

CONSULTATION ON A NEW ENTERPRISE AGENCY FOR THE SOUTH OF SCOTLAND

Summary

- *The Royal Society of Edinburgh (RSE) has remained engaged in the review of Enterprise and Skills Agencies, providing responses to each stage of the review.*
- *It is agreed that the South of Scotland experiences significant economic challenges and that a new economic agency could help address these with greater investment and cooperation.*
- *Highlands and Islands Enterprise (HIE) has experienced significant success. The Scottish Government should look to replicate this model for the South of Scotland Agency, developing a community remit and similar levels of funding which HIE receive. It is recommended that new legislation should be passed to ensure the new agency has the relevant powers.*
- *Cooperation and partnership will be crucial to the success of the new agency. The Convention of the Highlands and Islands model could be used in the South of Scotland context to encourage collaboration with key stakeholders.*
- *The RSE would welcome and support efforts by the agency to improve digital and transport connectivity. In the short term the agency should look to maximise any potential benefits from tourism.*
- *The South of Scotland is a vast area with no city that can be used as a focal economic location such as Inverness in the Highlands and Islands. Therefore, the RSE would recommend a flexible approach with the agency having a strong presence throughout all the region.*

- *The South of Scotland is more likely to be affected by external factors such as climate change and Brexit. The agency should be considering the effect from factors such as flooding and a possible reduction in funding post-Brexit in its strategic planning.*

Introduction

- 1 The RSE welcomes the opportunity to contribute to the Scottish Government's consultation on the development of a South of Scotland Enterprise Agency (SoSEA). In preparing this response the RSE has consulted with members of the its Fellowship and Young Academy with the relevant expertise and experience of the Scottish economy and wider issues which we consider equally relevant to the work of the proposed agency.
- 2 This response does not answer every question directly in the consultation document but our main points on the challenges, opportunities and the setup of the agency should cover all areas of the consultation.
- 3 We understand that the Scottish Government will finalise the proposals to create a SoSEA after evidence and views are gathered from the consultation and the interim South of Scotland Economic Partnership activities.

- 4 Since the beginning of the Enterprise and Skills Agencies Review the RSE has provided responses and engaged fully within the debate. In our initial response to the call for evidence to the first stage of the review the RSE recognised the different economic context in the South of Scotland from the rest of Scotland and the need for functions of HIE to be expanded to the South (RSE 2016). Furthermore, the RSE submitted further papers to the Enterprise and Skills Agencies review, including a paper in the end of phase 1 (RSE 2016) and then another in phase 2 (RSE 2017). Both these papers highlighted the longstanding problems in the Scottish economy of low business investment and slow productivity growth and the need to address these.
- 5 Our inquiry in 2008, chaired by Professor Gavin McCrone, focused on ‘The Future of the Hills and Islands of Scotland’. The inquiry examined the issues concerning Scotland’s remote and rural areas and their future potential, summarising the main social, economic and environmental trends. The RSE presented several recommendations, one of which argued for a new style of agency modelled on HIE for the rest of rural Scotland. Recommendation 61 stated *‘The Scottish Government should give serious and early consideration to integrated policy-making and delivery on social and economic development for those areas outside the Highlands and Islands.’* (RSE, 2008)
- 6 Therefore, the RSE is extremely supportive of the principle of creating a SoSEA, provided it has the powers and responsibility to address the broader social and community development issues of the area. The Society would hope that its views can help shape an agency which works effectively to achieve economic, skills and community development across the South of Scotland.
- community development, allowing HIE to provided targeted assistance to commercial businesses and social enterprises operating in the culture and creative industries sector.
- 8 Since local authorities and other public agencies are already active in the South of Scotland, SoSEA should not seek to duplicate their work, but should develop a facilitating and co-ordinating role (in terms of public service coordination, Community Councils fulfil this role and provide existing bodies with which the new agency could cooperate). The Convention of the Highlands and Islands (CoHI) model could also be applied in the South of Scotland context. This would help encourage collaboration across the key stakeholders, ensuring that any public-sector investment in the South of Scotland is made in conjunction with the wider economic, social and community contexts.
- 9 The success of HIE can be attributed to the level of spending which has been maintained, currently the RSE understand that the HIE level of spending per head is almost double that of Scottish Enterprise. This level of spending has enabled HIE to significantly boost the local economies around the region and develop critical infrastructure. The RSE would recommend that in order for the SoSEA to be successful it must also have a comparable budget.
- 10 The RSE strongly believe that within the remit of the agency should be the opportunity to play a part in influencing budget and funding decisions at Scottish government level. New legislation should give the new agency a statutory right to be consulted in budget decisions which will affect the South of Scotland.

Powers of the new agency

- 11 The RSE believes that in the development of this new agency, new legislation should be passed giving a similar remit and powers which could help SoSEA be as successful as HIE. It would be expected that new legislation would also include a community remit similar to HIE. The formal mechanisms available to the agency should be highly innovative, including experimental and developmental funding powers, ability to establish local committees, establishment of social enterprises, and funding of the service sector to aid its development where there is market failure.

Main Body

Highlands and Islands Enterprise Model

- 7 Given its rural context, the South of Scotland shares many similarities with the Highlands and Islands and it is therefore appropriate to look at HIE as a model on which the SoSEA can be based. Through its unique remit, the HIE has been very successful in delivering economic and social benefits across the communities it serves. This remit helps integrate economic and

- 12** The RSE considers that additional resources such as funding and the necessary skills will be required to ensure that the challenges can be successfully met.

Developing and Utilising Partnerships

- 13** The RSE believe that working with partners will be vitally important to the success of the agency and the South of Scotland. There are several key stakeholders that the SoSEA should develop partnerships with to gain from economic, educational, infrastructure and community development opportunities, such as ScotRail, SDS and the Universities, Royal Botanic Gardens Edinburgh, (*it has two research gardens one in each county*) Transport Scotland and other business organisations.
- 14** The RSE believe that skills development is a crucial part in building a successful economy. It will be important for the agency to develop collaborations with the universities, colleges, business and public sector to ensure that skills development matches the demand in the local areas.
- 15** Two of the biggest industries in the region are renewables and forestry, which have a significant presence in the area. However, there are concerns within the area that they may now be reaching or have already reached the limit of coverage of the land surface given their growth and it is important that these concerns are reflected in strategic planning for the future by the new agency. The RSE believe that it would be the role of the agency to work with these industries to ensure they do not have a negative effect on communities, the natural environment and the landscape, and that any growth benefits the communities directly. In renewables, the agency can work with communities and the sector to help develop opportunities in community renewables which would directly benefit local economies across the region, as well as ensure that the 'community benefits' monies from renewals are equitably distributed to local communities.
- 16** Housing is another key area in which the agency can develop good working partnerships to benefit the local economies throughout the region. The importance of housing to economic development and living standards should not be overlooked, and housing investment should not take place in

isolation from the wider economic and social contexts. Housing has a role in improving place competitiveness and this will be crucial to the success of South of Scotland as it will help attract more people and investment to the region, as well as encourage locals to stay.

- 17** In its activities and remit the SoSEA should look to work with the key stakeholders in housing development such as the Scottish Government, Local Government and the relevant housing associations and partnerships. The agency may want to take a lead role in collaboration with said stakeholders to guarantee that housing investment is taking place in conjunction with the wider economic context.

Potential Collaborative Opportunities

- 18** The South of Scotland shares boundaries with several other local authorities, including those in England. In Scotland, there are several other activities that will affect the area and which the agency could collaborate with to bring further potential benefits to the area.
- 19** The Edinburgh City Region Growth Deal is a project which directly involves the Borders Council as they will receive funding from it. Through this deal the Borders will receive £15m which will mainly be used for the development of the Business Park at Tweedbank/Lowood. This funding is payable over a 15-year period, but no profile of funding has yet been agreed. Furthermore, there will be more regional funds that the Borders could benefit from within the deal. It should be a role of the agency to maximise the potential of these investments and connect them to other economic development opportunities where possible.
- 20** Similarly, the Borderlands Inclusive Growth Initiative will directly affect the South of Scotland area if agreed. The 'Thematic Priorities' of the initiative include transport and connectivity, place development and regeneration, key sectors and skills and promotion. The exact funding details and how much the South of Scotland regions would receive are unclear but it is likely to bring benefits to the regions (Borderlands 2016). The agency should look to maximise any possible funding from this potential agreement and look to match funding where possible.

21 Dumfries and Galloway Council shares a border with South and East Ayrshire Councils. Currently there are discussions on developing an Ayrshire Growth Deal. If this is agreed, there could be potential infrastructure upgrades to transport corridors which connect Dumfries and Galloway to Ayr, Kilmarnock and onto Glasgow. The agency should look to lead collaboration efforts between Dumfries and Galloway, and Ayrshire Councils that would aim to join up potential opportunities that would help improve connectivity and economic development between the two regions.

Potential Activities

22 For both Dumfries and Galloway and the Scottish Borders, tourism is an important source of revenue for the local economies. However, tourism numbers are not as strong as those in other rural areas in the country, such as the Highlands and Islands. There are opportunities to expand the economic gains from tourism across the South of Scotland.

23 In 2015, Dumfries and Galloway attracted 630,000 domestic and 42,000 overseas tourists and Scottish Borders attracted 267,000 domestic and 30,000 overseas tourists. Overseas tourists in Dumfries and Galloway spent a total of £32m in the region while only spending £8m in the Scottish Borders. In total sustainable tourism brought in £133m in Dumfries and Galloway, employing 6,500 people and £46m employing 4,000 in Scottish Borders (Visit Scotland, 2016).

24 It is clear that tourism has a significance to the economy in the South of Scotland, however there is more that can be done to attract more people to the region. The RSE believe that tourism can be viewed as a primary opportunity that can be utilised by the agency in being an easy short-term solution to improve economic growth.

25 The opportunities in tourism can be captured by the agency through the development of a tourism strategy for the South of Scotland. Working in partnerships will be important to developing a strategy that captures all of the region effectively. Central to this strategy should be the identification of the attributes of the region which might attract longer stay visitors without detracting from the naturalness of the area or overwhelming the local communities. The agency

should look to work with Visit Scotland, Scotrail, the Local Authorities and the major attractions in the area. The strategy should look to identify what can be promoted to increase tourism in the region; the agency will have a role in promoting attracting and raising awareness at public and government level.

26 Another early activity the agency should be involved in as soon as it is created is to map and identify small businesses across the region. The South of Scotland is full of small businesses that contribute to local economic development. It will be the role of the agency to identify possible interventions that can help small businesses. The RSE believe that this should be one of the most important activities of the agency and that there should be no constraints on which industry it looks to help.

Connectivity (Hard & Digital)

27 The consultation document indicates that the intention of the new agency is to invest in skills and infrastructure across the region. The RSE would welcome these investments as both areas are key to the region's success particularly as only Government or its agency can provide the strategic capital investment required in rail. In particular, the RSE would encourage infrastructure development that will improve connectivity, both digital and transport. The agency should be provided with Compulsory Purchase powers and empowered and encouraged to use them as an innovative means of capturing value increases generated by its investment.

28 In Scotland broadband coverage to rural areas has increased in recent years; nevertheless in 2017 only 56% of rural areas could access superfast broadband speeds compared to 94% of urban areas. In the development of ultrafast broadband, the rural areas are at a massive disadvantage as only 3% of rural areas can achieve speeds of greater than 100Mbit/s, compared to 45% in urban areas. In the rural areas, many homes and small businesses are still unable to achieve broadband speeds that are adequate to perform a range of common online activities. It is estimated that around 150,000 premises in Scotland do not have access to decent broadband services with an adequate download speed (Ofcom, 2017).

- 29** Southern Scotland is predominately rural and it is likely that many of the homes and small businesses suffer from poor broadband connections in comparison to urban areas, which places the area at a strategic disadvantage. The RSE would encourage and welcome interventions by the agency that would increase investment in digital connectivity and improve broadband coverage across the region. The agency can also aim to work with providers and businesses, providing support and playing a key role when necessary to help the improve digital connectivity and the digitalisation of small businesses.
- 30** Development of hard infrastructure, such as roads, rail and industrial areas, is also necessary. Southern Scotland is strategically placed between the central belt of Scotland and England, yet despite the M74, A1, East and West Coast Mainlines passing through the region transport connectivity remains a problem for most communities, particularly for the more rural towns.
- 31** The importance and benefits of transport connectivity in the South of Scotland was highlighted in the Borders Rail development, which has experienced significant levels of success with demand above initial expectations. The new transport route, improving connectivity with Edinburgh, has opened numerous opportunities in economic development for towns throughout the Borders.
- 32** The RSE understands that Transport Scotland is currently undertaking analysis of the potential transport connectivity improvements that can be undertaken in Southern Scotland, particularly the Borders region. These improvements to key transport corridors, listed in the Scottish Transport Appraisal Guide, including the extension of the Borders Rail are welcome (Jacobs, 2018). Extension of the Borders Rail and road improvements will help improve connectivity, but it will be up to the agency to ensure these projects receive the right funding and that economic development opportunities are included in the planning process.
- 33** Moreover, it is important not to overlook the importance of improving the connectivity across Southern Scotland and not just the Borders. Transport connectivity in Dumfries and Galloway is also considered to be insufficient and places the region at a disadvantage in attracting investment and consequently skills. A key role for the agency will be to deliver investment and to work in partnership with key stakeholders to ensure that connectivity across the whole of the South of Scotland improves which will subsequently improve economic development opportunities. In particular it should conduct a study into a rail link from Dumfries to Stranraer both for local connectivity and to allow removal of heavy goods traffic from the roads onto rail.
- Location*
- 34** The RSE believes that having a centralised location for the HQ will not be the best approach. As the consultation indicates, the South of Scotland is a vast and diverse area and having a centralised HQ may not meet the needs of all the local areas.
- 35** Unlike the Highlands and Islands, the South of Scotland does not have a single economic focal point, which the Highlands and Islands has with Inverness. The new agency should look to develop a more flexible approach with the agency being represented in several locations. This would allow it to develop a more localised approach which could help the agency to meet the unique needs of the local economies across the region.
- External Factors– Brexit and Climate Change*
- 36** The RSE is concerned that the consultation document fails to acknowledge the external factors that may affect the South of Scotland disproportionately more than the rest of Scotland, such as Brexit and climate change.

- 37** Currently there is still a significant level of uncertainty about the impact of Brexit. The South of Scotland benefits considerably from the current EU funding arrangements: funding through the CAP and Structural Funds has contributed to active land management and economic development. It is unclear what the funding arrangements will be after Brexit, but it is unlikely that the same level of funding will be provided in the long term. This could disproportionately affect the South of Scotland due to the economy's dependency on agriculture and the higher level of funding it receives from the Structural Funds in comparison to other areas of Scotland. In our response to the Scottish Parliament's Finance Committee, we indicated that it is likely the UK will develop a similar scheme to the CAP and create its own UK cohesion policy (RSE, 2018). Therefore, it will be important that the new agency has significant powers to influence government decisions on funding and ensure that the special needs of the South of Scotland are not overlooked.
- 38** Climate change may also affect the South of Scotland more than other areas across Scotland. The region is likely to experience increased precipitation and more extreme weather events, so that flooding of agricultural land and in urban areas will increase.
- 39** For the South of Scotland, the flooding risk is notably higher than elsewhere in Scotland, and this risk will increase because of climate change. Currently there are approximately 7,300 homes and 2,800 businesses at risk from flood in the South of Scotland (approximately 9% of the Scottish national total). This translates to 6% of all homes and 20% of businesses across the Scottish Borders, and for Dumfries and Galloway 5% and 13% respectively. The main towns at risk from flooding are Hawick, Galashiels, Dumfries, Slekirk and Innerleithen with the Annual Average Damages across the region estimated to be £19.8m from river flooding, £5.4m from surface water and £1.2m from coastal flooding.
- 40** Flooding has a large economic and environmental impact on the area, and affects all areas of life. Therefore, preventing flooding will bring economic benefits to the region. The strategic management of flood risk in the South of Scotland can support the ambition of the agency by fostering economic resilience, strengthening communities and help to tackle inequality. It will be important for public bodies, communities, and businesses to work together to reduce the impact in the South of Scotland and this where the agency can have a key role.
- 41** Climate change will also influence land use and it is important that the longer-term impact of changing temperatures and rainfall are considered in strategic land use planning.

Conclusion

- 42** The RSE has supported the creation of a South of Scotland Enterprise Agency since the early stages of the review of Enterprise and Skills Agencies. We welcome the consultation document and agree with many of the main areas of potential intervention. However, we strongly believe that new legislation will be necessary to provide the agency with the appropriate powers and community remit similar to HIE. The region has lacked significant investment for a considerable time and for the agency to be successful it should receive a comparable budget to that of HIE.

Additional Information

This Advice Paper has been signed off by the General Secretary of the RSE.

Any enquiries about this Advice Paper should be addressed to Mr Paul Stuart
(email: pstuart@theRSE.org.uk)

Responses are published on the RSE website (<https://www.rse.org.uk/>)

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