sectors is the norm."

4.2.3 Business

"By 2023, the Borders has realised its potential as a host for competitive SME development."

4.2.4 People

“By 2023 people in the Scottish Borders can live and work and earn the same wealth as people in Scotland, closing the productivity and earnings gaps and increasing wealth.”

4.3 Our Purpose

4.3.1 Community Planning Partnership

Participants in the consultation process were asked to propose a mission statement or purpose for the Community Planning Partnership 'Economy theme group' who will lead the Economic Strategy.

The following views were raised in relation to the purpose of the CPP:

- Input from businesses is crucial as businesses in the Scottish Borders may be operating in isolation of the public sector agencies, and therefore any economic plan.
- The interface between the CPP, and 'growth' or SE account managed companies could be improved.
- There may be confusion amongst the private sector within the Community Planning structure.
- The CPP may be perceived as an partnership for public sector partners and needs to collaborate more with the private sector. Such collaboration should agree a plan and implement it together.
- The CPP should act as a forum for business. This could involve a business or political chair to oversee performance towards objectives and action plan targets, and reporting.
- The CPP is a large group and therefore may not be as relevant to all attendees.

From these, a number of suggested 'mission statements' were proposed for the Economy theme group, which have then been captured in the mission statement for the Economic Strategy.

"The CPP is an economic forum collected around the vision for the economy of the Borders. It prioritises actions and keeps policy makers on track."

"The CPP aims to stimulate the private sector to respond to opportunities. It is therefore a strategic forum that looks at the economy issue by issue and develops opportunities."

"The CPP is representative of all businesses in the Borders and their interaction with the public sector. It strengthens links between businesses and key sectors on the one hand and businesses and public sector on the other."

"As the leadership for the economic development of the Borders, the CPP exists to market and promote the Scottish Borders and is a stimulus for the ongoing development of the economy."

From the consultation process outlined above, the Strategy proposes the following mission (partnership purpose) for Council and the Community Planning Partnership (CPP) who will lead the delivery of the Economic Strategy:

Next step ...

The Economic Profile has set out the strategic context, and issues and opportunities faced by the Scottish Borders economy. We then need to demonstrate how the Community Planning Partnership and the wider business community can best respond to these opportunities and challenges.

The Economic Strategy document sets out our response to the challenges and opportunities in the Economic Profile. It takes the suggestions for Vision and Purpose and adds strategic aims and recommended actions for the Community Planning Partnership to deliver a plan for the economy to 2023.