



# BUSINESS-LED INCLUSIVE JOB GROWTH IN THE SOUTH OF SCOTLAND

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## FOREWORD BY THE SCOTTISH GOVERNMENT

Scotland's Economic Strategy, published in 2015, set out our commitment to the mutually reinforcing goals of boosting competitiveness and tackling inequality, supported by four priority areas: investment, innovation, internationalisation and inclusive growth.



In reality, inclusive growth as a strategic priority cuts across all our ambitions and underpins our approach to rebalancing regional economic growth across Scotland.

Since the publication of the Strategy, the Scottish Government has been developing its evidence base to understand how to improve inclusive growth outcomes for all regions, people and places across Scotland. The foundation of our analytical approach is our 'inclusive growth diagnostic', a systematic and evidence-based framework used to identify inclusive growth priorities in Scotland's regions for long-term, **transformational** change. To date, we have worked with regions and Local Authorities across Scotland to apply this framework in their areas, and have launched Scotland's Centre for Regional Inclusive Growth (SCRIG) as a platform to enable sharing of best practice and core analytical tools.

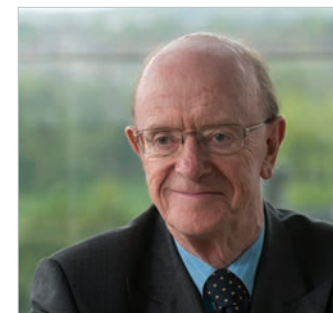
However, we believe that inclusive growth can only be sustainable in the long-term **if it is business-led**, working alongside the public sector and partners to create the right conditions for success. Businesses are key to delivering inclusive growth, through providing quality jobs and driving sustainable growth in the economy

To build on early work, we commissioned **The Good Economy**, working in partnership with the **Ethical Finance Hub**, to undertake a report that considers the needs of the **private sector and the role of business** in driving inclusive jobs growth in regions. This report focuses on the highlighting the opportunity for 'good job' creation in the South of Scotland.

The choice of the South of Scotland as the focus for this work reflects our desire for the establishment of the enterprise agency to be founded on a solid evidence base for the region, and this research contributes to that aim. However, the approach developed and lessons learnt have relevance for all of Scotland. This work will complement our existing frameworks by enabling us to effectively engage the private sector into this agenda. It is essential we now build on the analysis and evidence base to pave the way for practical, collaborative action and joined-up policy-making across the private, public and wider sector to deliver on our ambitions for a better Scotland that provides opportunity for all.

**Mary McAllan**  
Director for Economic Development  
Scottish Government

**Gary Gillespie**  
Chief Economist  
Scottish Government



## FOREWORD BY PROFESSOR RUSSEL GRIGGS OBE, SOUTH OF SCOTLAND ECONOMIC PARTNERSHIP CHAIR

I am among many who share a positive vision for the South of Scotland that will drive inclusive growth, increase competitiveness and tackle inequality in the region. We will achieve this through supporting a diverse and resilient economy, sustaining and growing our communities, and capitalising on our people and resources.

The South of Scotland faces many of the opportunities and challenges associated with being a predominantly rural area. Phase 2 of the Scottish Government's Enterprise and Skills Review recognised this and set out a desire to do things differently and drive improved inclusive growth outcomes across the region through the establishment of a new South of Scotland Enterprise Agency.

Since then, the South of Scotland Economic Partnership has been established to lay the foundations and ensure that the South of Scotland benefits from a new approach to economic development as soon as possible.

As a partnership we recognise the need for work to be shaped and responsive to the needs of the area and have been committed to delivering a strong programme of engagement with the population, whoever and wherever they are, across the South, to ensure that they can influence the work programme and inform proposals for the new agency.

The work undertaken by The Good Economy, in partnership with Ethical Finance Hub, supports our ambitions for the region and provides us with a valuable evidence base around the needs of the private sector in our economy, as well as a framework for effectively engaging them and integrating these views in the policy-making process.

The positive level of engagement received from our local businesses demonstrates the interest in this agenda and a collective commitment to improving the local area. Many of the businesses who took part already have ambitions for growth and creating quality jobs at their heart. The report highlights the support businesses need from the wider system to drive this and where we have further work to do, particularly around improving transport and other forms of regional connectivity, ensuring we have a sustainable and skilled population, and enhancing the region's profile as a destination for tourism.

We have an opportunity, through the establishment of the new agency, to capitalise on the ambitions of our local people, communities and businesses, create quality and well- paid jobs, and to deliver real and tangible improvements in inclusive growth outcomes for the economy of the south of Scotland.

And before the agency, through the interim South of Scotland Economic Partnership, we will look to make use of this work. It will inform our own vision and priorities for the South as well as inform our views on what we think the new agency should do.

**Professor Russel Griggs OBE**  
Chair, South of Scotland Economic Partnership



# THE STUDY TEAM

The Good Economy (TGE) carried out this study in partnership with the Ethical Finance Hub. The study was led by Mark Hepworth, TGE Director of Research and Policy, who is a multidisciplinary economist with an international career spanning business, academia and public policy. The core project team included Sam Waples and Sarah Forster from TGE as well as Chris Tait and Omar Shaikh from the Ethical Finance Hub.

## THE GOOD ECONOMY PARTNERSHIP (TGE)

The Good Economy Partnership is a social advisory firm that promotes the role of business and finance in inclusive and sustainable development. TGE provides research, strategy, fund design and impact measurement and management services to a range of clients including businesses, investors, government and social enterprises. Notably, for the purpose of this pioneering study, TGE's Good Jobs Ratings, an original 3-D methodology for measuring business-led inclusive job growth performance by company, sector and place, has been applied. It provides a holistic perspective and triangulated analysis of Good Jobs, Places and Businesses – the building blocks of inclusive growth and a Good Economy that works for everyone.

[www.thegodeconomy.co.uk](http://www.thegodeconomy.co.uk)

## THE ETHICAL FINANCE HUB (EFH)

The Ethical Finance Hub emerged in response to the financial crisis where growing interest in sustainability, climate change and social justice led to a collective desire to create a more responsible financial sector that operates in a transparent and ethical manner. Based in Edinburgh and backed by the Scottish-government, the EFH aims to connect individuals and organisations interested or active in ethical finance in order to: raise awareness, build capacity and facilitate practical activities (such as market research, events and advisory work) that supports the growth of the sector in Scotland. The EFH is committed to helping to create a fairer, more inclusive and socially responsible financial system as well as improve the environmental, social and governance performance of businesses.

[www.ethicalfinancehub.org](http://www.ethicalfinancehub.org)

# ACKNOWLEDGEMENTS

We would like to thank both the South of Scotland Economic Partnership (SoSEP) and the Scottish Government (SG) for supporting and helping us to carry out this seminal research on the business drivers of place-based inclusive growth. Special thanks to SoSEP's Professor Russel Griggs and Rob Dickson for their guidance throughout.

The success of the study itself augurs well for the new South of Scotland Enterprise Agency, which will be up and running in 2020. We say this because, in the course of our interview work, we found that local businesses are ready and willing to work in partnership with the Agency to make the idea of inclusive job growth a reality. We are truly grateful to all of the 68 businesses who contributed their experience, insight and time to the interview survey.

The influential Organisation for Economic Co-operation and Development (OECD) has highlighted the need to close the gap between inclusive growth policy and business practice – this study does precisely that. The study is grounded in not only business practice, but also in policy practice – the devolved, everyday work of business advisers, education and learning providers and local authorities. All of these partners made an invaluable contribution to the research. We are particularly grateful to the Business Gateway and Scottish Enterprise advisers who took considerable time to support the team in arranging interviews. Their unique knowledge of the regional economy and its local businesses is a major asset for the new Agency, going forward.

We would also like to extend our thanks to the finance providers, including commercial banks, venture capital firms and social investors, for their participation and insights. They have shed some light on the way forward in developing a place-based approach to impact investing linked to a strategy of business-led inclusive growth.

Finally, we would like to thank the Scottish Government for commissioning this research and their review of the final report. Special thanks to Uzma Khan, Deputy Director, Economic Strategy and Natalie Hemmings, Economic Advisor from the Economic Development Directorate.

# EXECUTIVE SUMMARY

This research study looks at three important dimensions of the Scottish Government's inclusive growth policy agenda: **JOBS, BUSINESSES** and **PLACES** – the unifying focus being the South of Scotland as a region seeking to achieve inclusive and sustainable development. The study was carried out by The Good Economy, working in partnership with Ethical Finance Hub, during the period September – December 2018.

## ■ STUDY OBJECTIVES (SECTION 1)

Inclusive growth is central to the Scottish Government's Economic Strategy. This is 'growth that combines increased prosperity with greater equity; that creates opportunities for all and distributes the dividends of increased prosperity fairly'. The Government recognises that businesses – as drivers of good job creation – have a central role to play in delivering inclusive growth. Business-led 'inclusive job growth' is therefore essential to achieving the Scottish Government's inclusive growth goals.

The main objectives of this study were:

- To produce a **baseline assessment of the South of Scotland's business-led inclusive job growth performance** using The Good Economy's methodology, combined with local expert opinion to validate and deepen understanding of the region's main challenges and issues;
- To carry out a **local business survey** in order to understand how inclusive job growth is manifested in business and workplace practice (with particular reference to the Fair Work Convention and the Scottish Business Pledge); and, to identify the main barriers that constrain business-led inclusive job growth in the South of Scotland;
- To understand the demand for investment in the South of Scotland and **identify innovative finance and 'impact investment' approaches** that could enhance the prospect of business-led inclusive job growth in the region based on a consultation with a range of finance providers; and
- To produce **policy and practical guidance** which the Scottish Government and the South of Scotland Enterprise Partnership (SoSEP) can use to develop an innovative business/ investor approach to inclusive job growth.

## ■ THE BASELINE ASSESSMENT (SECTION 2)

The South of Scotland is a newly established regional economic partnership area comprising the local authorities of Dumfries and Galloway and Scottish Borders.

**The baseline analysis found that business-led inclusive job growth is particularly challenging in the South of Scotland. This is true of rural Scotland more generally and also the majority of Scotland's regional economic partnership areas.**

The South of Scotland lags behind all the other regions in Scotland in terms of its business-led inclusive job growth performance using The Good Economy's metrics. Two city-regions, Stirling and Edinburgh, perform above the national average.

**The core message from local experts was that the South of Scotland has entered a 'watershed' in its economic development, a crucial turning point and an opportunity for change which it must grasp if the Region is to make the transition to sustainable and inclusive growth.**

Experts identified the main barriers that need to be overcome – from the 'tyranny of geography' to the 'brain drain' to 'investment-readiness' to 'economic culture'. **Transport and Communications was a top priority** for both the local experts and businesses we interviewed. The South of Scotland is a poly-centric, bi-coastal region which can only achieve business-led inclusive job growth if it possesses an integrated regional transport system and universal, affordable access to superfast broadband networks. Removing these infrastructure barriers will benefit every business and every community.

**The Region's limited labour pool and skills base were also seen as a major barrier to business-led inclusive job growth.** Underlying these challenges are adverse demographic trends – an ageing economically active population and outward migration of young people. Skills problems are economy-wide, and constrain key sectors such as manufacturing and engineering. These barriers are interdependent – for example, transport barriers undermine labour mobility, and hence business access to skills, and worker access to job opportunities.

## ■ THE LOCAL BUSINESS SURVEY (SECTION 3)

The Business Survey was comprised of interviews with 68 local businesses.

The main objectives of the survey were:

- To assess business growth performance by turnover and employment, including future growth plans;
- To appraise the 'inclusiveness' and quality of business employment and workplace practices;
- To identify the main barriers to business growth linked to the South of Scotland as a location; and
- To explore business awareness of the Scottish Government's inclusive growth priorities, and the practical relevance of the Scottish Business Pledge.

## BUSINESS PERFORMANCE AND OUTLOOK

The 68 businesses interviewed comprised a diverse range in terms of size, sector and legal type:

- 75% of businesses were private limited companies and 10% were sole traders.
- 15% of the businesses were Community Interest Companies, Charities, Companies Limited by Guarantee, Industrial and Provident Societies and Limited Liability Partnerships.
- 87% of businesses were independent companies, 56% of which were family-owned.
- 13% of businesses were subsidiaries, 67% of which were foreign-owned.

In total, the businesses generated £633.7 million in annual turnover and accounted for 3,700 direct jobs in the South of Scotland. Median annual turnover was £568,000, and the median number of employees was 9 people.

**The overall picture of business turnover and employment growth was extremely positive.** 62% of businesses increased turnover over the last three years, with median turnover growth being 10%. 60% of businesses grew their workforces over the last three years with the median employee growth rate being 8.5%.

**85% of the firms have 3-year growth plans which include creating new full-time job opportunities,** including in higher quality professional, managerial occupations and entry-level supervisory and apprenticeship roles.

## JOB QUALITY AND FAIR WORK

60% of the businesses were paying their staff the Real Living Wage (RLW) as defined by The Living Wage Foundation – £8.75 per hour at the time of the survey. A further 7% of businesses said they were planning to pay it. A number of companies would like to pay the RLW but find it financially difficult to do so. All businesses were paying the lower statutory National Living Wage or more.

The survey produced encouraging evidence on skills training and other aspects of job quality:

- 78% of businesses offer skills training and development opportunities;
- 64% offer career progression opportunities;
- 69% of businesses encourage staff participation in decision-making;
- 6% of businesses offer employee share ownership and 17% of businesses are planning to offer it; and,
- 75% of businesses have plans to continually improve workforce development practices.

Local businesses have diverse workforces in terms of gender balance. 68% of companies have female directors or partners, with family-owned companies having a more even gender balance. Reflecting the rural demographics, only 6% of companies have directors or partners from ethnic minority groups.

**SOUTH OF SCOTLAND AS A BUSINESS LOCATION**  
**More than 40% of the businesses interviewed had export markets,** and although 30% of the businesses were highly dependent on local customers, a growing share of revenue generation comes from UK and international tourism.

**There is positive evidence of 'buying local' business practices,** particularly in the Food and Drink businesses, with key linkages to tourism-driven Accommodation, Entertainment and Recreation businesses.

**There is one 'stand out' locational advantage that the South of Scotland offers the businesses – that is, "Quality of Life", mainly the natural landscape.**

## BARRIERS

The major barriers to inclusive job growth from a business perspective are:

- **Transport connectivity** within the region (East – West and North – South) and connectivity to other parts of the UK are major barriers to accessing larger markets, attracting and retaining staff and serving key customers. Road infrastructure was most mentioned (e.g. single carriageway roads in poor condition), followed by the lack of public transport.
- **The lack of a sufficiently large skilled labour pool,** particularly among young people.
- **The South of Scotland's low profile as a tourist destination.** Local consumer service businesses feel under-served by national tourism bodies.
- **Lack of business dynamism.** IT and professional service companies believe that local businesses are typically not innovation-oriented.





## POLICY AND PRACTICE

Only 3 of the 68 businesses interviewed (4%) were signatories of the Scottish Business Pledge) but the majority of businesses interviewed meet the various Pledge criteria. This is everyday practice rather than a conscious, formal business response to the Pledge. These results suggest that the national sign up rate (less than 1%) for the Scottish Business Pledge does not reflect how well Scottish businesses are actually performing across the criteria of fair work and business inclusive-growth practices.

## FINANCE AND INVESTMENT (SECTION 4)

The majority of the businesses surveyed (78%) had received support from the Scottish Government, in the form of business advice and funding (45%), business advice only (36%) and funding only (19%).

Around two-thirds (62%) of the businesses surveyed had used external commercial finance. The experience of accessing commercial funding has been largely positive with only 17% reporting a negative experience.

Around half (56%) of the businesses surveyed require external funding to support their businesses to scale-up over the next three years. The majority of these businesses are already using commercial finance (64%). Financing needs range from £2,000 to £40 million, but most are seeking funding between £1 million and £5 million.

Most businesses with a future funding need are expecting to approach banks to access loans. Business owners were wary of taking on equity, some based on bad experience with private equity investors. Those who were interested in equity investment are looking for investors who bring “expertise, strategic support and patience” and are prepared to be active investors supporting and helping the business grow.

Businesses would like to see more financial products that are aligned with their growth plans and more personal relationships with financial institutions. There is a demand for more patient capital with longer term appetite (such as 10 to 15-year loans); performance based or revenue participation debt structures and the ability to borrow small amounts e.g. £2,000 to £10,000.

Image credits, left to right: Scottish Borders Council, Pixabay

The core messages from private finance providers including two large mainstream banks, one regional business angel group, one microenterprise lender and one social investor are:

- Lack of deal flow is a bigger problem than lack of supply of finance;
- Local business leaders are **not fully aware of financing options and lack confidence in banks**;
- Systemic structural shifts require finance providers to **develop new forms of finance**, including valuing IP and non-traditional security in investment decisions for growing creative and tech-based businesses; and
- **The social entrepreneurship culture in the region is nascent.** The primary concern of social sector organisations is securing sustainable sources of income. Social investment has a role to play in developing enterprising, impact-led business models.

## WIDER INVESTMENT NEEDS AND INNOVATIVE FINANCE APPROACHES

The study found broad agreement on the main external barriers to business-led inclusive growth in the South of Scotland: improving transport and communications; and investing in skills and workforce development, with a focus on supporting local young people into local jobs.

In terms of transport investment, consideration could be given to mobilising social investment to invest in a **region-wide community transport public bus service** learning from experience elsewhere. **Creating local routes out of poverty through work**, particularly for marginalised young people, is also a priority investment area.

In terms of larger scale ‘impact investment’ – investment that that seeks social (or environmental) benefits as well as financial returns – the Government could consider the **issuance of Social Bonds**. Social Bonds are specific “use of proceeds” bonds launched in the mainstream capital markets to raise private finance and are a good form of finance for infrastructure projects. Is this an area where the Scottish Government could take a leadership role? Could Scotland encourage greater fiscal decentralisation which would enable bond issuance to fund local development needs?



## SUMMARY OF FINDINGS AND CONCLUSIONS

From the business survey results, we have identified a number of **action areas for promoting business-led inclusive growth in South of Scotland**:

- Produce and **implement an integrated, multi-modal, sustainable regional transport strategy** that maximises connectivity within the Region and between the Region and external markets in Scotland, the UK and the Rest of the World;
- Develop and implement a **holistic talent (human capital) retention and attraction strategy** aimed at young people and young families, extending from skills and education through housing to ‘good’ business jobs and entrepreneurship;
- Linked to the above, and to promote SME growth in retail and other consumer and business services, **modernise the Region’s town centres** as ‘smart’ places – places that are technologically, ecologically and entrepreneurially advanced – for people and businesses to live, work, shop and play; the Scottish Government’s plan to establish a town centre diversification fund is well-aimed and timely;
- Grow a **regional Business for Inclusive Growth (B4IG) ecosystem** that supports existing businesses like those interviewed here, attracts new businesses into the area (‘investment-readiness’) and enables start-ups to scale up. A social enterprise growth fund belongs here. **The Enterprise Agency’s service delivery infrastructure should be ramped up, decentralised, sector-neutral and more balanced in its growth and inclusion** appraisal of a business’ prospective contribution to the Region;
- SMEs are scattered all over the Region and are therefore ‘invisible’ – this ‘thin spread’ is bad for building supply chains and encourages the false impression that the Region is a place to visit or retire to, rather than a place where businesses can thrive; to counter this, **a regional technology and information platform** should be created to forge linkages between local businesses and to link them to external markets, investors, funding sources and innovation clusters;
- **Develop a collaborative place-based Impact investment strategy** in the South of Scotland in which SoSEP brings together public, private, social investors and philanthropic funders to develop innovative impact investment strategies to meet local investment needs. Attention should be given to customer-led, flexible financial product development to meet the needs of local businesses; and
- Finally, **diagnostics should be designed to support and encourage close alignment across levels of policy and delivery** – national, regional, local authority and even hyper-local community levels. This study’s methodology and questionnaire could be used as a basis for regular 6 month or annual B4IG barometer surveys.

The business survey elicited high levels of engagement and interest in the inclusive growth agenda. We found a strong sense of community amongst the business managers and owners surveyed and a commitment to improving the local area. There is fertile ground for developing a business-led, place-based approach to inclusive growth in the South of Scotland, which also leverages impact investment as a driver of positive change.

Image credits, left to right: Our Scottish Borders / Ruth Fletcher, Scottish Borders Council



# SECTION 1 – INTRODUCTION

## CONTEXT

Inclusive growth is central to the Scottish Government's Economic Strategy. This is defined as 'growth that combines increased prosperity with greater equity; that creates opportunities for all and distributes the dividends of increased prosperity fairly'.

'Inclusive job growth' lies at the heart of the Scottish Government's inclusive economic growth framework.<sup>1</sup> In simple terms, the Government wants to bring about a fair and balanced distribution of good job opportunities that will benefit all regions and all local communities.

The Government recognises that **business-led inclusive job growth** is essential to achieving its policy aims. In the words of First Minister Nicola Sturgeon:

*"Inclusive growth is fundamental to the Scottish Government's economic strategy – growth which provides opportunity to everyone across all parts of the country. Business and government working together is vital for inclusive growth and will have a lasting and positive impact on the people living and working in Scotland."*<sup>2</sup>

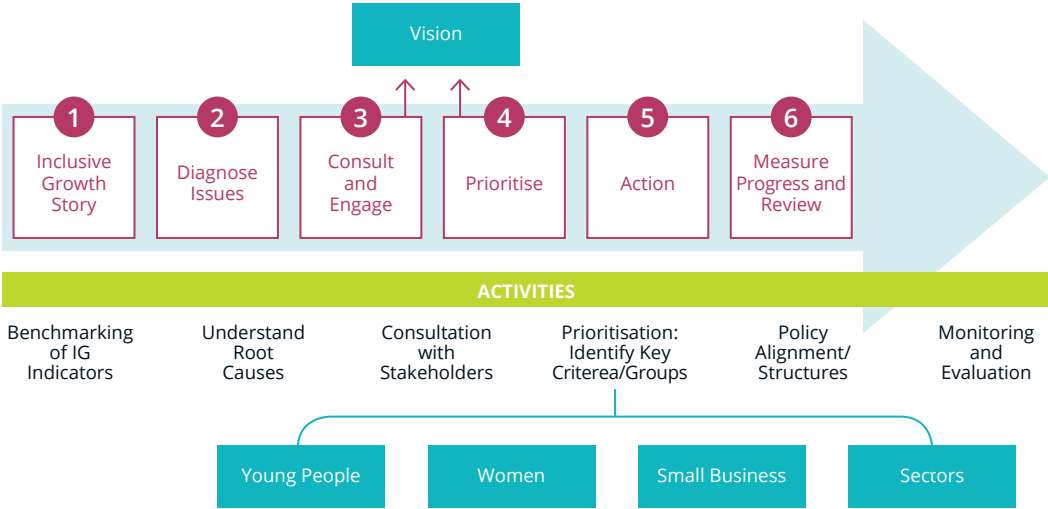
Working together to align business and government action on inclusive job growth requires a shared understanding of the link between the Scottish Government's policies and business practice. This 'gap' exists internationally, which is why the OECD launched its Business for Inclusive Growth (B4IG) platform at the start of 2018:

*"To date there has been no comprehensive effort to link business practice and government policies on inclusive growth. B4IG aims to fill this gap, and to align business and government action on inclusive growth."*<sup>3</sup>

The Scottish Government believes that **inclusive growth is a place-based policy agenda**, such that a local perspective is needed to understand the links between government policies and business practice. The local focus of this study is the South of Scotland, where the prospect of business-led inclusive job growth is especially challenging.<sup>4</sup> There, the South of Scotland Economic Partnership (SoSEP) has been working with local partners to shape strategic priorities for inclusive growth prior to the establishment of a new regional Enterprise Agency in 2020.

In summary, this study looks at three important dimensions of Scotland's inclusive growth policy agenda: **JOB**S, **BUSINESS**ES and **PLACES** – the unifying focus being the South of Scotland as a region wanting to achieve inclusive and sustainable development. This study adopts a place-based approach to inclusive job growth in Scotland.

Chart 1.1– Regional and Local Inclusive Growth Diagnostics



## OBJECTIVES

The study was carried out by The Good Economy, working in partnership with Ethical Finance Hub, during the period September to December 2018. The main objectives of the study were:

- To produce a baseline assessment of the South of Scotland's business-led inclusive job growth performance using The Good Economy's methodology for measuring business-led inclusive job growth, with local expert opinion used to validate and deepen understanding of the region's main challenges and issues;
- To understand how inclusive job growth is manifested in business and workplace practice (with particular reference to the Fair Work Convention and the Scottish Business Pledge); and, to identify the main barriers that constrain business-led inclusive job growth in the South of Scotland;
- To understand the demand for investment in the Region and identify innovative finance and 'impact investment' approaches that could enhance the prospect of business-led inclusive job growth in the South of Scotland;
- To produce policy and practical guidance which the Scottish Government can use to develop an innovative business/ investor approach to inclusive job growth.

This study offers practical guidance for improving the **business domain of the Scottish Government's Regional and Local Inclusive Growth Diagnostics** (see Chart 1.1). Its research approach is consistent with the Diagnostic's logical flow – from benchmarking local and regional performance through to consultation with SMEs in the shape of the local business interview survey. Its local expert consultation also helped with diagnosing issues and identifying priorities and scope for policy alignment.

The study can also contribute to Scotland's strategy for implanting the global **Sustainable Development Goals (SDGs)** (see Chart 1.2). With its emphasis on business-led inclusive job growth, the study is most relevant to SDGs 8 and 10: respectively "Decent Work and Economic Growth" and "Reduced Inequalities Within and Between Countries". It can enhance Scotland's SDG platform and serve to align SDG 8 and 10 metrics with the National Outcomes and National Performance Framework.

Chart 1.2 – The UN Sustainable Development Goals



1 The OECD defines 'inclusive job growth' as sustainable job creation that leads to a more equitable distribution of good job opportunities socially and geographically. "Good Jobs" are defined by earnings quality, job security and work fulfilment.  
2 <https://www.bbc.org.uk/news-opinion/news-scottish-responsible-businesses-meet-first-minister-and-pledge-back-inclusive>  
3 [https://www.oecd.org/inclusive-growth/Business\\_for\\_IG.pdf](https://www.oecd.org/inclusive-growth/Business_for_IG.pdf)  
4 See evidence from the Scottish Government's Enterprise and Skills Review and SoSEP's public consultation work.

■ RESEARCH DESIGN

This study uses a ‘triangulated’ methodology for analysing business-led inclusive job growth in the South of Scotland region, as shown in the diagram below. Triangulation makes it possible to cross-verify the findings of the three legs of our analysis and produce a more robust evidence base.



**The Baseline Analysis** – the first phase of work comprised an analysis of business-led inclusive job growth in Scotland using TGE’s proprietary methodology. We compared the South of Scotland’s business-led inclusive job growth performance against other areas of Scotland and the Scottish national average, at the regional and local authority levels. This includes a descriptive spatial analysis of the South of Scotland’s performance using TGE’s Inclusive Job Growth by Place metrics, and an explanatory sector analysis of the Region’s performance using TGE’s Inclusive Job Growth by Sector metrics.

**Local Experts** with everyday experience of working with South of Scotland businesses were consulted in order to sense-check the results of the top-down national data analysis, and to widen and deepen understanding of the challenges and barriers to business-led inclusive job growth in the region. The rationale here is that inclusive job growth is a place-based policy agenda, and place performance can be influenced by a combination of locally specific factors – geography, culture, politics, etc. Hence, the local experts help to ground the national data analysis and enrich the explanatory content of the baseline assessment.

**The Local Business Survey** is the third leg of our triangulated methodology, the obvious rationale being that policy-makers and local and regional partners need to know what businesses themselves are thinking and doing. How is inclusive job growth manifested in business practice and workplaces? What are the main barriers to inclusive job growth from a business perspective? What would businesses like to see as strategic priorities for SoSEP and the new Enterprise Agency? How do their practices link to the Scottish Government’s Business Pledge and Fair Work initiatives? We explored these questions with 68 South of Scotland businesses, mainly SMEs from different sectors and areas of the Region.

We believe that this triangulated research approach to business-led inclusive job growth in the South of Scotland has created a robust evidence base for the strategic work of SoSEP, the new Enterprise Agency, and the Scottish Government.

Finally, as a special theme, the Business Survey explored the internal financial needs of businesses and the external investment needs to support regional business development (infrastructure, skills, etc.). We shared this needs analysis with national financial and investment providers who are familiar with the South of Scotland business and economic context. These discussions led us to identify innovative financial products and ‘impact investment’ models that could potentially help to meet the needs of South of Scotland’s businesses. We believe that a place-based framework for meeting business finance and investment needs should be developed as part of the South of Scotland’s business-led inclusive job growth strategy.

■ THE STRUCTURE OF THE REPORT

The results of the study are presented in three sections:

- Section 2 reports the results of the Baseline Assessment
- Section 3 reports the results of the Local Business Survey
- Section 4 reports the results of the Finance and Investment Needs Analysis
- The Annex of the report provides detail on the indicators used for the baseline assessment and the list of South of Scotland businesses interviewed.

# SECTION 2 – A BASELINE ASSESSMENT OF BUSINESS-LED INCLUSIVE JOB GROWTH IN THE SOUTH OF SCOTLAND

■ THE BASELINE ANALYSIS

This section of the report provides a baseline picture of business-led inclusive job growth for the South of Scotland. Where does the Region currently stand when compared to other areas of Scotland and the nation as a whole?

Identifying and agreeing a robust baseline is essential for goal-setting by SoSEP regionally and by the Scottish Government nationally, given that delivering inclusive job growth is an ‘all-inclusive’ responsibility in terms of policy and implementation. By corollary, policies, goals and delivery targets have to be closely aligned in a place-based approach to inclusive job growth.

This study’s baseline analysis offers a high-level, ‘as of now’ view of the South of Scotland region. More detailed analysis is needed to complete the baseline picture, which will need to be dynamically refreshed and agreed on by local and national partners.

NATIONAL DATA

We begin by mapping and measuring business-led inclusive job growth across Scotland at the local authority and regional levels, benchmarking place-performance against the Scottish average. This is purely a flat descriptive analysis, leading on to a second stage of explanatory analysis.

This descriptive stage of the baseline analysis uses the Inclusive Job Growth by Place suite of performance indicators shown in the top half of Chart 2.1. The Growth indicators are private sector focused, the median earnings indicator is a proxy for productivity growth, and working age population growth is intended to capture the dynamism of the labour market. The Inclusion indicators measure the health of the local labour market, in terms of average earnings quality, skills and access for vulnerable groups. In our presentation of the results, we show how local and regional economies – with the South of Scotland highlighted – perform on Inclusion and Growth separately as well as in combination, in order to emphasise the interdependence of these axial dimensions of inclusive job growth.

The baseline analysis then moves from description to explanation. What lies behind these local and regional differences in business-led inclusive job growth performance? Still using national data, we begin by exploring the influence of sectors – local or regional variation in industrial structure. For the purpose of this study, we characterise sectors by their inclusive job growth profiles, using the suite of Inclusive Growth by Sector indicators shown in

the lower half of Chart 2.1. Broadly speaking those places with a higher concentration of sectors with favourable inclusive job growth profiles will perform relatively better. But for explanation we need to go much further.

**Top-level sector analysis based on national data can only provide part of the explanation of the South of Scotland’s business-led inclusive job growth performance – particularly, if we adhere to a place-based approach to understanding and policy. Geography, history, culture and industrial organisation matter – we can see this by travelling through the South of Scotland, talking to businesses and local partners along the way. Inclusive growth policies need to be grounded in local knowledge.**

LOCAL KNOWLEDGE

To ground the baseline analysis and deepen its explanatory content, we interviewed ten local experts who have a first-hand practical/professional understanding of the challenges and issues facing South of Scotland businesses. (Please see the study’s ‘triangulated methodology’ for analysing business-led inclusive job growth explained in Section 1 of the report.). We invited these individuals to share their views on:

- The present state of business-led inclusive job growth in the Region – are the results of the benchmarking analysis consistent with their own viewpoints?
- The main barriers to business-led inclusive job growth – to some extent these are common knowledge, but highlighting and contextualising these ‘man-made’ barriers is timely and valuable, particularly when reinforced by the direct evidence from the local business survey.
- Priorities for SoSEP and the new Enterprise Agency – the common purpose of ‘region building’ through stakeholder and policy alignment.

The local experts work for Business Gateway, Scottish Enterprise, the Chambers of Commerce, the colleges, University of West of Scotland, and the South of Scotland Economic Partnership. This consultation exercise should extend to business-led sector associations. Experts were consulted in person and/or invited to provide a written email submission.



Chart 2.1 – TGE Performance Indicators for Mapping and Measuring Business-led Inclusive Job Growth by Place and Sector – please see Annex for further details on the indicators.

Inclusive Job Growth by Place	
<p><b>Growth</b></p> <ul style="list-style-type: none"> <li>- Private Sector Job Growth</li> <li>- Private Sector Output Growth</li> <li>- Micro/SME Growth</li> <li>- Median Earnings Growth</li> <li>- Working Age Population Growth</li> </ul>	<p><b>Inclusion</b></p> <ul style="list-style-type: none"> <li>- Earnings Quality – Median Resident Earnings and % of residents earning above the Real Living Wage (RLW)</li> <li>- Average job security</li> <li>- Average skills profile</li> <li>- Employment rates of Young, Women, Low Skilled and Older People</li> </ul>

Inclusive Job Growth by Sector	
<p><b>Growth</b></p> <ul style="list-style-type: none"> <li>- Private Sector Job Growth</li> <li>- Private Sector Output Growth</li> <li>- Micro/SME Growth</li> <li>- Median Earnings Growth</li> <li>- Indirect Employment</li> </ul>	<p><b>Inclusion</b></p> <ul style="list-style-type: none"> <li>- Earnings Quality – Median Resident Earnings, % of jobs earning above the RLW, Earnings Fairness and Distribution</li> <li>- Average job security</li> <li>- Average skills profile</li> <li>- Workforce share of Young, Women, Low Skilled and Older People</li> </ul>

TGE has carefully researched and selected these economic, business and labour market indicators drawing on guidance from organisations such as the Organisation for Economic Cooperation and Development (OECD), the World Economic Forum, the International Labour Office (ILO) and Global

Sustainable Development Goals (SDGs) implementation plans. The indicators partly overlap with the Scottish Government's Inclusive Growth (IG) Diagnostics, and they will be familiar to all Scottish local authorities with sustainable development plans.



## 2.2 RESULTS OF THE NATIONAL DATA ANALYSIS

### THE SCOTTISH LANDSCAPE

The geography of business-led inclusive job growth in Scotland for 2014/17 – mapped by local authority area – is shown in Chart 2.2. The TGE Inclusive Job Growth by Place metrics have been used to create this baseline picture, with the Growth and Inclusion performance scores being treated equally – in order to emphasise that we attach **equal importance** to these two aspects of economic development.

This baseline picture shows **why tackling local and regional inequality is a central plank of the Scottish Government's Inclusive Growth policies**. This unequal geography of job opportunity is, of course, linked to the history of economic development in Scotland – the rise and fall of sectors and places over time. We see these histories writ large in South of Scotland's landscape, for example Hawick's textile mills and the Border Railway bridges.

This unequal landscape of business-led inclusive job growth will be familiar to Scotland's national and local policy makers for whom sustainable development – including social sustainability (cohesion/inclusion) – is a long-standing policy agenda. This being the case, we need to ask **what is new and different about the inclusive job growth agenda**.

We would argue that inclusive job growth is fundamentally about the **FUSION** of growth and inclusion policies, conceptually and in practice.

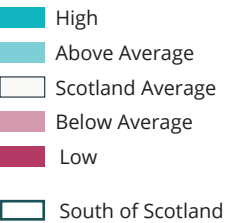
This 'blended' policy approach treats Growth and Inclusion as "two sides of the same coin", both at the economy level and the business level. This is why we have used a composite measure for the place-based analysis of business-led inclusive job growth, and also why we have 'drilled down' into growth and inclusion as mutual aspects of business practice, in the Local Business Survey (see Section 3).

Chart 2.3 shows how Growth and Inclusion performance varies separately across local economies – indeed there is only a weak spatial correlation in these two axial dimensions of business-led inclusive job growth. This implies that business-growth led policies will not necessarily deliver high levels of inclusive good job creation (the 'trickle-down argument'); and vice versa, inclusion-led employment policies will not necessarily lead to high levels of business-led job growth (the 'under-consumption' argument).

**The challenge facing the Scottish Government is to create a "high dynamism, wide inclusion" economy. The Scottish Government needs to pursue a 'place-matched' blend of Growth and Inclusion polices.**

Chart 2.2 – The Geography of Business-led Inclusive Job Growth in Scotland by Local Authority Area

Business-led Inclusive Job Growth in Scotland by Local Authority



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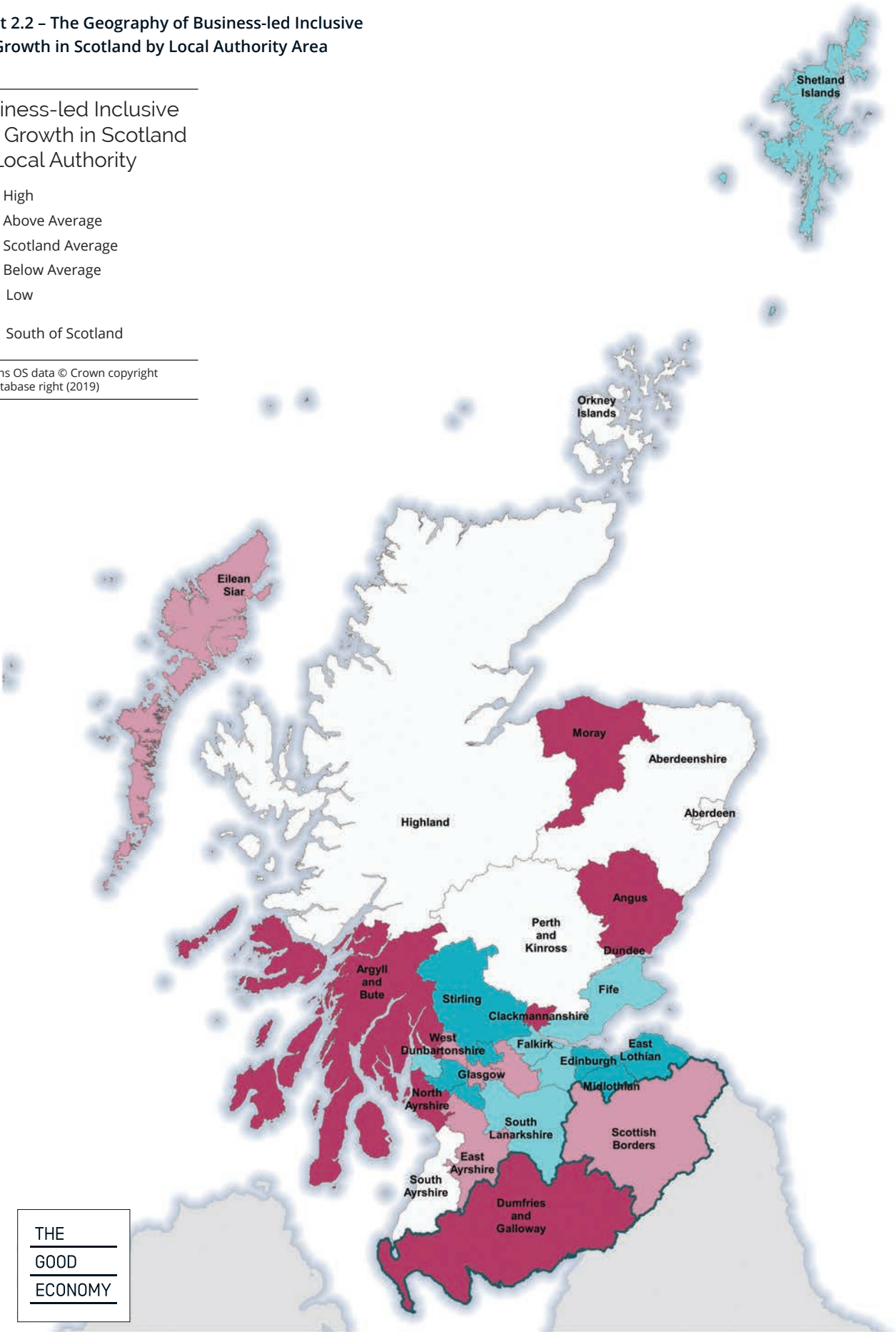
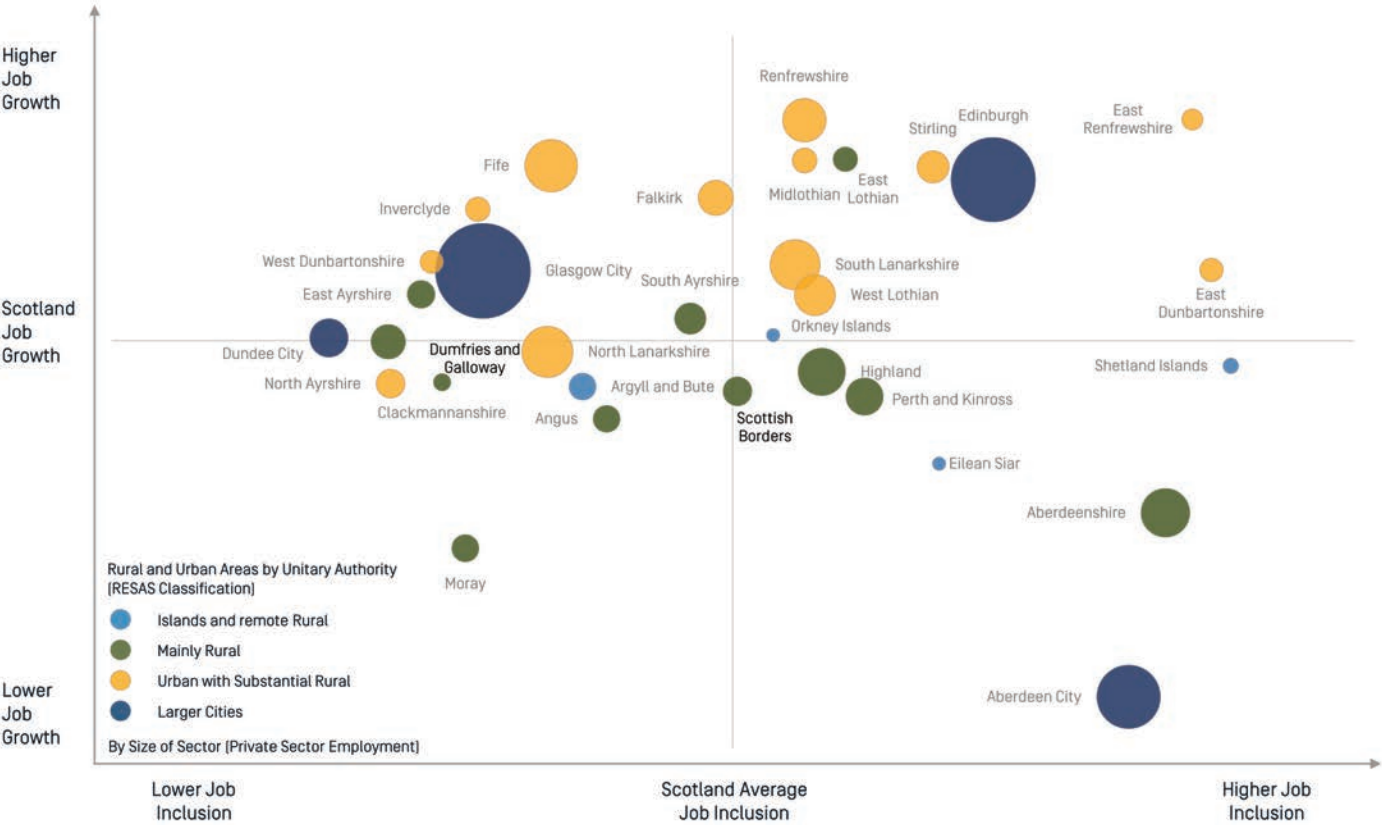


Chart 2.3 – The Inclusive Job Growth Performance of Local Authorities in Scotland



Rurality is undoubtedly a barrier to business-led inclusive job growth in Scotland. Rural economies simply do not enjoy the agglomeration economies available to city-regions. Chart 2.3 shows that whilst business-led inclusion can be found in both rural and urban Scotland, low business-led growth appears to particularly effect rural areas. Only East Lothian of the 'Mainly Rural' areas saw micro-business (5–9 employees) and labour force (working-age population) growth rates above that of the Scottish average. Almost 75% of the 15 'Mainly Rural' and 'Islands and remote Rural' areas have a shrinking workforce, over half (53%) of these areas have declining numbers of businesses with 5–9 employees.

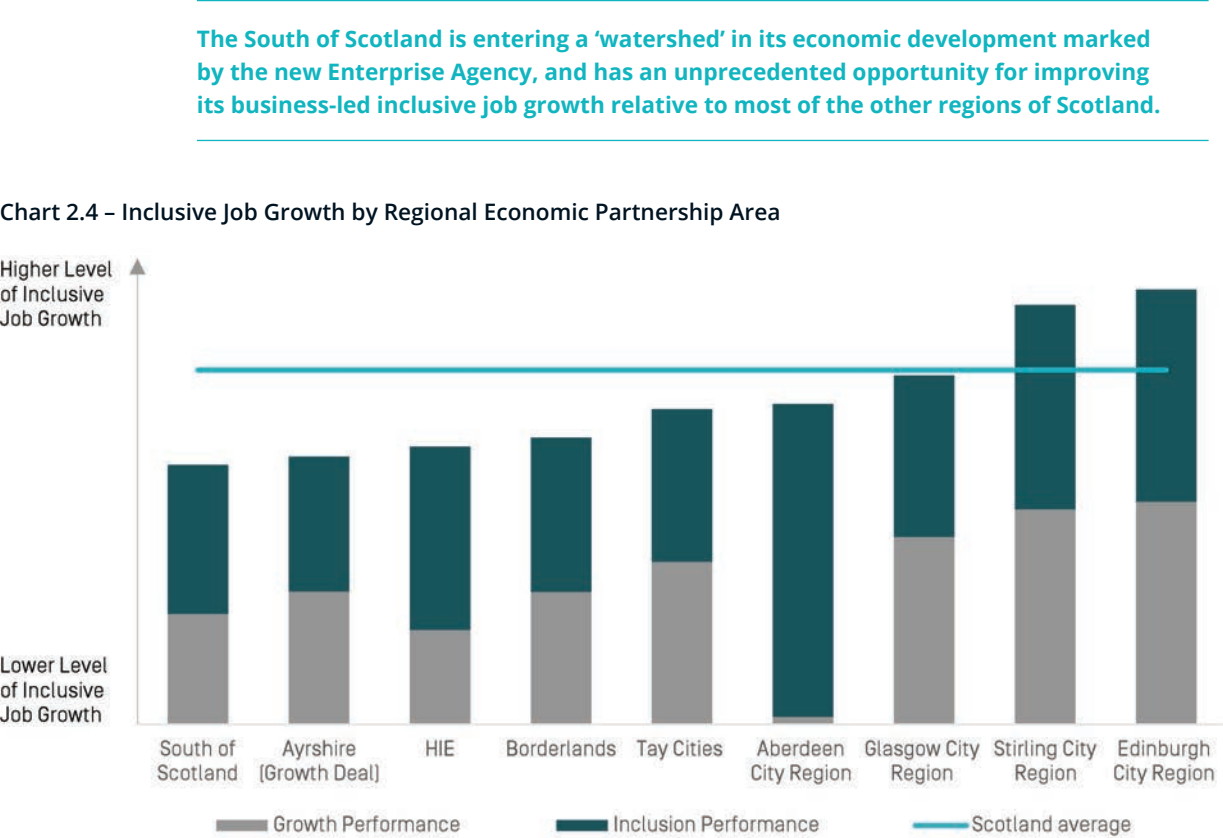
The South of Scotland is particularly challenged in achieving business-led inclusive job growth. This evidence is known national and locally, providing the rationale for establishing SoSEP and the new Enterprise Agency.<sup>5</sup> For the purpose of this study the evidence provides a necessary context for looking at business-led inclusive job growth in the South of Scotland. The South of Scotland's unfavourable Growth performance is mainly attributable to the Region's shrinking working age population and lack of business dynamism, specifically in the 1–19 employee, early-stage and scale-up business range. On the Inclusion side, resident earnings are relatively low even when compared to other rural areas of Scotland and Great Britain. Furthermore the Region has a weak skills profile and is short of graduate talent.

<sup>5</sup> The Scottish Government set out an ambition to develop Regional Economic Partnerships in the Enterprise and Skills Review, published in October 2016. Partnerships have developed from the bodies which came together to deliver the first City Region Deals in Scotland (SCRIG).



To provide a regional perspective on the challenges facing the South of Scotland we compared its business-led inclusive job growth performance against other Regional Economic Partnership areas established by the Scottish Government – including the Borderlands Inclusive Growth Deal region. The result shown in Chart 2.4 provides a more compelling view of the long-term challenge facing the South of Scotland, which lags behind the other regional partnership areas.

There are grounds for optimism particularly given the newness of the South of Scotland as a regional economic partnership area. All of the benefits of regional integration are latent and untapped. The Region has not benefited from a regional Enterprise Agency, unlike the Highlands and Islands which has long-benefited from its own Agency. Positively, there is also the prospect of further support emanating from Scottish Enterprise’s new approach to rural economic development as part of a place-based strategy for business-led inclusive job growth.



THE INFLUENCE OF SECTORS

Local variation in business-led inclusive job growth performance is partly due to underlying differences in the industrial structure or sector mix of local economies (their economic bases). To assess this influence we use the TGE Inclusive Growth by Sector metrics shown in Chart 2.1. All sectors are profiled by their recent and sustainable job **Growth** performance – accounting for business dynamism, productivity/earnings and output drivers and indirect multiplier effects. The job **Inclusion** profiles of

sectors are based on their performance by earnings quality and equity, job security, skills and accessibility to women and more vulnerable labour market participants. As with the Place-based measure of inclusive job growth, **we attach equal weight and importance to the relative Growth and Inclusion performance of sectors**. Due to data limitations, we use UK rather than Scotland data to profile the Sectors (the available matching data are highly correlated).

Chart 2.5 – The Inclusive Job Growth Performance of Sectors in the South of Scotland Economy

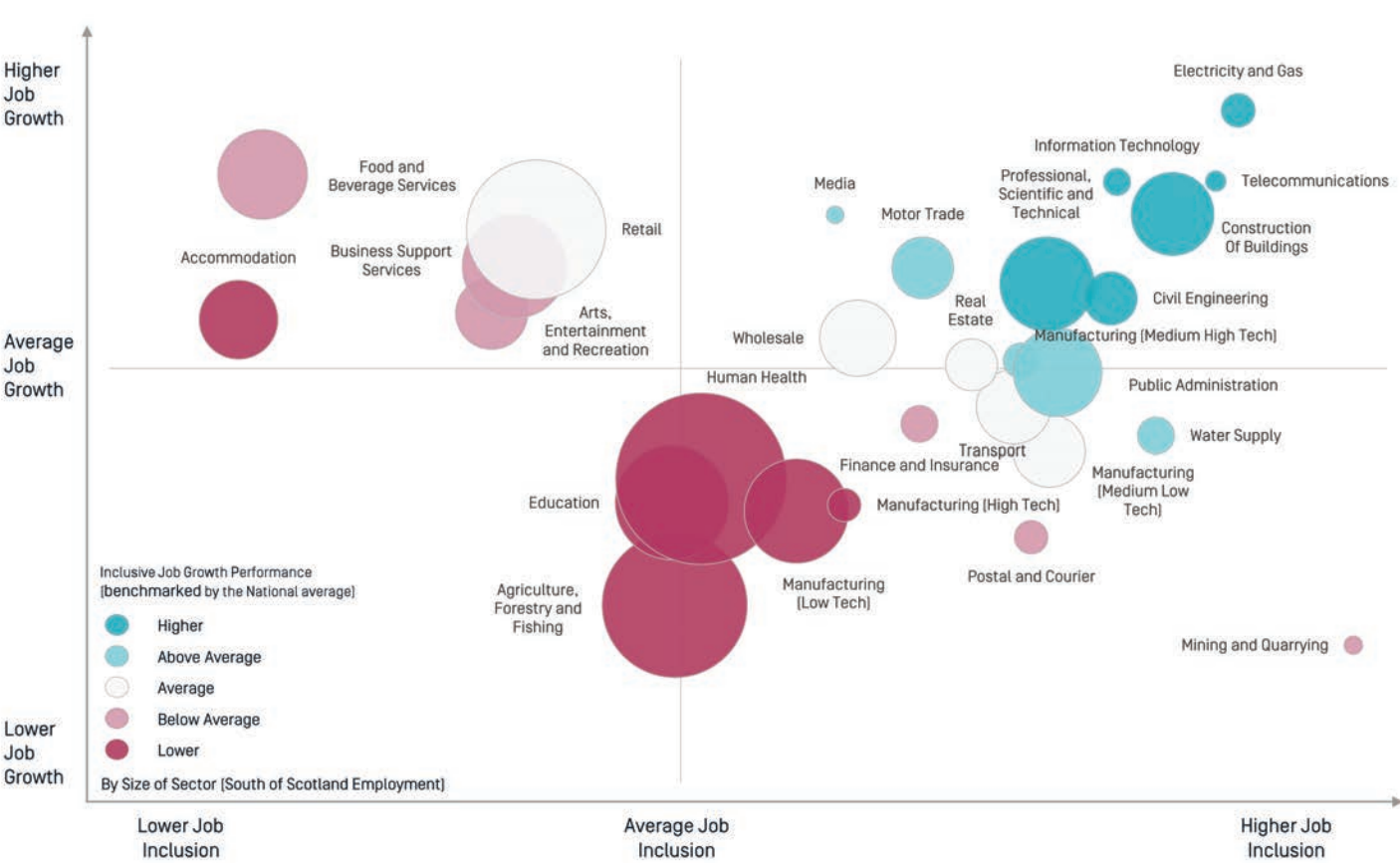
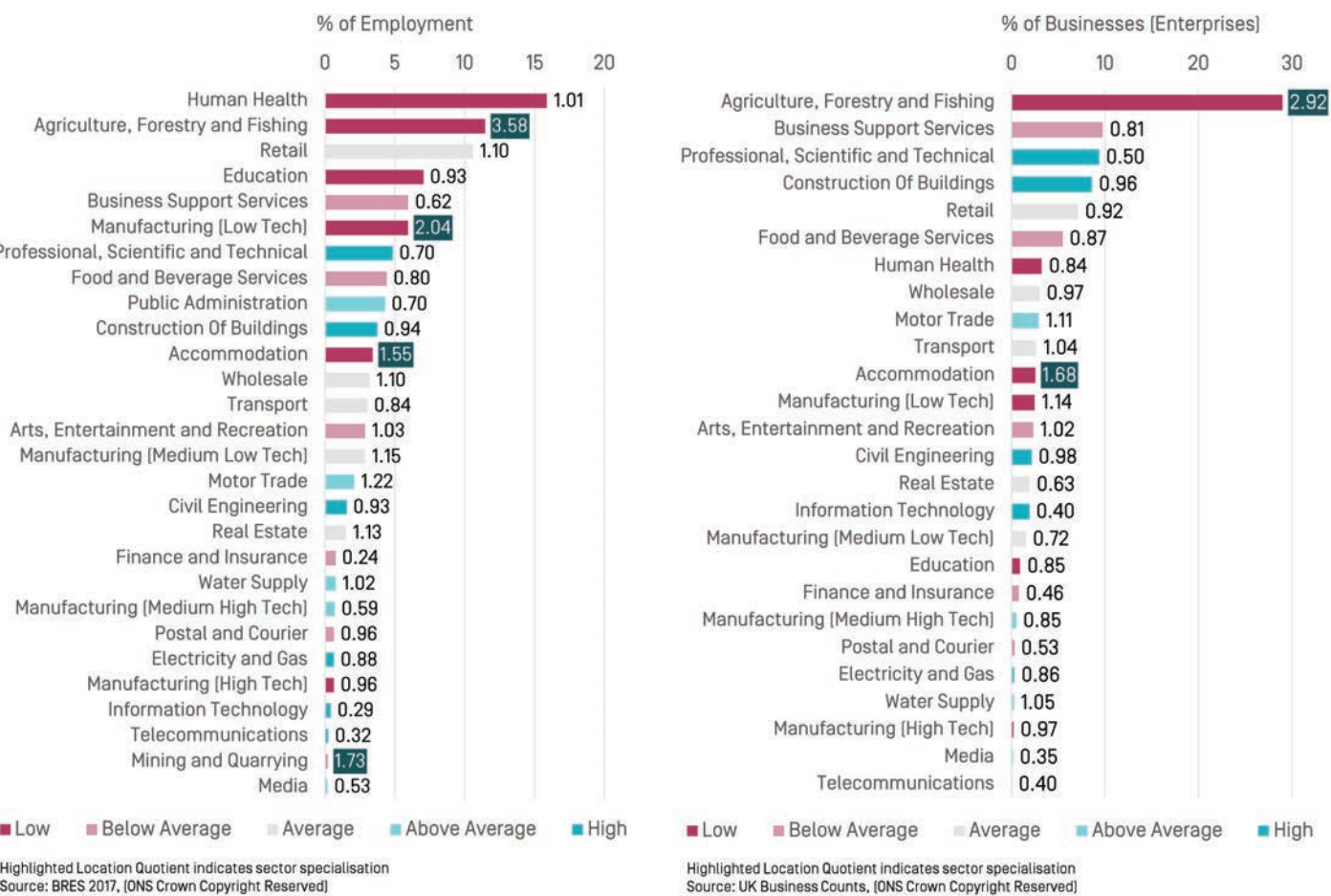


Chart 2.6 – The Sector Profile of the South of Scotland Economy, by Businesses and Jobs



The results of the sector analysis for South of Scotland are shown in the two charts 2.5 and 2.6. In Chart 2.5, the position of each 'bubble' show how the sector performs relatively on job Growth and Inclusion, whilst the size of the 'bubble' show the relative size of the sector's share of total employment in the South of Scotland. Chart 2.6 provides another view of South of Scotland's industrial structure, with each sector shown by its relative size by employment and business stock shares, and also by its high to low inclusive job growth performance (indicated by the colour code).

Together, these two charts show that **the South of Scotland's regional economy tilts strongly towards sectors that have relatively unfavourable inclusive job growth profiles** (the bubbles and bars coloured in light and dark pink). The basic implication is that correcting this 'tilt' requires a business-led inclusive growth strategy aimed at diversification into higher value sectors and promoting higher levels of productivity and good job creation across all sectors.

6 Our multiple regression analysis found a positive correlation between Place-Based and Sector-Based Inclusive Job Growth performance in Scotland. The adjusted R2 value was 0.27, increasing to 0.36 if outliers (e.g. Aberdeen) are excluded. The R2 value was 0.40 when all local authorities in Great Britain are accounted for. These are positive outcome scores given the high level of sector aggregation and the underlying influence of industrial organisation (firm characteristics, linkages etc.)

## 2.3 RESULTS OF THE LOCAL EXPERT CONSULTATION

What do local experts think of business-led inclusive job growth as a prospect for the South of Scotland? The people who have shared their views with us are well-placed to answer this question. Their views are important because they arise out of the practical realities of working with individual businesses.

### THE STATE OF THE REGION

Experts agree that the Region is lagging behind on sustainable and inclusive economic growth. The evidence and certain trends should be enough for a 'wake up' call:

- “What we have all been doing to date clearly isn't working given the consistent and alarming economic trends and indicators across the South. We need something radically different from what has gone before. The failure to retain and attract younger skilled people is “a ticking time bomb for the economy.”

Consistent with available research on the region's economy and the study data analysis, local experts concur that the key sectors in the region are Agriculture & Forestry, Manufacturing (incl. Food and Drink and Textiles, and Engineering) and Tourism. The future growth and diversification potential of renewable energy, professional services and the creative and digital industries are also recognised. However, experts are cautious or ambivalent about strongly sector-focused 'cluster' initiatives, due to the perverse effects of concentrating on existing 'strengths':

- “Our existing 'clusters' themselves cause the low productivity and low wage economy problems that we face. We have no flagship firms typical of a growth cluster. I am not sure 'clustering' is the right approach. A better one may be to foster growth mind sets across all sectors. But... Tweedbank, Gala and Melrose could become natural bases for digital businesses linked to Edinburgh. Place-based rather than sector-based inclusive growth is more realistic: the biggest area for growth is the communities themselves.”

Retail is the leading private sector employer in the Region (and in Scotland). However, Scottish Enterprise and Business Gateway do not work with Retail – “ironically this comprises most of the town's (Stranraer's) businesses”. The Region's town centres will certainly need an economic renaissance to function as a network of hubs for business-led inclusive growth. All centres need to possess economic dynamism if this network model of inclusive growth is to succeed – this is not the case at present.

- “You'll get doom and gloom in Dumfries and Stranraer but a positive feel in Gala and Castle Douglas, which have maintained their relevance with specialist retail. There are reasonably buoyant towns like Melrose, Kelso and Peebles. Stranraer was hit by the relocation of the ferry terminal, and Annan by the closure of Pinneys. Communities need a

strategic framework for town centre regeneration, and the planning system must support renewed business growth.”

Thus, local experts agree that business-led inclusive growth in the South of Scotland has become a major long-term challenge. They believe that 'getting there' requires a mix of place-based and sector-based policies and fostering an economic culture favourable to business growth. As such, inclusive growth diagnostics capture the dynamism and health of key sectors and all town centres.

### THE MAIN BARRIERS – FROM A BUSINESS PERSPECTIVE

There was broad agreement on the main barriers to business-led inclusive growth in the South of Scotland. This was consistent with the findings of the local business survey (see Section 3). A number of the barriers are interdependent – for example, transport barriers undermine labour mobility, and hence business access to skills, and worker access to job opportunities. And, behind these barriers is a shrinking working age population.

#### TRANSPORT & COMMUNICATIONS

Transport and Communications was a top priority for the experts and businesses we interviewed. The Region must free itself from 'the tyranny of geography'.

**The South of Scotland is a poly-centric, bi-coastal region which can only achieve business-led inclusive job growth if it possesses an integrated regional transport system and universal, affordable access to superfast broadband networks.**

Removing these infrastructure barriers will benefit every business and every community.

- “Unless we get the communications infrastructure right we won't get the economy right. Public transport is poor and road network is inefficient within region especially East-West. Connectivity provision is relatively low for both mobile networks and high speed broadband. The region is very poorly serviced in relation to roads, rail, telecoms (mobile networks) and broadband connectivity. Failure to invest in key infrastructure will see the South of Scotland lose ground on the rest of the UK and other nations.”



### SKILLS AND THE LABOUR FORCE

The Region's limited skills base and labour pool was also seen as a major barrier to business-led inclusive job growth. Underlying these challenges are adverse demographic trends – an ageing economically active population and outward migration of young people. Skills problems are economy-wide, and constrain key sectors such as manufacturing and engineering.

- “There is a chronic lack of ‘executive grade’ and CEO grade talent. Also we don't have web developers and digital marketing skills here – which are essential for all businesses today. Around one third of positions are vacant in private healthcare. There is a shortage of quality hospitality workers. The Region's manufacturing sector faces a chronic shortage of skills, particularly in engineering disciplines (mechanical and electrical engineers, welders, fabricators). Manufacturing and technology sectors have a demand for graduates but there is no graduate pipeline to fill the roles. Some businesses are creating graduate level apprenticeships.”

The Colleges and the University want to play a bigger role in achieving inclusive economic and business growth. This could be enabled by a new funding regime more tightly framed by the Scottish Government's business-led inclusive growth policies – and closely aligned locally by the SoSEP/SoEA policy objectives.

- “There is a lack of local higher education (HE) opportunities. Rural economies need alternative delivery models and investment in technologies to ensure innovations are being adopted within the local economy. Colleges have relied on the public sector market for skills development. A lot of the courses offered by the University are aimed at careers in the public sector, especially in Health and Social Care. The Flexible Workforce Development Fund (FWDF) has increased engagement with levy-paying private sector employers; a similar fund for SMEs would act as a catalyst for change. Previous government policy direction was for Colleges to focus on young people and full-time provision, rather than flexible, part time, employer focussed upskilling.”

### INVESTMENT AND BUSINESS SUPPORT

The Region is not an inward investment target, and there is no tracking information to gauge this. Experts highlighted the lack of ‘investment-readiness’ with respect to infrastructure, incentives and a supportive policy environment.

- “Land ownership is a barrier to inclusive growth, undermining both housing or population-led growth and business-led growth. There is a lack of available buildings to accommodate inward investment or organic growth. It is difficult to attract mobile businesses that require large numbers of staff. There is no inward investment activity in the Borders, no reported enquiries and nothing to offer. We lose out continually to the Highlands and Islands and the Lake District. For the last 15 years there's been no local tourist board and no branding of the Borders as a tourist destination.”

The Region is seen more as “a hidden gem where people can come for a ‘quiet’ holiday or to walk the Galloway Hills and never meet another person”. Its perceived lack of interest in business and economic growth is a barrier to inward investment – and arguably, this is reflected in Scottish Government policies too.

- “Lack of ambition is driven by a perception that the South of Scotland is ignored by Government in favour of the Central Belt and urban areas of Scotland. Planning policies do not closely reflect the Scottish Government's inclusive growth objectives. Elected members need to understand that getting behind business growth and proactive inward investment is vital to the future of the Region and the quality of life in its communities. If we can create a view that if you want to grow and expand, come to the South, it would really help.”

Key actors, Business Gateway and Scottish Enterprise, are only able to engage with a small fraction of the Region's businesses. **As such, ‘every business does not count’ – and, inclusive growth policy loses its inclusivity ‘timbre’.** The current national funding regime is too rigidly based on segmentation criteria biased towards relatively high growth businesses and sectors. This ignores the realities of the local micro-business landscape and the universal scale-up challenges facing start-ups, micros and SMEs everywhere. The experts favour a more flexible, inclusive model of business support under the future Enterprise Agency – which is place-based and closely reflects local business and economic priorities.

- “The region is dominated by micro/small businesses, which are ignored unless they have significant growth aspirations. These growth targets, set nationally, are prohibitive in this region as they are very difficult to achieve. However if these businesses received public sector support they may achieve relative growth which in combined terms would be significant. Maybe ‘we shouldn't have targets and filters’. Then we would be more inclusive. Budgets are too small to make business-led inclusive growth a sustainable and realistic objective. There is strong business support available but low engagement.”



### ■ PRIORITIES FOR THE SOUTH OF SCOTLAND ECONOMIC PARTNERSHIP

We asked the local experts to suggest possible directions of travel for SoSEP in paving the way for the new Enterprise Agency. These suggestions ranged from ‘region-building’, the need for ‘a bold, radical new strategy and plan that will help it create competitive edge over time’, and better ways of delivering business-led inclusive growth.

### MARKETING AND COMMUNICATION

As a first priority, the Region will require basic investment in marketing and communications to engage more dynamically and inclusively with local businesses, government and community stakeholders, whilst making its presence felt on the national (and international) stage.

- We need a transformative vision and far-sighted strategy for the region which its population and business community can actually understand and buy into. The South should be branded as a natural home for entrepreneurs. Investing in communications should aim to bring the strategy to life, change perceptions and mind sets, engage talented entrepreneurs, persuade young people and graduates to stay and make the South investment ready and open for business. On the back of communications, we need strong ‘business development’ and an ambassadorial structure in order to get the message out, both across the region and further afield.”

Image credit: VisitScotland / Kenny Lam

### INFRASTRUCTURE, INFRASTRUCTURE, INFRASTRUCTURE

Infrastructure, historically and universally, has been a central plank of region and nation building. The South of Scotland needs ‘hard’ and ‘soft’ infrastructure:

**Transport Infrastructure** – A ‘back to the future option’, popular with several of the businesses interviewed, was a 21st century version of the Waverley Route, a railway line that ran south from Edinburgh, through Midlothian and the Scottish Borders, to Carlisle. A victim of the Beeching closures in the 1960s, the Route could be revived by extending the Borders Railway (opened in September 2015 to connect Edinburgh with Galashiels and Tweedbank) to Hawick. There is a case for running it through Langholm which could become a ghost town now Edinburgh Woollen Mills is moving to Carlisle. There is a growing public campaign behind this and it is supported by The Borderlands Partnership. This is an ideal region-building project for SoSEP to champion and a quintessential inclusive growth project.

**Human Capital Infrastructure** – The Region must invest in a universal digital learning infrastructure to ensure equitable access to a full range of training opportunities for young people (post-16) and local enterprises irrespective of their rural or urban location. Colleges, schools and universities should be supported in developing a more integrated and coordinated business offer through expansion of the South of Scotland Skills and Learning Network.

**Innovation Infrastructure** – The South needs to be more closely integrated into Scotland's national ‘ecosystems’ for promoting innovation and entrepreneurship. “Note Highlands and Islands Enterprise is a SCALE partner, but we aren't. Businesses in the South haven't been engaging. Perhaps we should develop a ‘local innovation system’ which fully engages businesses, universities and colleges and key academics and influential third parties in the plan. The University of West of Scotland is working on research projects in healthcare / bio technology but have struggled to recruit partners in the area.”

**Business Support Infrastructure** – This should be organised around place-based local delivery hubs, with integrated Scottish Enterprise and Business Gateway services and geo-political rivalries laid to rest once in for all. More businesses would increase with more advisers, wider spread of office space and removal of segmentation. What is required is more advisor resource with access to products that have a rural equity focus on a localised basis but co-ordinated across the region. Develop a technology platform for communications and knowledge sharing across the business community – information sessions, Podcasts etc.





### BUSINESSES AND INCLUSIVE GROWTH

Local experts are still committed to supporting firms in ways that more closely align business practice with the Scottish Government's inclusive growth policies. SoSEP and the new agency (SoSEA) should make this alignment an objective of its business-led inclusive job growth policies.

- "This is a key driver for the Scottish Government and it should be embraced by all businesses large or small. The new Enterprise Agency should also adopt this as a key strategic driver where inclusiveness and fairness in the workplace and the workforce becomes embedded. Inclusive growth should be embedded into the new agency's reporting measures, and each project the agency supports should have an inclusive growth output. IG should literally cut through everything the new agency does and is about. All businesses the new agency works with should be able to demonstrate IG and if they can't then the agency shouldn't be working with them."

- "Discussions between advisers and businesses on inclusive growth are now routine practice. The culture is changing within businesses but there is a long way to go and we need to keep this going. I think we could do more through ongoing promotion and increasing awareness of the Scottish Business Pledge to businesses, whilst reviewing and improving the Pledge criteria to make it more inclusive."

The above comments underline the need to understand the business dynamics of inclusive growth from 'close-up' – or the 'coalface' of business support. More profoundly, they point towards a layered model of business-led inclusive growth where the alignment of national and local policy, service delivery and business practice is paramount. All three layers matter, and they must be closely aligned for business-led inclusive growth to work in the South of Scotland and indeed everywhere else. The diagnostics and metrics for tracking inclusive growth and targeting interventions to 'stay on track' should support the implantation of this layered model, nationally and locally.

## 2.4 SUMMARY OF FINDINGS

The South of Scotland is a newly formed region on Scotland's uneven landscape of inclusive growth and development. From 2020 onwards, the Region will have a new Enterprise Agency to lead the drive to dynamic and sustainable business-led inclusive job growth.

Our baseline analysis shows that the prospect of business-driven inclusive job growth is extremely challenging for the South of Scotland – as it is for rural Scotland more generally, and for the majority of Scotland's regional economic partnership areas. Only two city-regions, namely Stirling and Edinburgh, perform above the national average on business-led inclusive job growth.

- The challenge facing the South of Scotland is national as much as local, meaning that business-led inclusive job growth policies – made nationally and regionally – must be closely aligned.

We believe that there are grounds for optimism. The prospect of the South of Scotland catching up with other regions – such as the Highlands and Islands – should be enhanced by a new Enterprise Agency to drive economic competitiveness and business growth. This is still a prospect – a possibility that business-led inclusive job growth will be actualised through the efforts of the Agency, working with national, regional and local partners.

We explored this prospect with local experts who work closely with local businesses, have an overview of the South of Scotland economic landscape, and whose work is framed by the Scottish Government's inclusive growth priorities, as of now. The core message appeared to be this:

- South of Scotland has entered a 'watershed' in its economic development, a crucial turning point and opportunity for change which it must grasp, if the Region is to make the transition to sustainable and inclusive growth.

Experts identified the main barriers that need to be overcome – from the 'tyranny of geography' to the 'brain drain' to 'investment -readiness' to 'economic culture'. All of these barriers can be overcome by adopting a bold and innovative approach to business-led inclusive growth. The new Enterprise Agency has to develop and

champion such an approach – business advisers and service providers expect this, as do local businesses themselves – from the Local Business Survey undertaken for this study.

- There is a call here for greater freedom to support 'every business in every community', all framed by a shared understanding of why business-led inclusive growth is important and what is needed to make it happen.

Our benchmarking metrics and local expert consultations range across the first three pillars of the Scottish Government's Regional and Local Inclusive Growth Diagnostics – which can be found in the Introduction to this report. In this respect:

- TGE's system of place-based and sector-based metrics can be added to the Diagnostics toolkit – they have been specially designed to assess the inclusive growth performance of businesses.
- Our local expert survey fits within the consultative pillar of the Diagnostics, and helps to bridge the benchmarking analysis with the business survey, so creating a robust base of evidence, local knowledge and understanding.
- Direct business engagement and voice comes through the Business Survey, which completes our 'triangulated' methodology (see Introduction).

However, and more generally for the Diagnostics, we favour a multi-layer approach to setting objectives and performance indicators. Crucially, policies and actions at the national, regional and local levels need to be closely aligned by policy, service delivery and business – with appropriate suites of Key Performance Indicators (KPIs) (see Chart 2.7).

Chart 2.7 – Strategic Alignment for Business-led Inclusive Job Growth







There should be three interdependent levels of business-led inclusive job growth, with their own suites of diagnostics and metrics:

**The Business Level** – Our local business survey could be used to track this on a regular basis, with its questions all convertible to diagnostic metrics. The questionnaire worked successfully in terms of business engagement. It needs to be evaluated, and the survey coverage needs to be widened and segmented. This could be an open and living ‘evidence base’ with new and existing businesses free to report in, and business support advisers using it dynamically. A regional technology platform would be needed.

**The Intermediary Level** – The ‘inclusiveness’ of inclusive growth policy and support depends on its overall reach and take-up by all of South of Scotland businesses – by size, sector and location. These suites of ‘intermediate’ metrics could apply to key sectors and the local ‘hubs’ for delivering support services based on region- wide network model. The mission here is ‘to make every business in every community count’ by creating an integrated regional system of business support framed in terms of inclusive growth values and practices. The intermediary activities of planning, inward investment and tourism stakeholders fit in here – with appropriate metrics for measuring outcomes and impacts.

**There should be three interdependent levels of business-led inclusive job growth, with their own suites of diagnostics and metrics.**

**The Economy Level** – This inclusive growth performance level is about South of Scotland’s progress measured against the national average and other regions of Scotland, for example the Highlands & Islands Enterprise Area. The TGE proprietary metrics used here can be combined with the SG Inclusive Growth Diagnostic tool. Importantly, at this level, we also need a strategic set of metrics for tracking the erosion of the main barriers that undermine business-led inclusive growth. These are accessibility and connectivity metrics for transport and communications and demographic metrics for population, labour force and household growth. This should include ‘brain drain and brain gain’ metrics for net migration. Public spending to support business-led inclusive growth in the Region belongs here.

Clearly, progress at all these levels need to be tracked over time, and benchmarked against the Scottish national average and other regions. We favour an ambitious approach with the South of Scotland benchmarking its inclusive growth progress against dynamic rural economies in the UK, Europe, the US and other areas of the world. The South of Scotland Economic Partnership and Enterprise Agency should link into the OECD’s new Business for Inclusive Growth (B4IG) platform for developing policy and exchanging best practice.

# SECTION 3 – A SURVEY OF SOUTH OF SCOTLAND BUSINESSES

## THE LOCAL BUSINESS SURVEY

The Scottish Government wants to work together with businesses to promote inclusive growth and good job creation.

This requires having an in-depth, shared understanding of the links between business practices and government policies. Given that SMEs account for most of the private sector’s 75% share of total employment in the South of Scotland, their interests need to be fully understood and reflected in national and regional inclusive growth policies. This is the rationale for the study’s centre-piece Local Business Survey.

The Survey was comprised of interviews with 68 local businesses carried out over a six-week period beginning in the final week of September 2018. The majority of interviews were face-to-face meetings, with the rest conducted by telephone.

### AIMS AND OBJECTIVES

The **main aims** of this local business survey were:

- To understand how inclusive job growth is manifested in business

practice – What are the links between policy and practice?

- To identify the main barriers to business and job growth that SoSEP and the new Enterprise Agency need to tackle – What are the priorities for regional strategy?

The **main objectives** of the survey were:

- To assess business growth performance by turnover and employment, including future growth plans and aspirations;
- To appraise the ‘inclusiveness’ of business employment and workplace practices in line with the basic principles of the Fair Work Convention;
- To identify the main barriers to business growth linked to the South of Scotland as a location and other external factors significantly impacting the firms; and
- To explore business awareness of the Scottish Government’s inclusive growth priorities, and the practical relevance of the Scottish Business Pledge.

All of the businesses interviewed found these objectives to be an intelligible basis for discussing inclusive growth and its relevance to their own operations

### AIMS AND OBJECTIVES

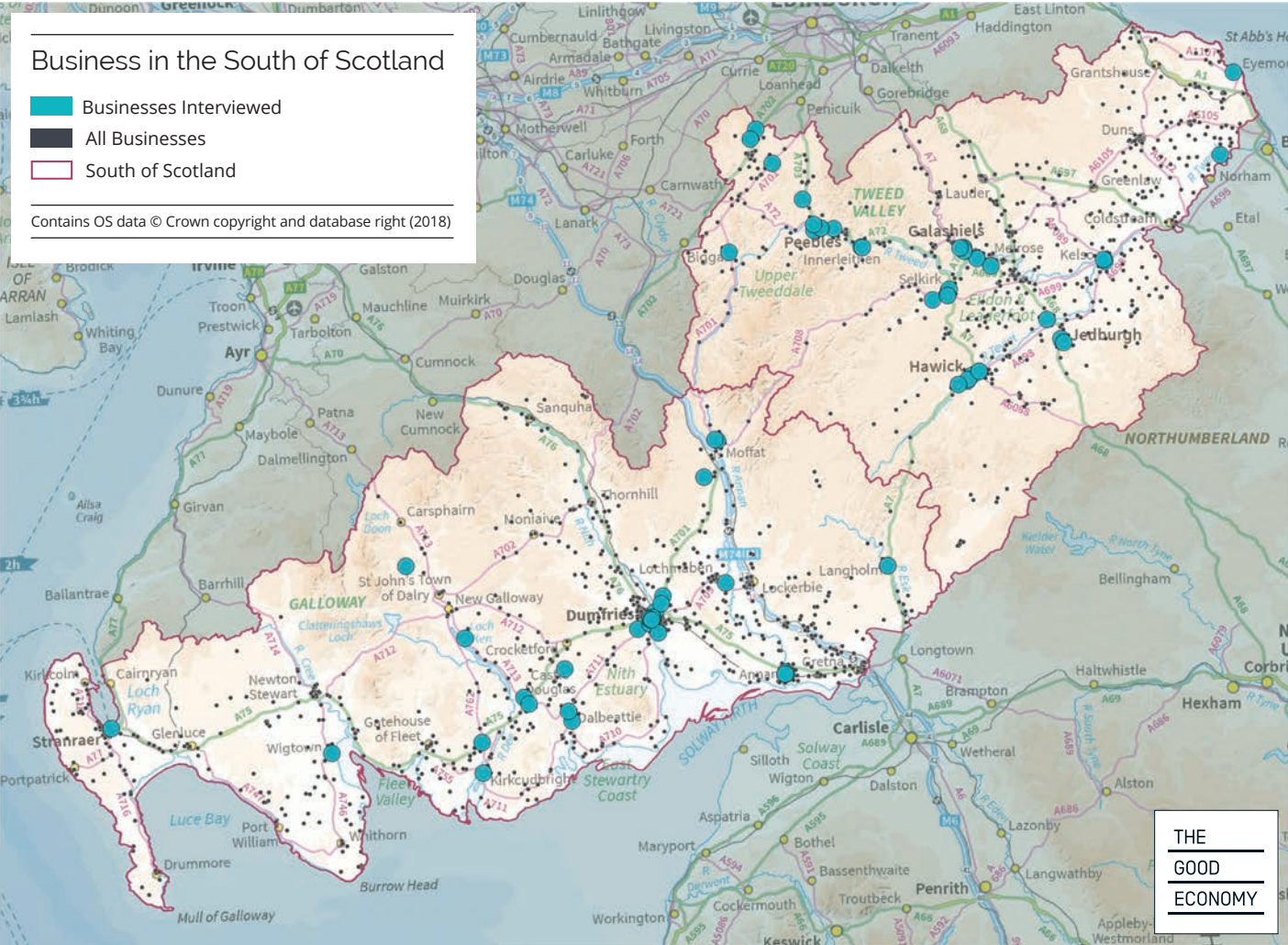
The scope and content of the survey questionnaire is shown below:

Business Growth	How has your turnover and employee headcount changed over the past year? Are you planning for growth, if so how will you achieve this? Will you create new jobs – what types of skills?
Employees & Fair Work	Do you pay a ‘fair wage’ by industry and local standards? How secure are the jobs you offer? What non-wage benefits (e.g. training, engagement, etc.) do you offer? How diverse and inclusive is your workforce? Do you have plans to improve your workforce management practices?
South of Scotland as a Business Location	What share of your market is ‘local’ (South of Scotland)? Are your key suppliers ‘local’? What locational advantages does South of Scotland offer? What are the main local barriers to your business growth? How can they be removed
Business Support & Finance	What business growth support have you received from Scottish Government agencies (Scottish Enterprise, Scottish Investment Bank, etc.)? Have you used external commercial finance? If you expect to need external finance in future, what would be most appropriate?
Policy and Practice	Are you familiar with the Government’s Inclusive Growth priorities? Are you familiar with the Scottish Business Pledge? Are you a signatory? Are your business practices consistent with the Pledge anyway? How will Brexit impact on your business?

Altogether 68 businesses participated in the survey, 32 from Dumfries and Galloway and 36 from the Scottish Borders. A full list of the businesses interviewed can be found in Annex 1. The geographical coverage of the survey is shown in Chart 3.1.



Chart 3.1 – Businesses Interviewed by Location



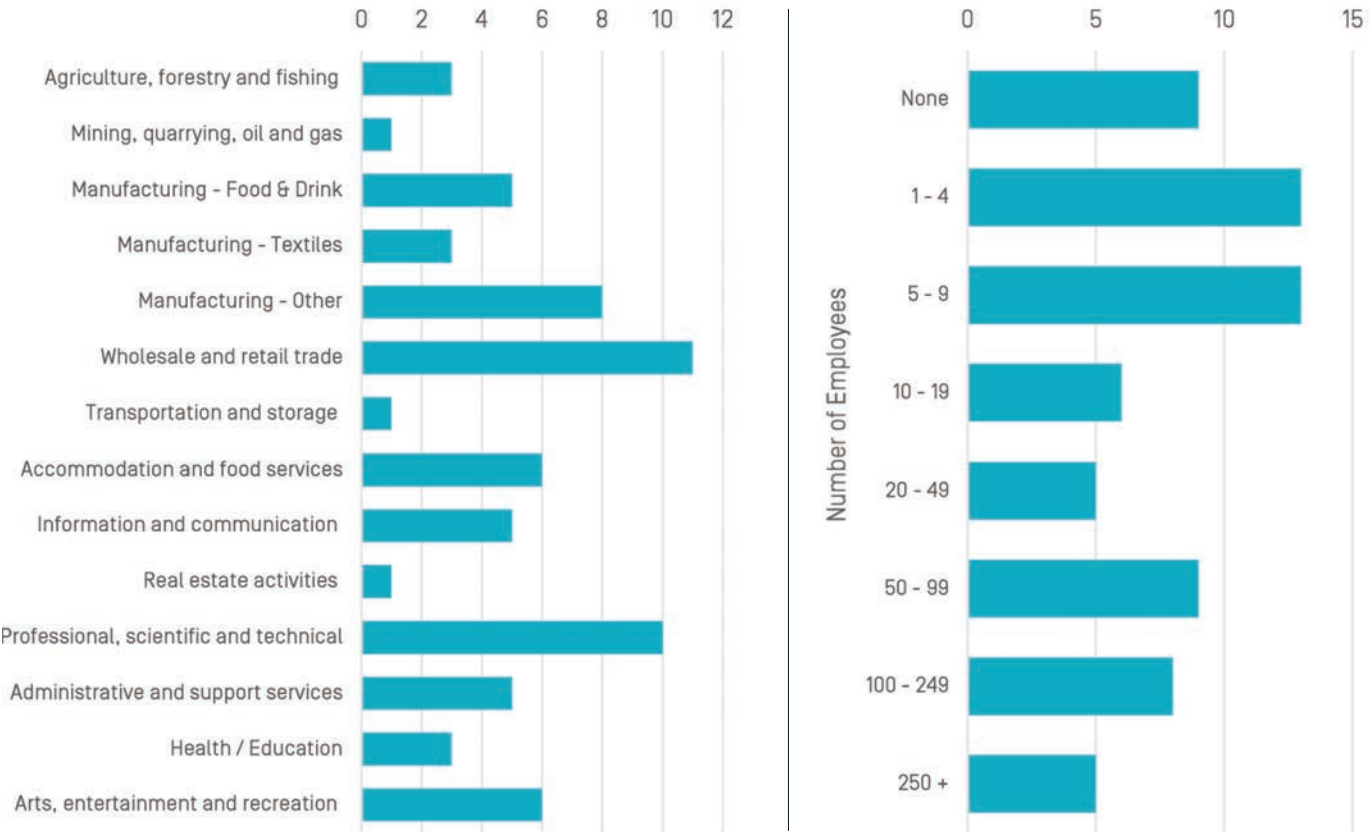
Our sampling method was designed to obtain an in-depth behavioural understanding of the business dynamics of inclusive job growth, with a particular focus on good job creation and Fair Work practices. It recognises that inclusive job growth is a new, layered ‘conversation’ with local businesses. To achieve this depth and break new ground, we favoured a reduced sample frame whilst seeking to obtain a reasonable cross-section of business types. By legal status:

- 77% of businesses were VAT registered and 80% were PAYE registered
- 75% of businesses were private limited companies and 10% were sole traders
- Nearly 90% of the businesses have been trading for at least three years and were established in Scotland

- 87% of businesses were independent companies, 56% of which were family-owned
- 13% of businesses were subsidiaries, 67% of which were foreign-owned
- 15% of the businesses were Community Interest Companies, Charities, Companies Limited by Guarantee, Industrial and Provident Societies and Limited Liability Partnerships
- 7 businesses self-identified as social enterprises.

The sector and employment size of the Survey businesses are shown in Charts 3.2 and 3.3 below. The bulk of these are SMEs (companies with less than 250 employees). Given our policy-led focus on business growth, job creation and workforce management practices, our survey sample is addressed to business employers rather than zero-employee businesses.

Chart 3.2 – Businesses Interviewed by Sector and Employment Size



By turnover, the size distribution of businesses was fairly even (Chart 3.3). In aggregate, the businesses interviewed generated £633.7 million in annual turnover and were responsible for 3,700 direct jobs in the South of Scotland. Median annual turnover was £568,000, and the median number of employees was 9 people, across the 68 businesses.

Chart 3.3 – Businesses Interviewed by Turnover Size



In presenting the survey results we have followed the order of the questionnaire and sought to amplify the ‘voices’ of the businesses by reproducing direct interview comments. We believe that this ‘voice of business’ approach is helpful to grounding the inclusive job growth agenda and communicating its practical relevance to all stakeholders, nationally and locally.



# 3.2 FINDINGS ON BUSINESS GROWTH

## ■ PERFORMANCE AND OUTLOOK

The overall picture of **business turnover and employment growth** was extremely positive:

- 62% of businesses increased turnover over the last three years, with median turnover growth being 10%. About 90% of all business reported net surpluses or profitability in the last financial year.
- 60% of businesses grew their workforces over the last three years with the median employee growth rate being 8.5%. The last year saw this median rate drop to 5.5%. In total, the businesses created 300 new jobs over the last year – 8% growth – but this was mainly due to expansion at one particular company – the 3-year job growth rate was closer to 3%.
- 75% of the businesses employed people on a part-time basis, 32% have temporary or casual staff, and 34% use agency, contractor or self-employed workers who are not on the payroll. Concerns over job quality and Fair Work practices apply to these groups of workers in particular.
- About 85% of the firms have 3-year growth plans which will create mainly new full-time job opportunities, including in higher quality professional, managerial occupations and entry-level supervisory and apprenticeship roles.

## OBSTACLES

Understandably, the obstacles to business growth and the strategic actions needed to overcome them vary from firm to firm – every business is unique. Chart 3.4 offers a basic summary of business growth obstacles and pathways.

Chart 3.4 – Top 10 Major Obstacles (left) and Pathways (right) to Successful Business Growth



Businesses tend to face a combination of obstacles to growth, at any given time. For example, several businesses emphasised transport barriers to attracting staff (labour and skills) and/or customers (demand). One company sends chauffeur-driven cars to Carlisle to pick up its key London customers. With large customers squeezing its margins, a road haulage company urgently needs financial backing to relocate to a superior motorway location. Each business had its own story to tell – which is why inclusive growth policy must ‘get down to business.’

Marketing was seen as the main route to business growth for almost 50% of the businesses. Reflecting their rural location and technology trends, many businesses believe that having a web or social media presence as essential to their growth strategy. This is why broadband ‘connectivity’ is an important issue to more remotely located businesses.

Product innovation is a priority for 28% of businesses, with 18% emphasising the role of process innovation. In fact, many businesses have already begun to move in this direction: 87% launched a new or improved product over the last 3 years, and 77% have boosted productivity through improved managerial, production or distribution processes.

Interestingly, although Finance and Skills are perceived to be the main barriers to growth, only 15% of businesses are planning to grow by improving access to investment finance and only 10% by developing skills internally. A major forestry equipment manufacturer is certainly an exception to this, having set up its own mobile training academy on site, working with colleges and schools. Businesses tend to be deterred from investing in skills training because of familiar ‘poaching’ problems from rival employers and the tendency of staff to move on to better jobs elsewhere.

Other routes to growth were competitive scaling-up through acquisition – strongly favoured by a digital company and a road haulage company – and diversifying into UK regional and global export markets.

Image credit: Stock Snap

## WHAT BUSINESSES SAY – OBSTACLES TO GROWTH

### Administrative and Support Services

“If I can’t get the staff, I’ll go out of business. I can’t find young people to train up and work as apprentices. We have plenty of work and a career development plan for new recruits and apprentices. Colleges say that their students are not ‘work ready’ yet.”

### Manufacturing (2 firms)

“We have an ageing workforce and presently on a permanent recruitment drive, looking for new skilled workers. Graduates prefer the Central Belt and not our location. ‘This is not the place to come that it once was.’ Graduate job opportunities here are more limited and schools and colleges are jaundiced about manufacturing.”

“It is hard to attract younger skilled workers and graduates because they think the local area is an unattractive and boring place to live. Poor transport links making it an even more unattractive area to move to. These labour problems have led us in the direction of automation and the use of robots in their production process.”

### Professional, Scientific and Technical Services

“Our client work shows that several business start-ups are emerging in the region across all sectors. However, despite the abundance of innovative ideas, success is contingent on the ability to access funds. Banks will not provide finance, meaning a lot of good ideas lack the backing to be fully developed.”

### Professional, Scientific and Technical Services

“The route to market for onshore wind and PV is cluttered by uncertainty in government regulations and policy meaning the wholesale market is now distorted. Positive national policy is not mirrored at the local level.”

### Agriculture, Forestry and Fishing

“It is hard to attract people to the farm because there is no public transport – there hasn’t been a bus in the area for 20 years. Getting visitors to our farm shop and cafe would be more profitable than online sales. Our workers also find the commute a challenge, so we struggle with a high rate of staff turnover.”

# 3.3 FINDINGS ON EMPLOYEES AND FAIR WORK

The Scottish Government cares about inclusive job growth that creates ‘good jobs’ – that is, jobs that offer a decent wage, job security, fulfilment and opportunities for advancement. This depends on business performance (growth, productivity and competitiveness) and workforce management practices. Inclusive job growth also requires businesses having access to a large enough labour pool with a diverse and quality skills base. In the case of the South of Scotland, this prerequisite for business-led inclusive job growth is undermined by the gravitational pull of the Central Belt cities.

## STAFF RECRUITMENT AND RETENTION

The results show that South of Scotland businesses face a number of challenges in this respect:

- 53% of all businesses have problems attracting staff (compared to 48% for all Scottish businesses, according to the Chambers of Commerce).
- Digital businesses find it hard to attract and retain technical and commercial business talent due to the ‘pull’ of the Central Belt as a place to work and live.
- Manufacturers reported extensive skill shortages partly due to lack of local training and apprenticeship provision for young people and graduates. They have difficulties in recruiting specialised staff, including export specialists and managers with international experience.
- Retailers find it hard to attract managerial level staff and expressed an interest in using robots – there are local AI/ automation trials underway. Automation is an obvious way of tackling recruitment problems in certain occupations.
- 30% of the businesses reported staff-retention problems. Significantly, these problems are more acute in sectors that offer better quality jobs by earnings – such as Professional, Scientific and Technical services (44%) and Information and Communication (40%).
- Larger SMEs with more than 10 employees (73%) have more problems with attracting and retaining staff than smaller SMEs with fewer than 10 employees (32%).

The survey provides first-hand evidence of how local SMEs – who generate 80% of the Region’s jobs – are struggling to attract and retain younger workers including graduates. Addressing this challenge will be key to ensuring the South of Scotland is able to deliver inclusive growth in the long-term.



## WHAT BUSINESSES SAY – STAFF RETENTION

### Leisure and Recreation (3 firms)

“The outdoor leisure industry is low paid and generally run by casual workers and enthusiastic volunteers. We tried to buck this trend by setting up as a specialist company offering good employment. But it is difficult to make things add up. We can’t get people to stay and recently had to make someone redundant.”

“It’s the gig economy – it won’t make you rich, you’re in it because you love it.”

“Cleaning and catering staff are often Eastern Europeans. We will need to downsize if can’t get staff in.”

### Professional, Scientific and Technical Services (3 firms)

“We train young people only for them to leave the area. Young people want to experience more to life than what the Scottish Borders can offer. Hence they go to the big cities to get jobs and enjoy the bright lights, so to speak.”

“The region and its towns simply don’t offer the choices of amenities and lifestyle that can young people and professionals are looking for.”

“Due to our remote location, staff turnover is high at 14%, and once trained younger people moving on to our city offices. This is a fast growing industry where there is a lot of poaching of talent – locational disadvantages don’t help!” turnover.”

Image credit: Scottish Borders Council / Jason Baxter

## JOB QUALITY AND FAIR WORK

The survey interviews looked at how business practice relates to job quality and the principles of the Scottish Government’s Fair Work Convention.

- 60% of the businesses were paying their staff the Real Living Wage (RLW) as defined by The Living Wage Foundation – £8.75 per hour at the time of the survey. (This is 10 percentage points lower than the average for Scottish SMEs reported by the Scotland Business Survey 2017, June 2018).
- A further 7% of businesses said they were planning to pay it.
- All businesses were paying the lower statutory National Living Wage or more. Commonly, part-time or more temporary workers were not paid the RLW. A number of companies would prefer to pay the RLW but find it financially difficult to do so.



It is important to examine business wage performance in context, both because of local-national differences in labour market conditions and because competitive pressures on wages differ between sectors. The combination of these geographical and sector contextual influences is what lies behind the South of Scotland’s talent ‘brain drain’.

- 38% of businesses reported paying more than their (national) industry average. This varies from 20% in the Digital Sector to 44% in Manufacturing and 53% for Professional and Business Services.

Image credit: Our Scottish Borders / Graham Riddell

## WHAT BUSINESSES SAY – THE REAL LIVING WAGE

### Transport and Storage

“We can’t afford to pay the Real Living Wage (RLW). No transport companies are signed up to the Pledge and none pay the RLW. Our big customers have used their market power to drive down our rates and margins. Whilst one of them advertises its RLW Employer credentials, the irony is that we can’t afford to sign up to the Pledge and pay the RLW, in what is a very low margin, low pay industry.”

### Manufacturing

“We pay the statutory National Living (Minimum) Wage, but even this is problematic because of differential pay scales. When the NMW rises to 4%, we can only afford a 2.5% pay increase to maintain differentials. We are interested in signing up to the Pledge if customers cared and it would help to win business. It is a risk in a low margin low value manufacturing sector like ours.”

### Professional, Scientific and Technical Services

“We pay the RLW for direct staff. The Board supports the Pledge but cannot sign up because their cleaning contractors don’t pay the Real Living Wage. However, they can rectify this when they renew the cleaning contract, to make sure they will be paid the Real Living Wage and then we can sign up to the Pledge.”

- 47% of businesses reported paying more than the local area average – in Dumfries and Galloway this is 63%, in the Scottish Borders 33%.

The basic implication of these local and sector wage differentials is that the South of Scotland is a relatively high-wage location for skilled workers in manufacturing and professional services businesses. The favourable position of Digital businesses suggests that they could be a potential target for inward investment policies – we advise a sector study on this.



TRAINING AND NON-WAGE BENEFITS

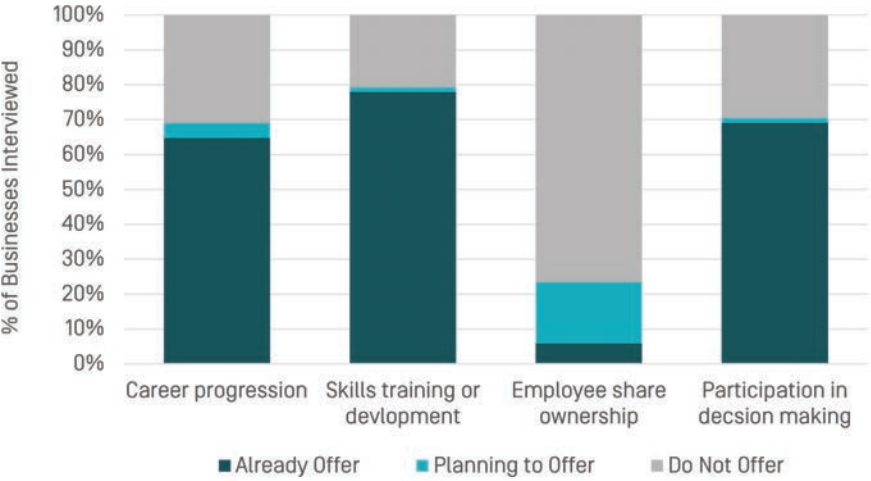
The survey produced encouraging evidence on skills training and other aspects of job quality that have risen up policy agendas in Scotland, the UK and other OECD countries.

- 78% of businesses offer skills training and development opportunities
- 64% offer career progression opportunities
- 69% of businesses encourage staff participation in decision making
- 6% of businesses offer employee share ownership and 17% of businesses are planning to offer it.

Career progression and development opportunities are more likely to be offered in companies with 10 or more employees. Employee share ownership and participation in decision making is less influenced by business size.

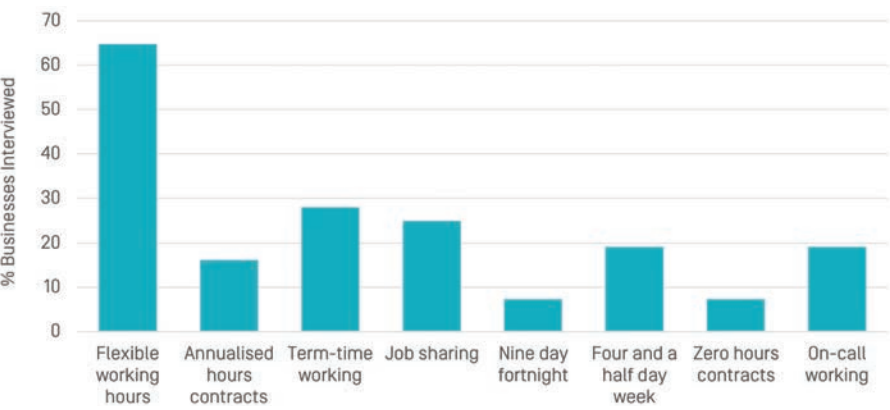
Chart 3.5 gives a summary picture of the non-wage benefits offered by the businesses interviewed. Other non-wage benefits include staff health care, worker’s committees, free memberships and staff discounts. The future outlook is positive. 75% of businesses have plans to continually improve workforce development practices.

Chart 3.5 – Non-Wage Benefits for Business Employees



As indicated in Chart 3.6 zero-hour contracts are not a particular issue for the South of Scotland, a point underlined by the local Chambers of Commerce. For example, the Federation of Small Business (August 2018) reported that nationally 85% of SMEs do not use exploitative ‘zero-hour’ contracts. The survey figure of 90% for South of Scotland businesses is encouraging given the region’s relatively high representation of retail and the ‘gig economy’ in tourism-related sectors.

Chart 3.6 – Businesses by Working Hour Arrangements



Typical of SMEs in the UK, the businesses have diverse workforces in terms of gender balance. 68% of companies have female directors or partners, with family-owned companies having a more even gender balance. Reflecting the rural demographics of the South of Scotland, only 6% of companies have directors or partners from ethnic minority groups.

3.4 FINDINGS ON SOUTH OF SCOTLAND AS A BUSINESS LOCATION

GEOGRAPHICAL FOOTPRINT

More than 40% of the businesses interviewed had export markets, and although 30% of the businesses were highly dependent on local customers, a growing share of revenue generation comes from UK and international tourism.

For example, a hotel business estimated that 60% of its customers are foreign; an activity centre and an events promotion company both who bring in well over 10,000 visitors each year estimate 75-80% of their customers are from the rest of the UK and a further 5% from abroad.

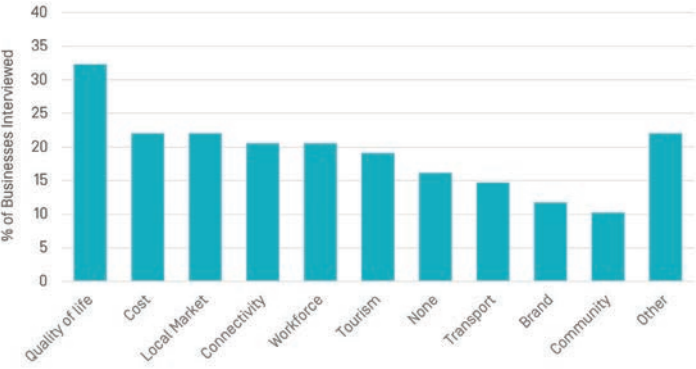
There is some positive evidence of ‘buying local’ business practices. This applies particularly to the Food and Drink cluster, both producers and services, with key linkages to tourism-

driven Accommodation, Entertainment and Recreation. 85% of businesses in these interdependent sectors ‘buy local’ – evidence of a ‘cluster’ with policy-led growth potential.

LOCATIONAL ADVANTAGES

There is only one ‘stand out’ locational advantage that the South of Scotland offers the businesses – that is, “Quality of Life”, mainly the natural landscape (Chart 3.7). This is important to businesses wanting to attract skilled workers with young families (the quality of schools was often mentioned) and businesses dependent on tourism. Businesses were generally indifferent to other locational advantages – such as labour and operating costs. No more than 10% of businesses see the Region’s place brand as a positive enhancement for their own marketing effort. This is an obvious policy target for the South of Scotland Enterprise Agency.

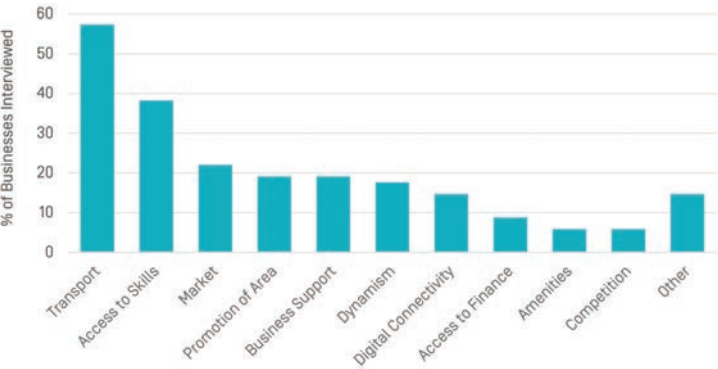
Chart 3.7 –Top Locational Advantages



LOCATIONAL BARRIERS

The main locational barriers to business growth are shown in Chart 3.8. Transport and Skills stand out. Transport connectivity within the region (East – West and North – South) and connectivity to other parts of the UK are major barriers to accessing larger markets, attracting and retaining staff and serving key customers. Road infrastructure was most mentioned (e.g. single carriageway roads in poor condition), followed by the lack of public transport. The lack of a railway south of Tweedbank in the Borders and regular bus routes throughout the region were of concern. Cycle infrastructure and the lack of provision for bicycles on public transport was a barrier to cycle tourism businesses within the Tweed Valley.

Chart 3.8 – Top Locational Barriers to Business Growth





### WHAT BUSINESSES SAY – THE TRANSPORT BARRIER

#### Manufacturing (3 firms)

“We pick up supplies and major customers either from Carlisle or Edinburgh which is costly. A rail link between Carlisle and Edinburgh would be ideal as well as much needed improvements to the road network.”

“Good public transport between towns is needed to create a flexible skilled labour pool for Hawick manufacturers whose individual production schedules tend to vary. This could cover Selkirk, Jedburgh, Galashiels and Kelso as well as Hawick. It’s a cluster-led public transport solution to skills and employment – inclusive growth in action.”

“Our main customer markets in the South of England mean that transport costs are high. The M74 is great but the A75 is a poor road making it difficult to link to the ferry ports. Businesses are reluctant to stray too far from M74 corridor.”

#### Human Health and Social Work

“We can’t reach Castle Douglas, Dalbeattie, Kirkcudbright and Dumfries due to travel distance. It is not financially viable to service the East of the region (Moffat, Annan, Lockerbie, Gretna etc.).”

#### Accommodation and Food Service Activities

“Public transport is very poor in the area, making it difficult for staff and guests to get to and from the hotel. We’re thinking of robots to tackle our high staff turnover rates.”

#### Leisure and Recreation

“The train to Galashiels only has two spaces for a bike. Buses do not accommodate bikes at all. There is no way of getting visitors without a car down from Edinburgh airport (e.g. bike friendly shuttles). Sustrans would help.”

#### Information and Communication

“Roads are not great but there is not enough traffic to warrant a dual road system. Buses are poor and the one rail line lacks investment.”

Image credits, left to right: VisitScotland / Paul Tomkins, Our Scottish Borders / Curtis Welsh

The lack of a skilled labour pool is a major barrier to business-led inclusive growth in the South of Scotland region. It applies particularly to young people, with businesses attributing this to various factors.

### WHAT BUSINESSES SAY – THE SKILLS BARRIER

#### Manufacturing (3 firms)

“Out of high school the apprentices are very good. It takes 4 years to get them to the right skill level, therefore growth is very slow. We can’t attract director level staff with appropriate skills so we opened a small Edinburgh office and allow home-working. Only 2 of 6 directors are local.”

“We can’t get younger people. There are no relevant local vocational trainers or training courses available. To access training young people face an impossible commute given the poor transport links.”

“Once upon a time 25% of population worked in the Knitwear industries. Today, it is not seen as stable and people don’t want to come into it. We are losing the skills.”

#### Information and Communication

“The University of West Scotland is a stepping stone (HND level) for 17 year old higher school leavers who then apply to better universities and leave the area.”

#### Administrative and Support Service Activities

“We are unable to attract candidates from outside of the area who are willing to move to the South of Scotland.”

#### Agriculture, Forestry and Fishing

“Education fuels the perception that bright students do not work on a farm. However, working in a farm requires skill and having expertise in complicated equipment. It also has health benefits because of the manual nature of work.”



The South of Scotland’s low profile as a tourist destination a major barrier for consumer services businesses. Local businesses feel under-served by national tourism bodies. The shutting down of local tourist boards has been seen as negative.

### WHAT BUSINESSES SAY – THE REGIONAL PROMOTION BARRIER

#### Accommodation and Food Services

“The South of Scotland is not on the map. Visit Scotland does not promote the Region as it does for The Highlands, Skye and “The Monster”. We feel excluded. There is poor presentation of South of Scotland as a tourist destination by the government. We should create a National Park this side of the border.”

#### Leisure and Recreation (2 firms)

“The 7 Stanes and Dark Skies projects have had a significant economic impact, but how is it going to be in 20 years once funding has disappeared. Visit Scotland has forgotten the area. They are centralised and only concentrate on the Highlands. We need local autonomy. The local boards closed down and are now run by volunteers.”

“We are competing with the likes of Morzine in the Alps and Whistler in Canada, where tourist taxes are used to fund events that promote the area. Small enterprises and volunteers do this here. Our economic impact value needs to be recognised in strategic funding support. We must promote the Tweed Valley as a year-round destination.”

#### Retail (2 firms)

“Cycling tourism has huge potential. We need to promote tourism in the area and make people aware of events and touring rides such as Coast to Castle.”

“There are not enough people coming through this town as 100% of my customers are tourists. I want better promotion of this area so it doesn’t just end up being a retirement home.”

#### Manufacturing

“The end of the line from Edinburgh fails to meet the expectations of those coming down from Edinburgh, particularly visitors from abroad. Tweedbank is not attractive, there is no information for tourists and the links to the other towns in the Borders are poor.”

Lack of business dynamism is also seen as a significant growth barrier. IT and professional service companies believe that local businesses are typically not innovation-oriented. A number of companies mentioned the “aye been” culture. According to a Distillery entrepreneur: “It’s the “aye been” attitude that stifles business growth. There is a lack of dynamism in the town centres. We had a pop-up shop in Selkirk but shops closed at 2pm on a Saturday”.

### BUSINESS EXPECTATIONS OF THE NEW ENTERPRISE AGENCY

The challenge facing the South of Scotland Enterprise Agency is to lower or remove these barriers to business-led inclusive growth. The businesses appeared to be cautiously optimistic about this prospect. Their views are shown in the box below.

- 68% of the businesses were aware of the existence of the South of Scotland Partnership – 79% of the larger small firms, 56% of the smaller firms with less than 10 employees. Business expectations are positive.
- 61% of businesses believe that the future Enterprise Agency will enhance growth, 18% did not think the agency would enhance growth and the remaining 21% were unsure. Optimism was stronger in smaller businesses.

### WHAT BUSINESSES SAY – EXPECTATIONS OF THE ENTERPRISE AGENCY

“It is important that the new Agency connects with small businesses. They need to trust that there are good businesses already in the area which need to be nurtured. These already have huge potential.”

“How useful the Agency will be will depend on whether it has the authority to act or whether it is just about gathering statistics for central government.”

“The Agency must seriously cut through the clutter, coordinate and create a positive enabling investment and growth framework for businesses. This needs to include a powerful and futures-oriented renewables strategy for rural economic development.”

“The Agency must not become yet another consultation process, with no actions points and resources to do anything. Business engagement is a very positive step. People and financial resources are essential to enhanced growth.”

“The Agency must establish a social enterprise support fund and focus on communities that are in a desperate state – some have 3-4 generations of unemployment – hidden poverty that is not being addressed. Only then can we say that its policies are inclusive.”

“The Agency must get the right calibre of staff or else it runs the risk of becoming another average and mediocre government body. South of Scotland probably needs a University. It is too late to give it a centre.”

“If the majority of businesses in the South of Scotland embrace and work with the Enterprise Agency, I believe that it will enhance our growth in the local area. As it currently stands, the Region is not viewed as the most desirable place to live and work in the UK and hopefully the work of the Enterprise Agency will change this.”



# 3.5 FINDINGS ON BUSINESS ENVIRONMENT AND FINANCE

The first part of this discussion looks at local business support services as seen by the survey participants, whilst the second part is focused on the internal financial needs of the businesses. Section 4 of the report discusses these business finance findings and their implications for investment.

## BUSINESS SUPPORT

Local accountancy firms provide a valuable overview of some of the challenges facing small firms in different sectors of the local economy, for example:

**“Business support is insufficient in the area. Dumfries & Galloway Employment TAP is a good scheme offering financial support (50% of staff costs for 6 months) to new businesses recruiting their first employees. However, few businesses are aware of the scheme. Perhaps accountants should be better engaged to promote such schemes to clients. DG TAP should be more proactive rather than reactive.”**

**“Some of our farm clients are doing well having been able to diversify or adapt their business model to survive and thrive in difficult times. However, many rely on Scottish Government subsidy payments and the risk of this being paid late is a considerable financial risk for many farmers. A number of farmers are at breaking point with their banks as they have maximised loans (to pay for robots, sheds etc.). Ensuing cash flow challenges impact the supply chain.”**

**“The current limit Annual Investment Allowance of £200k (previously £500k) is putting businesses off investing (in plant, machinery, equipment etc.) as the tax relief is insufficient. A haulage company is delaying investing in new wagons and a dairy farm delaying investing in robotics. In both cases new jobs would have been created had the investments been made.”**

The main public channels of business support are Business Gateway (BG) and Scottish Enterprise (SE). Local businesses with credible growth plans access different levels of grant funding for marketing and brand development (e.g. £2,000) or for major capital investment in plant and equipment investment (e.g. £399,000). For the general business audience, advisory and networking services are delivered through conferences, seminars and workshops covering strategy, IT, workforce development, exports, marketing and so on.

The businesses we interviewed valued these BG and SE support services, provoking the obvious question: if access to these services were to be significantly widened and better resourced, what would be the impact on business-led inclusive growth in across the South of Scotland regional economy?

## LOCAL PROCUREMENT AND PLANNING

Several businesses thought that council procurement policies and planning policies could be more supportive of local businesses – several businesses themselves have informal but firm ‘buy local’ practices:

**“As a small business, we find accessing public contracts is very difficult. There are advertised contracts which the firm can readily fulfil but thresholds for turnover / staff numbers or having QA accreditations etc. set the targets too high (and arguably far higher than the contract demands). This is a block to obtaining regular, secure work.”**

**“Access to the ‘quick quotes’ contracts below £10k value is very difficult to obtain with local authorities not willing to engage with or entertain new suppliers. It appears to be about ‘old relationships’ rather than more open tendering opportunities. Getting onto local authorities’ ‘books’ is a real hurdle.”**

**“The public sector procurement process is a barrier to growth – small firms don’t get a look in.”**

The survey’s business comments merit a timely and worthwhile appraisal of ‘buying local’ procurement policies. This could be usefully linked to a forward-looking strategic review of the alignment of local planning policies with the new Region’s business-led inclusive growth objectives:

**“The big barrier to growth – especially population and housing growth – is the traditional entrenched system of land ownership. Big land owners are old fashioned and focus on forestry and agriculture, rather than releasing land for housing. The Council reinforces this through its restrictive planning policies.”**

**“We need population-led growth that requires investment in housing and transport infrastructure. And with it, there should be a renewable energy strategy, including electric cars.”**

**“The Scottish Government’s positive policies on renewable energy need to be actively supported by local planning policies, in order to create a better strategic pro-business framework for investment.”**



**“The Council is slow in supporting small businesses (they focus on the bigger ones) and it generally lacks business experience.”**

**“We need help to grow our business. We tried Scottish Enterprise and Business Gateway and a couple of independent specialists but found them too generic or formulaic and lacking in sector knowledge. The public funding process is also very time-consuming for a small business – we gave up a LEADER application as it took too much resource.”**

## INVESTING IN THE FUTURE

The survey found that 56% of businesses will need access to external growth finance in the next three years. Larger firms need external finance (£500,000 plus) to develop new premises or facilities, while the needs of smaller firms are more operational – to increase production capacity, develop a new offering, employ new staff and shore up working capital. We explored specific finance and investment issues with the interviewees:

- Business expectations of the Scottish National Investment Bank (SNIB) were mixed: a third of businesses thought that SNIB could be helpful to them, another third were simply not aware of SNIB, and the remaining third were either ‘unsure’ or thought SNIB would not be of help.
- A majority of 70% of the businesses interviewed said they would consider exploring the possibility of co-investing in specific projects or infrastructure to alleviate external constraints on their growth – subject to their financial states.

Image credit: VisitScotland / Paul Tomkins

## WHAT BUSINESSES SAY – FINANCE

### Social Enterprise / Housing Association

“We want a social enterprise fund for the South of Scotland. Right now, we compete with private businesses for government funding. We have a natural role to play in delivering inclusive growth that should be recognised and strategically funded to scale-up services. Funding schemes often favour larger organisations with a minimum of £100,000 turnover even though smaller organisations may deliver better services. SNIB should use its financial strength to help local housing associations secure and securitise loans.”

### Manufacturing

“We have had a negative experience with the Scottish Investment Bank. There were issues with the location and process, ultimately finding the business to be too risky an investment. Commercial banks that look at profits and assets to value loans are very exclusionary. We believe that there is an opportunity to provide working capital finance for businesses that represent a slightly higher risk to commercial banks. Additionally, we think the SNIB should be different from SIB, which has a strong focus on IP, i.e. technology and gaming businesses.”

### Administrative and Support Services

“Funding grants are all well and good, but a lot of businesses need to get a loan to match-fund the project and if they are new businesses, they do not have the credit history to apply for the loan. Furthermore, the application process is too convoluted and micro businesses don’t have time for proposal writing. The SNIB would help but applying for finance would need to be easy to achieve and much simpler.”

### Professional, Scientific and Technical Services

“There is a need for financial support for new business start-ups. A number of business start-ups are emerging in the region across all sectors. However, despite the abundance of innovative ideas, success is contingent on the ability to access funds. Banks will not provide finance, so that many good ideas lack the backing to be fully developed.”

### Information and Communication

“Our company hinges on finance and funding. If we could get more funding, we could employ more people and grow. We have been asked to do coding and programming for schools so want the finance to be able to take on people with relevant skills and grow into a new area. Additionally, we need the finance as we are competing with libraries that are offering courses completely free so are already at a massive disadvantage. Also, we are competing with the central belt for funding and their demands are a lot smaller which is a disadvantage.”

# 3.6 FINDINGS ON POLICY AND PRACTICE

The majority of businesses interviewed (68%) are not aware of the Scottish Government's Inclusive Growth priorities. Notably, 50% of the larger SMEs with more than 10 employees were more aware of these priorities compared to only 29% of companies with less than 10 employees. This probably reflects the former group's closer dialogue with Scottish Enterprise and Business Gateway.

Only 3 of the 68 businesses interviewed (4%, compared to 1% nationally) were signatories of the Scottish Business Pledge, with a further majority of the surveyed businesses being aware of the Pledge but not 'signed up' (18%, compared to 23% nationally). Given that most of the survey participants were introduced through Scottish Enterprise and Business Gateway, the national and South of Scotland figures are not that dissimilar.

The more significant original finding is that the majority of businesses interviewed meet the various Pledge criteria (see Chart 3.9), but this is everyday practice rather than a conscious, formal business response to the Pledge.

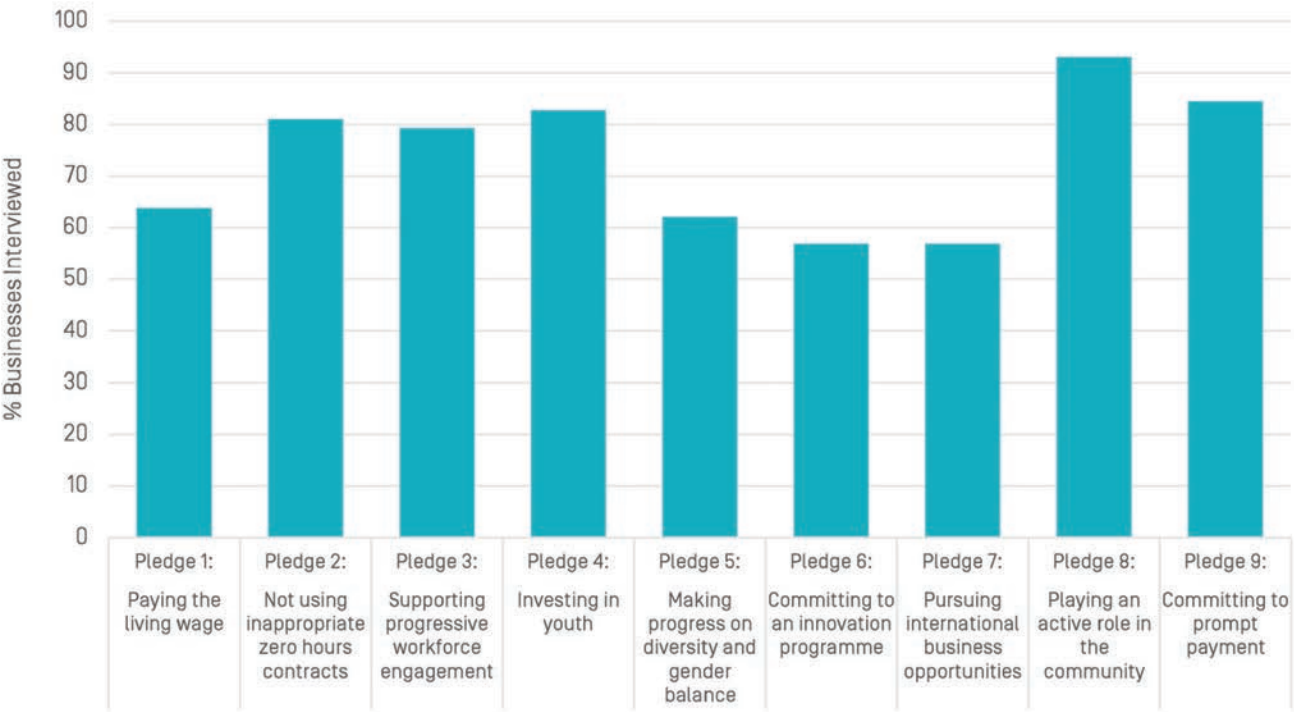
**"The majority of the businesses meet the criteria of the Scottish Business Pledge."**

These results suggest that the national sign up rate (less than 1%) for the Scottish Business Pledge does not indicate how well Scottish businesses are actually performing across the 9 separate component criteria of fair work and business inclusive-growth practices. We understand that the low sign up rate has led the Scottish Government to consider how the Pledge could be more effectively and widely promoted. Our results point to the need for more flexible criteria. Also, it should be noted that 61% of the businesses think that workshops focused on deriving business benefits from the individual Pledge elements would be beneficial to them.

## BREXIT

Finally, the last question in our survey was Brexit as a general factor that could impact on business-led inclusive job growth. Reflecting a high level of business uncertainty across the UK, 46% of the businesses interviewed do not know how Brexit will impact their business. 34% think it will have a negative impact whereas 6% foresee a positive impact and 5% think Brexit will not impact them at all.

Chart 3.9 – Business Practice by Pledge Criteria



## WHAT BUSINESSES SAY – BREXIT

### Information and Communication

"Given the current uncertainty and the lack of any tangible plans for how and whether it will be possible to continue dealing with the overseas clients and suppliers, based within and outside the EU, doesn't help anybody, us or the clients and suppliers."

### Manufacturing (3 firms)

"If Brexit brings higher tariffs, then we'll be less competitive and there is a 50% chance that production will be transferred outside the UK to a sister plant. Also, we can't have production processes disrupted by transport delays at the EU borders."

"Brexit will affect us as we usually buy in dollars hence the exchange rate changing will impact on our imports and exports. Additionally, we are worried about losing staff, as a lot of them are Eastern European."

"We import a lot of raw materials from Europe, so the rise in Duty will push costs up. Additionally, we also export so the Export Customs duty will also make costs higher."

### Agriculture and Forestry (2 firms)

"Brexit will be 'bad to catastrophic' for our business. We have skilled EU national employees and 50% of our on-line sales go to EU nationals living in the Central Belt."

"Staff turnover since the 2017 Brexit vote has increased and recruitment has been difficult, we feel there has been a skills and knowledge drain. Additionally, the change in currency has made all EU sourced goods more expensive and reduced sustainable profitability."

### Wholesale and Retail Trade

"Sales are down £100k on our imported goods since the referendum and the currency drop. Imports will be killed dead."

## WHAT BUSINESSES SAY – BREXIT

### Administrative and Support Services (3 firms)

"There has been a loss of EU funding for the third sector since Brexit. This has been an important source of funding and now the organisation risks going bust."

"The LEADER funding will be under threat – it is a very valuable source of funding for rural areas."

"Brexit may well favour businesses that don't actively trade in Europe. Some large exporters in the area will be affected, however they have the infrastructure in place to deal with this and work out ways around it. Some larger economies around the world are very interested in products made in Scotland and capitalising on this can only be a good thing, especially for the South of Scotland."

### Leisure and Recreation (2 firms)

"Trips here from abroad will be cheaper, however it is not good for the reputation of the area and UK tourism. Bikes are already going up in price – people are worried they will go up further."

"People will be careful with how they spend which may affect the bike industry especially as cycling is a luxury. Also, it could be more expensive as a lot of the equipment is imported so prices may go up. However, Brexit may be positive as UK tourists may stay in the UK, benefiting the cycling industry."

### Accommodation and Food Services (3 firms)

"Suppliers' prices may increase; therefore, our prices may have to follow. If the pound drops further, it may impact on people's spending however this may also increase tourism."

"We think Brexit will lead to less tourists coming from Europe which will be a huge tragedy and an economic nightmare for them. They believe that people's living standards are going to suffer badly."

"Brexit will balance itself out after an initial fluctuation in the market. The business has its best ever projections for 2019 and, despite Brexit, bookings are still coming in. There could be an increase in staycations which could have a net positive effect."

Image credit: Our Scottish Borders / Graham Riddell



# 3.7 SUMMARY OF FINDINGS AND RECOMMENDATIONS

This is quite possibly the first SME survey on the theme of 'business-led inclusive job growth' in Scotland or the rest of the UK. Its success, measurable by the quality of the data gathered and by the high level of business engagement in the interview process, holds significance for other places in Scotland and the UK where inclusive growth is now a top but not well understood priority.

- For South of Scotland itself, we now have a unique and timely baseline picture of the state of inclusive growth in the local business community. There are 68 business employer voices here, representing the vital SME backbone of the South of Scotland's private sector.<sup>7</sup>
- Grow a regional B4IG ecosystem that supports existing businesses like those interviewed here, attracts new businesses into the area ('investment-readiness') and enables start-ups to scale up. A social enterprise growth fund belongs here. The Enterprise Agency's service delivery infrastructure should be ramped up, decentralised, sector-neutral and more balanced its growth-inclusion appraisal of a business' prospective contribution to the Region.
- SMEs are scattered all over the Region and are therefore 'invisible' – this 'thin spread' is bad for building supply chains and encourages the false impression that the Region is a place to play or retire to, rather than a place where businesses can thrive; to counter this, a regional technology and information platform should be created to forge linkages between local businesses and to link them to external markets, investors and innovation clusters.

We found that 70% of the businesses interviewed perform well on Growth (Turnover and Employment) and Inclusion (Fair Work). Taking these two basic facts together, the types of businesses we interviewed should be treated as highly prized B4IG (Business for Inclusive Growth) assets. Straightforwardly, the Region needs many more of them! Amongst them too we found 'diamonds in the rough', micro businesses and even 'one-man bands' that could add their collective weight to the inclusive growth effort, given the right opportunities to move from the start-up to the scale-up stage.

From the business survey results, we have identified a number of action areas for promoting business-led inclusive growth in South of Scotland:

- Produce and implement an integrated, multi-modal, sustainable regional transport strategy that maximises connectivity within the Region and between the Region and external markets in Scotland, the UK and the Rest of the World.
- Develop and implement a holistic talent (human capital) retention and attraction strategy aimed at young people and young families, extending from skills and education through housing to 'good' business jobs and entrepreneurship.
- Linked to the above, and to promote SME growth in retail and other consumer and business services, modernise the Region's town centres as 'smart' places -places that are technologically, ecologically and entrepreneurially advanced – for people and businesses to live, work, shop and play; the Scottish Government's plan to establish a town centre diversification fund is well-aimed and timely.

On Diagnostics, we believe that this study's methodology and questionnaire could be properly evaluated and refined/improved where necessary, and then used as a basis for regular 6 month or annual B4IG barometer surveys. This is a diagnostic tool in itself.

Diagnostics depend on high quality, primary and timely business data, so we recommend creating and using the above technology platform for business engagement, risk management (relocation or collapse) and 'deep diving' work aimed at identifying specific problems and possible remedial actions.

Finally, Diagnostics should be designed to support and encourage close alignment across levels of policy and delivery – national, regional, local authority and even hyper-local community levels. We believe that B4IG policies should be designed and tracked for impact performance as 'end-to-end' or 'full life cycle' initiatives, from which every business and every community can benefit.



## SECTION 4 – FINANCE AND INVESTMENT NEEDS

This section examines the role of finance and investment in supporting "Business-led Inclusive Growth" in the South of Scotland. It draws on the results of the business survey in terms of businesses' demand for finance both for their own business growth as well as investment to meet external barriers to growth.

### OBJECTIVES

The main objectives of this area of research are:

- To understand local business and wider environment finance and investment needs from the perspective of local businesses in the South of Scotland.
- To survey the financial community to understand the supply of finance and how finance providers view investment opportunities in the region.
- To provide innovative ideas regarding investment products and 'impact investment' models that could help meet local and regional investment needs beyond what currently exists and uses public funding to leverage private investment.

### METHODOLOGY

We used the following 'market systems' approach when looking at the role of innovative finance in helping to tackle the challenges in the South of Scotland:

- On the demand side, we interviewed 68 local businesses about their finance and investment needs, and the wider constraints to growth.
- On the supply side, we analysed public sector funding for businesses and also private commercial finance and social investment provision. We reviewed available data and conducted five interviews with finance providers including: two banks, a venture capital provider, a microfinance provider and a specialist social investment provider.
- We looked at public-driven market infrastructure that can help build the market and efficiently match demand and supply with a focus on the role of the South of Scotland Economic Partnership (SoSEP) in facilitating and catalysing greater investment flows.

### STRUCTURE

This section is structured as follows:

- Section 4.2 presents an analysis of the results of the local business survey that relate to investment, business support and finance with a focus on future demand for finance.
- Section 4.3 provides an overview of the existing supply of finance for businesses, including both public funding and private commercial finance.
- Section 4.4 addresses the wider barriers to growth and how a place-based impact investment approach might help tackle these. It also shares knowledge and experience of social enterprise and social impact investment models relevant to two specific barriers – transport and employability.
- Finally, Section 4.5 provides a summary of conclusions and proposes innovative financing approaches that could inform the Government's regional investment strategy and also Scottish National Investment Bank plans to create financial products and services that fill the investment gaps.

<sup>7</sup> About 75% of businesses in the Region employ less than 5 people, with zero-employee enterprises (sole traders) comprising the great majority of these businesses. However, businesses with 0-4 employees generate only 20-25% of total private sector employment – the Region like rural economies generally has a higher concentration of these businesses than Scotland as a whole.

**IMPACT INVESTING – “UNLEASHING THE POWER OF CAPITAL TO HAVE A POSITIVE IMPACT”**

Impact investment is defined as “investment made with the intention to generate positive measurable social and environmental impact, alongside financial returns”. It brings a third dimension – ‘impact’ – to traditional financial investment considerations of ‘risk’ and ‘return’.

The main driver behind ‘impact investing’ is the recognition that the scale of societal challenges is such that public sector funding and philanthropic funding are insufficient to tackle them – private business and investment must play a role. The UN Sustainable Development Goals (SDGs) have come to provide a common framework for articulating these goals. Governments recognize that we need to move from ‘billions to trillions’ of dollars of investment to achieve the SDGs globally.

There has been tremendous growth in the number and range of actors involved in impact investing. Particularly evident is a sharp rise in mainstream investor interest. The Global Impact Investing Network’s 2018 Annual Survey reported over a doubling in assets under management (AUM) from \$114 billion reported in 2016 by 208 respondents to \$228.1 billion AUM reported in 2017 by 226 respondents.

The UK has been a pioneer of impact investing and has a well-developed ecosystem including Big Society Capital, a range of specialised social investment intermediaries, the UK National Advisory Board on Impact Investing and the Government Implementation Taskforce on Growing a Culture of Impact Investing. In the UK, the market has focused on ‘social investment’, the provision of repayable finance to charities, social enterprises and community organisations to develop activities that generate earned income and build more sustainable business models that deliver social outcomes.

In June 2018 the UK government responded to the industry-led report Growing a Culture of Social Impact Investment in the UK by committing to work with the investment and savings industry to support the launch of further social impact investment funds. It also outlined plans to encourage more investments to flow into disadvantaged areas.

Of particular interest to place-based impact investing strategies are blended finance models. ‘Blended finance’ refers specifically to the use of public or philanthropic capital to mobilise private capital flows e.g. through structured investment vehicles where a public or philanthropic funder underwrites the risk of a private investor to catalyse private capital mobilisation.

John Glen, Economic Secretary to the Treasury, said: “Investing can and should be a force for good, and it’s vital that industry and government work together to make it easy for people to invest in the causes they care about. Social impact investing is brimming with potential and we are encouraging firms to develop products to meet the rising demand, while championing the industry’s potential to make a real difference to people’s lives.”

Scotland has been a long-time pioneer in social investing building on a strong tradition of pioneering new social business models, including mutuals and social enterprises, and of socially responsible and community finance. The Government has provided strong backing for the sector, including to Social Investment Scotland, one of the leading Scottish social investors. The Ethical Finance Hub, a partner on this project, is based in Edinburgh and plays a leading role in developing and growing the broader ethical finance market.

RESOURCES

- UK National Advisory Board on Impact Investing: <http://uknabimpactinvesting.org/>
- Implementation Taskforce on Growing a Culture of Impact Investing: <https://www.grow-impact-investing.org/>
- Global Impact Investment Network (GIIN) website for information and resources on impact investing globally [www.thegiin.org](http://www.thegiin.org)
- OECD Private Finance for Sustainable Development
- Social Impact Investment in the EU, Financing strategies and outcome oriented approaches for social policy innovation: narratives, experiences, and recommendations, European Commission 2018
- See the Impact Management Project for a common approach for describing impact across the investment value chain. [www.impactmanagementproject.com](http://www.impactmanagementproject.com)

# 4.2 RESULTS OF THE BUSINESS SURVEY

This section summarises the results of the business survey in terms of businesses’ demand for finance both for their own business growth and to meet external investment needs.

**SCOTTISH GOVERNMENT SUPPORT**

The majority of the businesses surveyed (78%) had received support from the Scottish Government, in the form of business advice and funding (45%), business advice only (36%) and funding only (19%). These figures reflect the significant representation of businesses introduced by Scottish Enterprise and Business Gateway. Nevertheless they represent a good cross-section of ‘High Inclusive Growth Businesses’, hence their financial behaviour and future needs is of considerable interest.

The three most dominant sectors to have received public funding are: 1) manufacturing, 2) wholesale and retail trade; and 3) professional, scientific and technical (in that order).

The level of funding received ranges from a £2,000 Business Gateway grant for brand development to a £399,000 commitment from Scottish Enterprise as start-up aid for a larger business. Funds were most frequently used for plant and equipment investment, office expansion, IT development, marketing and staff costs.

**EXTERNAL COMMERCIAL FINANCE**

Around two-thirds (62%) of the businesses surveyed had used external commercial finance. This is mainly to finance working capital, building and construction, property acquisition, equipment and machinery. There are more companies using external finance in production driven sectors than service sectors. The split of those who actively use commercial finance between The Borders and Dumfries and Galloway is very similar (50% to 55%). Those who tap into commercial financing are more likely to be larger businesses with 10 or more employees (see Chart 4.1).

One fifth (21%) of active business finance users have been declined finance before. An insufficient track record, perceived risk and supplier payment arrangements were amongst some of the reasons given. In most cases, these businesses found alternative funding methods. However, being declined for finance can have very negative repercussions. Examples given included: long delays in meeting business forecasts, having to make staff redundant and a business owner being forced to sell his home.

Chart 4.1 – Use of Finance by Size of Workforce

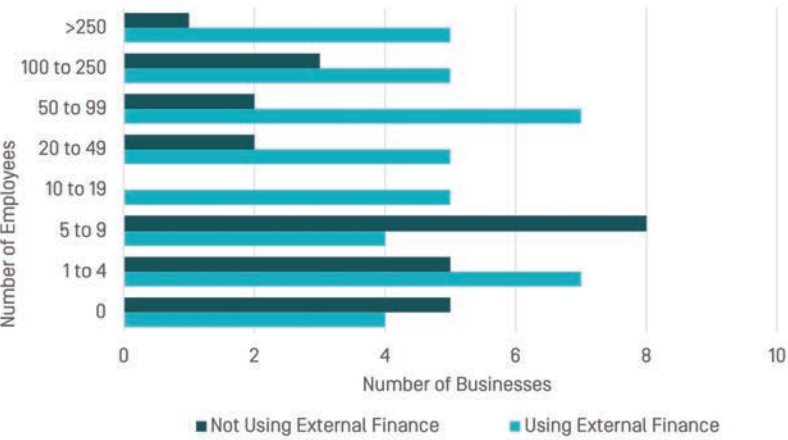
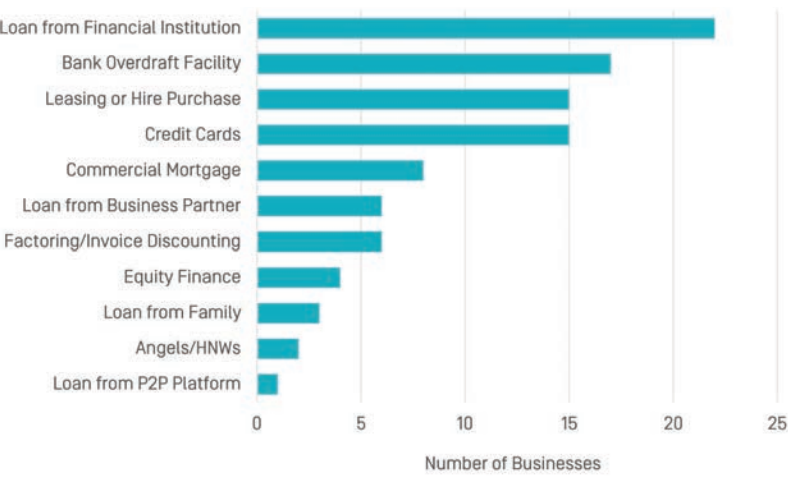


Chart 4.2 – Types of External Commercial Finance Used



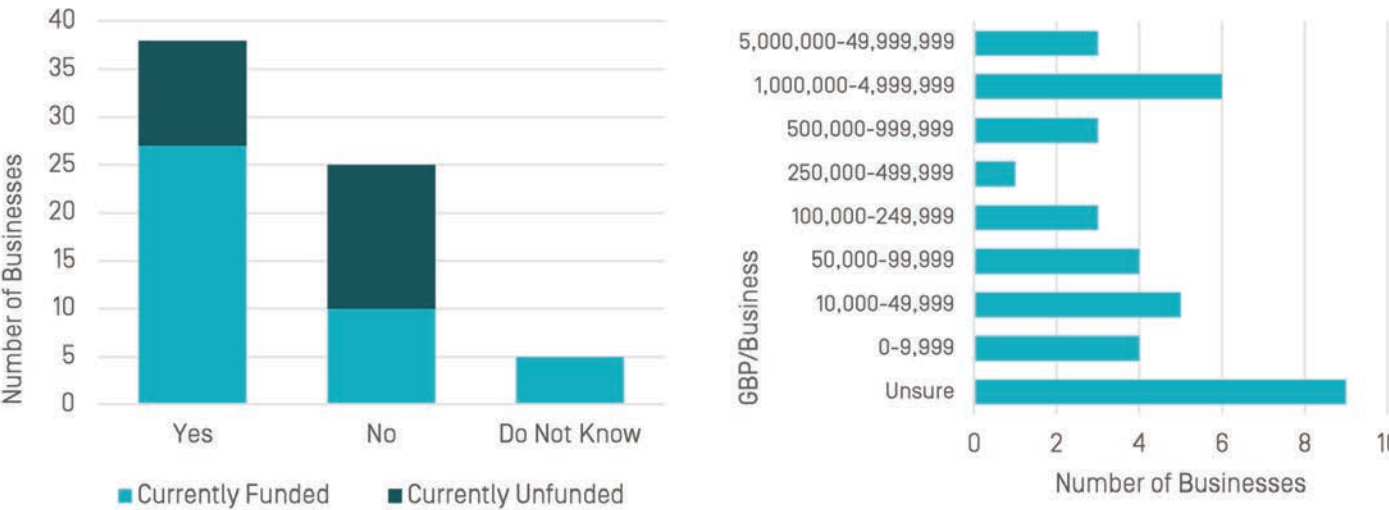


The most commonly used forms of commercial finance are bank loans and overdraft facilities. Most businesses are not aggressively tapping into private funding avenues, tending to favour loans or overdrafts.

The experience of accessing commercial funding has been largely positive with only 17% reporting a negative experience. Negative comments include that the bank representative had no knowledge of the sector or that they were offered unreasonable rates.

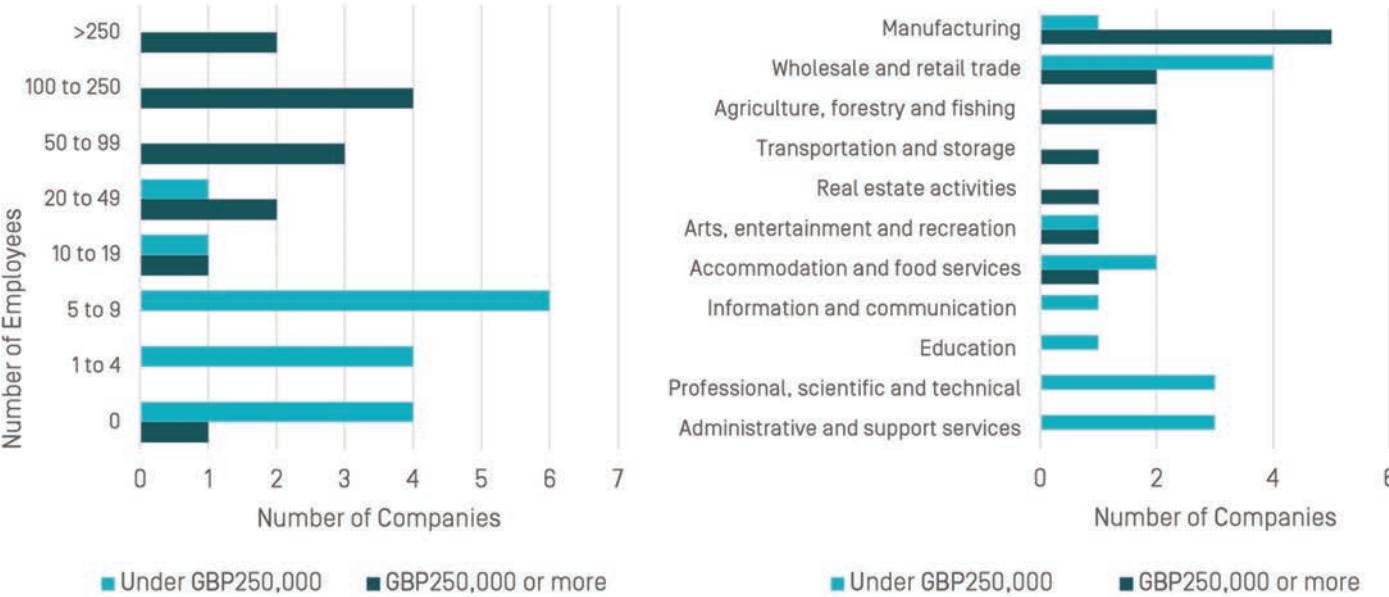
**There is a future demand for finance among local businesses.** Around half (56%) of the businesses surveyed stated that they will require external funding to support their businesses to scale-up over the next three years. The majority of these businesses are already using commercial finance (64%). Financing needs range from £2,000 to £40 million, but most are seeking funding between £1 million and £5 million (see Chart 4.3).

Chart 4.3 – Business Need to Access Finance in the Future (left) and the Amount of Funding Needed (right)



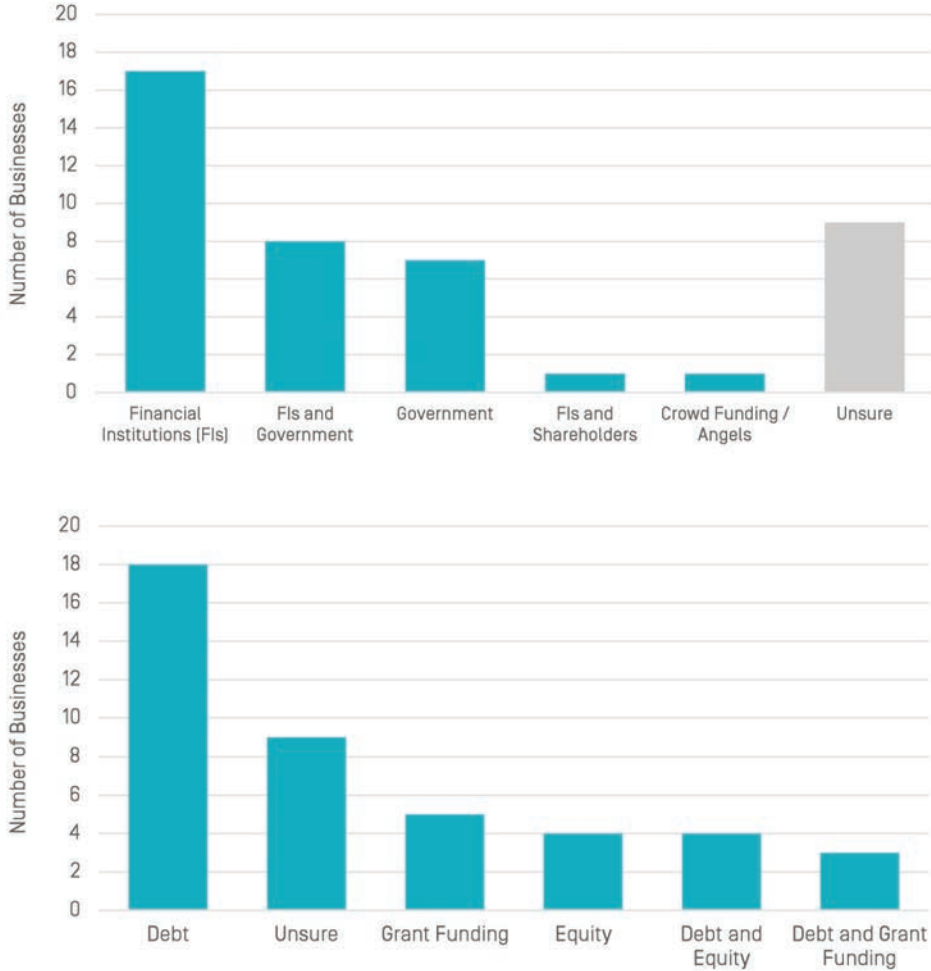
Businesses seeking larger investment (over £0.5m) are planning to develop new premises or facilities, whereas smaller amounts are needed for more operational needs, such as marketing costs or employing new staff (capex needs vs operational needs). It is the production-related sectors, and those with a larger number of employees, that require larger levels of finance going forward. However, there are also a significant number of service related businesses with less than ten employees expressing the need for smaller levels of finance over the next three years (see Chart 4.4).

Chart 4.4 – Business Funding Needs by Business Employee Size (left) and by Sector (right)



**Most businesses with a future funding need are expecting to approach banks to access loans. Equity is an option some businesses are willing to consider, but as is typical within the wider SME business population, most business owners are wary of taking on equity.** Those who were interested in equity investment are looking for investors who bring “expertise, strategic support and patience” and are prepared to be active investors supporting and helping the business grow. All those interviewed are looking for financial products that are aligned better with their businesses’ growth plans and more personal relationships with financial institutions.

Chart 4.5 – Businesses by Preferred Funding Partner (top) and by Type of Funding (bottom)





Overall, the business interviews indicated that local businesses are looking for access to finance with the following features:

- Patient capital with longer term appetite (such as 10 to 15-year loans)
- Performance based or revenue participation debt structures
- Debt facilities with the flexibility to draw down as needed
- Asset backed financing structures at an affordable cost
- Term loans with an option to roll over
- Lines of credit for SMEs to support leasing, loans and overdraft
- Corporate mortgage offerings and business funds with a “good repayment scheme”
- Ability to borrow small amounts e.g. £2,000 to £10,000.

**VIEWS ON THE SCOTTISH NATIONAL INVESTMENT BANK**

Views were mixed regarding the launch of the Scottish National Investment Bank (SNIB) and its usefulness to them as a business – 33% thought it was a good idea, 28% were not sure, 33% were not aware of the bank and 6% felt it would not be of help. Comments from those who were unsure of its impact include: 1) it should not crowd out the private sector, 2) it should be different to the Scottish Investment Bank; and 3) it should focus on investing in infrastructure that benefits all rather than SME lending.

**WHAT BUSINESSES SAY – SCOTTISH NATIONAL INVESTMENT BANK**

“The less the SNIB is in the control of big commercial banks, the better. I would like to see anything that makes it easier for people to get finance and start or expand their businesses who wouldn’t otherwise get the chance e.g. farming – no one can get into that because owning a farm is expensive so lots of youngsters who would like to go into farming can’t at the moment.”

“I would like to see a social enterprise fund for the South of Scotland – we need grant funding, not only repayable finance. Right now social enterprises compete with private businesses for government funding. Social enterprises have a role to play in meeting government’s social objectives. This needs to be better recognized and strategic funding provided to scale-up services. Government also needs to consider funding for smaller organisations. Funding schemes often favour larger organisations with a minimum of £100,000 turnover even though smaller organisations may deliver better services and outcomes.”

Image credits, left to right: Our Scottish Borders / Steve Wyper, Pixabay

# 4.3 STATE OF CURRENT FINANCE PROVISION

This section provides an overview of the existing supply of funding to the region, including both public and private commercial funding, and draws conclusions as to the access to finance gap.

**PUBLIC FUNDING**

Brexit has created a cloud of uncertainty over the future of public funding in the South of Scotland and other regions. The end of the EU Regional Development Fund (ERDF) and European Social Fund (ESF) will clearly leave behind a ‘public funding vacuum’ which the Scottish Government and UK Government will need to fill as a top-level inclusive growth priority.

Scottish Government data (30 September 2018) shows that £449.3 million of ERDF and ESF money was used to support 208 projects in Scotland – with a total value of over £1 billion. ERDF promotes balanced development in the regions, including SME development, whereas ESF funds are more focused on social inclusion and employment-related projects. These are both, therefore, inclusive growth-led public funds.

The South of Scotland received EU funding of £5.3 million for 7 projects, whilst the Highlands received £22.1 million for 21 projects (see Table 4.6). Taking account of population scale, the Highlands received EU funding of £94.40 per head in comparison to £20.29 in the South of Scotland. The Highlands has had an Enterprise Agency which has played an important role in mobilising public funding for the region. It is expected that the newly created South of Scotland Enterprise Agency will play a similar role.

**Table 4.6 – EU Funding Received**

Applicant	Number of Projects	EU Funding
Dumfries and Galloway Council	5	£4,221,000
Scottish Borders Council	2	£1,137,000
Highland Council	9	£9,461,000
Highlands and Islands Enterprise	12	£12,702,000

Over the last year, Scottish Enterprise (SE) has worked on a one to one basis with 106 account managed businesses in the South of Scotland region. This represents just under one in twenty (4.8%) of SE’s national portfolio. This figure grows to 6.4% when the account managed portfolio is filtered to solely include Account Managed Growth, highlighting a focus on upwardly mobile local businesses. This is in line with the region’s business share (see Table 4.7).

**Table 4.7 – SE Account Management in the South of Scotland**

	Dumfries & Galloway	Scottish Borders	South of Scotland	Scotland Total	SoS % of Scotland
Account Managed Companies	40	66	106	2,202	4.8%
Of which are Account Managed Growth	26	42	68	1,070	6.4%
In Business Gateway Pipeline	9	12	21	576	3.6%
SE Growth Prospects	2	0	2	46	4.3%
Number of Enterprises*	6,670	5,315	11,985	176,400	6.8%

\*SOURCE: Businesses in Scotland 2017, Scottish Government, ONS (IDBR)



Since the start of financial year 2015/16 to August 2017 Scottish Enterprise has awarded more than 300 grants in the South of Scotland. Cumulatively, these grants totalled around £6.7m, helping to support total investment in excess of £44m. The top five identifiable sectors benefitting from SE funding are: Technology & Engineering, Chemical Sciences, Energy – Oil & Gas/Thermal Generation & CCS, Forest Industries and Textiles.

Scottish Enterprise also supports several infrastructure and sector projects. Whilst the majority of projects are focused on delivering commercial business space in the area, there are a number of sectoral projects supporting forest industries, tourism and food & drink as well as commercial real estate projects. Local businesses can also apply to a range of national funds, including the Scottish Venture Fund, the National Renewables Infrastructure Fund and the Scottish Growth Scheme.

Within the South of Scotland, several initiatives are delivered through Business Gateway. The budget of Business Gateway in Dumfries and Galloway (2016/17) was £336,000, slightly higher than the £303,027 for Business Gateway in Scottish Borders (2017/18). These agencies provide access and support to a range of funding opportunities at the local level.

In July 2018 the South of Scotland Economic Partnership (SoSEP) was awarded £7.68 million for projects across Dumfries and Galloway and the Scottish Borders to provide careers opportunities and build community resilience. Table 4.8 below provides a breakdown of the projects:

Table 4.8 – Projects in the South of Scotland to Provide Career Opportunities and Build Community Resilience

Project	Applicant	Project aims	Funding amount
Annan Regeneration	Dumfries and Galloway Council	Drive forward the Annan Action Plan developing projects to mitigate the impact of job losses in the town following Young's closure of its Pinneys seafood processing plants.	£250,000 (over two years)
Centre of Excellence in Textiles	Scottish Borders Council	Address a business critical skills issue in the textiles sector by the provision of a training centre to deliver skills training to local textile companies.	£610,000 (over two years)
South of Scotland Skills & Learning Network	Borders College and Dumfries and Galloway College	Hub and spoke model to provide new facilities across the South of Scotland that will facilitate digital learning in rural locations. Initial focus on training in care, renewable energy and engineering and construction.	£6,601,919 (over two years)
Strengthening Communities Programme	Highlands and Islands Enterprise	Match funding for seven sustainable communities projects in Peebles, Newlands, Tweedsmuir, Stranraer, Eskdale, Kirkcudbright and Kirkconnel & Kelloholm.	£220,710 (over two years)

Social Investment Scotland has also received funding to support greater social enterprise development in the region working with First Port, the agency for start-up social entrepreneurs.

The prospect of business-led inclusive growth in the South of Scotland is shrouded by the likelihood of major EU funding programmes coming to an end, and the uncertainty over how this public funding vacuum will be filled by Scottish Government and UK Government funding. The Scottish National Investment Bank has yet to make an impact, but it will have an important role to play in future.

The situation may be fluid and uncertain, but what is definite is that **non-EU funding** for business-led inclusive growth has to significantly increase from past and current levels – everywhere, but particularly in the South of Scotland. The private sector has a bigger role to play in this inclusive growth scenario. Where are we now?

PRIVATE COMMERCIAL FUNDING

We appraised the commercial finance landscape in Scotland by analysing the providers listed on the Better Business Finance platform.<sup>8</sup> More detailed research identified some of the leading finance providers in the South of Scotland region itself. Table 4.9 shows the most active commercial finance providers and their presence in the South of Scotland's two local authority areas. Annex 2 provides a description of key finance providers. Given data confidentiality, we were not able to estimate flows of commercial finance into the Region.

8 See <https://www.betterbusinessfinance.co.uk/>



Table 4.9: Finance Providers Active in the South of Scotland

Organisation	Sector	DG	SB
Bank of Scotland Plc	Banking	Y	Y
Barclays Bank Plc	Banking	Y	Y
Clydesdale Bank Plc	Banking	Y	Y
Royal Bank of Scotland Plc, The	Banking	Y	Y
Santander UK Plc	Banking	Y	Y
TSB Bank Plc	Banking	Y	Y
Cumberland Building Society	Building Societies	Y	
Nationwide Building Society	Building Societies	Y	Y
Scottish Windows Building Society	Building Society		Y
Capital Credit Union Ltd	Credit Union		Y
Carlisle & District Credit Union	Credit Union		Y
Solway Credit Union Ltd	Credit Union	Y	
Sovereign Credit Union (Previous name: Cumnock & Doon Valley Credit Union)	Credit Union	Y	
Digital Development Loan Fund	Lending	Y	
Scottish Co-Investment Fund	Lending	Y	Y
Carita Investments	Private Equity	Y	
John Laing Environmental Assets Group Limited	Private Equity	Y	
TriCapital Business Angels	Private Equity		Y
DSL Business Finance Ltd	Social Investment	Y	
Social Investment Scotland	Social Investment	Y	Y

We interviewed a cross-section of five finance providers including two large mainstream banks, one regional business angel group that funds early stage companies, one microenterprise lender and one social investor. These interviews covered four broad questions:

- Do you see an opportunity to do more business in the Region?
- What are the barriers you face to growing your business (e.g. loan book) in the Region?
- How do you see the South of Scotland region from a market and business perspective – demand, level of activity, financing trends etc.?
- What is your experience of local businesses' attitudes and perception of commercial finance providers?

Image credits, left to right: both Scottish Borders Council / Jason Baxter



■ THE CORE MESSAGES FROM FINANCE PROVIDERS

LACK OF DEAL FLOW IS A BIGGER PROBLEM THAN LACK OF SUPPLY OF FINANCE

- Lack of availability of finance options is not the problem as viewed from the provider perspective. There is a range of funding types available to businesses from a variety of providers serving a wide spectrum of business types. All finance providers are looking to grow their South of Scotland business and see good growth potential on a long-term basis.
- Lack of deal flow and good investible business propositions is the main constraint.
- All finance providers are experiencing low levels of demand in the region and would like to receive more leads.

LOCAL BUSINESS LEADERS ARE NOT FULLY AWARE OF FINANCING OPTIONS AND LACK CONFIDENCE IN BANKS

- Local businesses have a negative perception of banks post-crisis which is compounded by the centralisation of operations, branch closures and the subsequent reduction in local staff.
- Most businesses are not aware of all the financing options available to them. There seems to be a grant preference culture outside of the conventional overdraft facility or loan route.
- Pricing and affordability of certain forms of finance can be off-putting.

SYSTEMIC STRUCTURAL SHIFTS REQUIRE FINANCE PROVIDERS TO DEVELOP NEW FORMS OF FINANCE

- There are an increasing number of micro businesses which have more IP / HR centric business models (IT companies, design, advisory, training, prof. services, etc.). This requires new forms of finance that value intangibles, understand creative and IP-based business models, and can lend against this as opposed to traditional security (e.g. property and fixed assets).
- Large banks are moving towards a digital interface resulting in fewer local staff and the limited staff resources then being primarily allocated to managing larger clients. This creates an unmet demand or needs gap for smaller clients.

THE SOCIAL ENTREPRENEURSHIP CULTURE IN THE REGION IS VERY NASCENT

- The priority for social sector organisations interviewed is to secure sustainable income sources to fund their services, be that from public sector contracts or partnership with business. Demand for repayable finance was limited and of secondary concern.
- Social Investment Scotland is working in partnership with First Port to increase knowledge and awareness of social enterprise models and the role of social investment in the region.
- There is not a clear line between local community businesses and social enterprises. Hence it would make sense to encourage closer working relationships between specialist social investment providers and Business Gateway advisors.



# 4.4 WIDER INVESTMENT NEEDS AND INNOVATIVE FINANCE APPROACHES

This section examines the wider investment needs to drive business-led inclusive growth in the South of Scotland and how innovative impact investment approaches could help tackle some of these needs. It seeks to spur new thinking by providing ideas and sharing knowledge and experience from elsewhere.

The study found broad agreement on the main external barriers to business-led inclusive growth in the South of Scotland. The two main barriers are:

■ TRANSPORT AND COMMUNICATIONS

This was a top priority for businesses and experts across the region. A key study recommendation is the urgent need for an integrated regional transport strategy and investment in improving road, rail and public transport, as well as mobile and broadband connectivity. This report does not assess how to raise capital to meet the large-scale infrastructure needs – this is area where the Scottish Government has long experience. Instead, we provide examples of the role of social enterprise and social investment in **providing community transport** – tackling one element of an integrated transport strategy.

■ SKILLS AND THE LABOUR FORCE

The region's limited skill base and labour pool is seen as a major barrier to business-led inclusive growth. There were concerns over the outward migration of young people. However, here our focus is on the aspirations and opportunities of the young people who stay in the region. We were told of **pockets of poverty and deprivation where there are high levels of youth unemployment combined with high levels of mental health problems and drug addiction**. These are known communities and estates where local people talking of a 'poverty of aspiration'. At the same time, local business complained about problems with recruiting staff. Our focus is on the role of social enterprise and charities in tackling youth unemployment and strengthening pathways into local employment opportunities.

In terms of innovative finance instruments, there are a range that are used within the impact investing area. These are described in Annex 5. In this report, we highlight three examples that are of relevance to the specific wider investment needs of the South of Scotland. However, there is scope for further research and development of innovative investment approaches.

PLACE-BASED IMPACT INVESTMENT

Place-based impact investment refers to investments in specific localities that intentionally generate positive impacts and financial returns. The focus is on investments that are underserved by traditional financial investment. A place-based investment approach has five building blocks:

**Purpose** – brings an investment lens to addressing community decline and under-investment. Seeks to foster economic renewal in communities that are at risk of, or already in decline or disadvantage.

**Focus** – has both a geographic focus and a sector focus centred on the role of SMEs as local employers. Includes different investment strategies to address different local needs e.g. investment in start-up businesses, growth potential businesses, affordable housing, commercial property.

**Structure** – mobilises a range of investors with different priorities and appetites for different risk-return profiles

through innovative structuring. The generation of a positive impact is purposely designed into the investment process, rather than being a side-effect. Utilises different investment structures including debt, equity and mezzanine finance products.

**Performance** – builds in impact measurement, management and reporting practices using key indicators relevant to local job creation and sustainable development.

**Collaboration** – requires collaboration between central and local government, financial institutions and investors, local business, and the social sector. Collaboration advances collective thinking on questions, like how to close capital demand gaps for rural entrepreneurs. Also, creates opportunities for community engagement and investment e.g. through community share issues.

SOURCES: Place-Based Impact Investing in Australia: Building Blocks for Action by Ingrid Burkett, 2012. Investing Together: Emerging Approaches in Collaborative Place-Based Investing, Urban Institute, 2018



■ IMPROVING LOCAL PUBLIC TRANSPORT

The lack of investment in transport infrastructure and public transport was a major concern of those interviewed and cited as a factor that undermined staff recruitment. Poor roads and lack of public transport mean that people have problems getting to work and are unwilling to travel far for jobs. Like many rural areas, the South of Scotland is very car dependent. There has been a spiral of decline in rural bus services across the UK, including in Scotland, in part due to pressures on local government finance. Buses to rural communities tend to be the least profitable for operators – and so these routes are most vulnerable to being cut or severely reduced.

**Community transport** could be part of the solution.<sup>9</sup> Many community transport operators are relatively small scale and have little capacity to be self-sustaining without public funding.

As such, community transport providers often meet specific needs or serve particular groups in the community, rather than offering a comprehensive public transport service. This is the case with the Annandale Transport Initiative, a community transport organisation in Dumfries and Galloway, that provides on demand minibus transport for community groups and individuals in need, including those in wheelchairs. However, there are places where community transport providers are delivering a comprehensive bus service in local areas. One example is HCT Group, one of the UK’s leading social enterprises, which now runs the bus services in the islands of Guernsey and Jersey. It has raised social investment to fund its growth (see box below). Could such a model be replicated in the South of Scotland?

HCT GROUP – A SOCIAL ENTERPRISE DELIVERING COMMUNITY BUS SERVICES AT SCALE

HCT Group is a social enterprise in the transport industry, providing over 30 million passenger trips on its buses every year. It delivers a range of transport services – from London red buses to social services transport, from school transport to whole bus networks, from community transport to education and training. A key differentiator of HCT compared to most community transport organisations is the fact it has achieved large-scale and profitability. HCT achieved a turnover of £62.9 million in 2017/18 (26.9% growth from prior year) and has raised tens of millions of pounds in social investment to supports its growth, including from Big Issue Invest, the Esmee Fairbairn Foundation and Social and Sustainable Capital.

HCT Group has worked with the Government of Jersey to develop a bus service that integrates commercial bus services and community transport services operating under the name,

Liberty Bus. This bus service has seen a high level of usage. In 2017, HCT published its first Impact Report for the Liberty Bus service. It found that:

- 7 in 10 bus users said they had saved money using the bus
- 39% of older people said their social interaction had improved because of the bus service
- 33% of young people said that using the bus has allowed them to access employment, e.g. they could not get to their place of work without it

HCT is setting up a Regional Advisory Committee (RAC) in Jersey, made up of user groups and other stakeholders. The role of the RAC is to make sure that how HCT works is meeting the needs of people in Jersey and to help direct how HCT reinvests any money made from contracts.

See [www.hctgroup.org](http://www.hctgroup.org) and [www.libertybus.je](http://www.libertybus.je)

Another innovative financing approach suitable for infrastructure investment is **Social Bonds**. Social Bonds are specific “use of proceeds” bonds launched in the mainstream capital markets to raise private finance to fund pre-identified projects. Bonds are a good form of finance for infrastructure projects that are asset-backed and have defined revenue streams. One of the main drivers of such bond issuance, alongside increased investor demand, has been the launch of codes of best practice: the International Capital Markets Association’s (ICMA) Bond

Principles, a voluntary framework for good practice around guidelines, transparency and disclosure. The Green Bond principles were announced in 2014, while Social Bond Principles and Sustainable Bond Guidelines followed in 2017. During the last 12 months, governments, corporates and banks have issued an increasing number of such bonds e.g. the HSBC SDG Bond. Is this an area where the Scottish Government could take a leadership role?

■ EMPLOYABILITY FOR YOUNG PEOPLE

Improving employment opportunities, particularly for marginalised young people, is an area of high social need in the South of Scotland and one where there is an opportunity for greater investment in social enterprise development. A key challenge to the South of Scotland economy and labour market is the forecast decline in the working age population and accompanying increase in people over retirement age. This combined with a tendency for many young people to leave the region, puts pressure on employers looking to recruit staff. Hence the importance of investing in young people who stay and helping them into local jobs.

“There are jobs in the area but how we support more disadvantaged young people into work is a real need. We also need to take into account the culture in the region. It can lead to low aspirations and young people who are depressed and socially isolated.”

Any new intervention in this area would require further research into local needs in specific communities, and the existing experience and plans for funding for youth schemes in the region. Funding is already being allocated to employability and skills programmes (see Section 3.1). Scotland has social enterprises with a strong track record of delivering employability programmes, such as Kibble, which works with young people at risk, and the Wise Group. We interviewed the Princes Trust and were also told about Works +, an employability charity project based in Galashiels. Skills Development Scotland, Scotland’s national skills body, provides skills development and career development services locally working with local colleges and employers and has an important role to play in this field.

This is an area for potential focus of future social enterprise development in the South of Scotland, including developing greater connections between local business employers and social sector organisations. We would recommend a performance-based grant or venture philanthropy as the best funding approach in the first instance. Venture philanthropy provides grant funding plus business support over the long-term with a focus on building the institutional capacity and financial sustainability of the enterprise and linking funding to the delivery of results and outcomes.

Here there is an opportunity to set-up a social enterprise investment fund with employability and progression out of poverty though work as a core social outcome area. This should be targeted at young people living in known deprived local communities. The Inspiring Scotland 14:19 Fund provides an exemplar of a venture philanthropy fund model that is worth consideration (see box). However, we should underline that core government funding for youth services is critical and an area that also needs review.



INSPIRING SCOTLAND – 14:19 FUND

Inspiring Scotland is an innovative, outcome focused venture philanthropy organisation designed and developed in response to the needs of Scotland’s charities (“ventures”). It’s a way of investing money and skills in Scotland’s charities with the aim of improving the lives of Scotland’s most vulnerable people long term.

Inspiring Scotland established a fund called the 14:19 Fund which aims to support young Scots aged 14 to 19 who are struggling to make a successful transition from school into employment, education or training. This ten year fund was launched in 2008 and has successfully invested £112.9 million in 20 Ventures. As at 31 September 2018, nearly 58,000 young people had been supported.

This fund is coming to an end in 2019. However, it is a fund model that could be considered for replication in the South of Scotland providing funding to scale-up employability and support services for young people locally.

See [www.inspiringscotland.org.uk](http://www.inspiringscotland.org.uk)

9 See The future of rural bus services in the UK, December 2018 at [www.bettertransport.org.uk](http://www.bettertransport.org.uk)

Image credit: Street League

# 4.5 SUMMARY OF FINDINGS AND RECOMMENDATIONS

This report has looked at the demand for finance by local businesses as well as wider investment needs to tackle the constraints to business growth. At the business level, there is a need and opportunity to better link existing demand for finance with supply as well as develop financing products that better meet the needs of smaller businesses.

**We advocate a place-based impact investing approach in which efforts are made to join-up the business demand for finance with the existing supply of finance and steps taken to stimulate a more entrepreneurial culture focused on allocating investment towards a common goal of inclusive growth – a goal that is understood and shared across all stakeholders, including business, finance providers and government.**

Below we highlight the main conclusions from this finance and investment study and highlight areas for strategic consideration and further research:

## ■ EXISTING AND NEW FINANCE PROVIDERS TO DEVELOP PRODUCTS THAT BETTER MEET LOCAL BUSINESS DEMAND

Businesses would like to see more flexible financing solutions with affordable terms that are aligned to when and how much revenue will be generated in the future. Most local businesses are looking for more personal relationships with financial institutions and funders who fully understand their business needs and can provide appropriate and affordable finance.

In particular, there are limited funding opportunities for small (often relatively new) companies which are IP centric (i.e. IT software companies, marketing and branding consultancies, etc.). As there tends to be less security or tangible assets to fund against, these companies will typically be confined to using overdraft facilities. Although there is some lending for such businesses (e.g. some mainstream banks do provide a tailored facility), it tends to come with significant additional requirements and is cost-prohibitive due to the additional risk and resource required by the banks to provide such a facility.

The Scottish National Investment Bank and local enterprise agency have the opportunity to give consideration to the provision of efficient access and cost effective specialist finance for such IP centric micro SME's with less onerous funding requirements. A detailed analysis of mainstream banks' products can provide an initial framework which can then be further refined based on additional market discussions on needs for that specific user group. Innovative considerations within this context should consider revenue sharing financing models for e.g. Worldpay Business Finance which offers cash advances (one cost, agreed upfront, with no interest, penalties or charges) for small businesses which are paid back an agreed percentage of future credit card or debit card takings, meaning the business only have to pay back when its customers pay. EFH/TGE could look to work with SG (&/or SNIB et al) towards designing, structuring and creating a financial solution of practical relevance at a future stage.

Existing work by Social Investment Scotland and others to support social enterprise development in the region is positive. The main focus of social sector organisations in the region is developing sustainable sources of income. Social investment can help support the development of more enterprising impact-driven business models. There is also an opportunity to develop community-based social enterprise models, such as community land trusts for housing and community-owned pubs and shops.

SoSEP and SNIB should also look at how to meet specific financing needs, particularly for rural entrepreneurs/farmers and for businesses that meet inclusive growth criteria e.g. local and growing workforce, commitment to Business Pledge principles, buy local commitment. Here consideration could be given to the design of a place-based impact investment fund targeting businesses that meet inclusive job growth criteria.



## ■ BUILD A COLLABORATIVE ECOSYSTEM AND IMPROVE KNOWLEDGE AND INFORMATION FLOWS

There is a role for SoSEP in helping strengthen relations and improve intermediation between the demand and supply side of the financial markets – to “build the connective tissue that leads to optimal capital allocation.” A next step could be to bring together public and private funders to build relations and share knowledge and experience of business investment in the region. Professional services organisations, such as accountancy and law firms, would also be useful stakeholders to involve given their knowledge of local businesses.

A Regional Investment Advisory Board comprising public, private, social investors and philanthropic funders could be established with a mandate to drive increased investment into the region in support of SoSEP goals. All types of investor have a role to play in supporting inclusive growth – banks, credit unions, social investors, private equity and venture capital providers, institutional investors and foundations. These investors are in a position to provide different types of funding for different needs.

Consideration should be given to the development of a singular digital portal which details all the various forms of finance that is up-to-date and live. This includes government grants, specialist funds, small lenders, venture capitalists, mainstream bank financiers and detailed split of their various funding options (invoice factoring, OD facility, etc.). The key will be to make this portal simple and intuitive to use as the assumed level of financial knowledge by SME's and new start-ups should not be over-estimated.

There is a need for the Government and SoSEP to build their local business knowledge and develop a risk register of strategic businesses that are in difficulty. We were informed of two businesses each employing several hundred people who are facing serious challenges and where there may be a case for public support.



## ■ DEVELOP A PLACE-BASED IMPACT INVESTING STRATEGY

There is a role for SoSEP, working with the Government, to develop a joined-up impact investing strategy (see box on page 55). This would bring together a range of finance providers, alongside representatives of the business community, to work together on further assessing finance gaps and how these can be met through innovative funding models. Consideration could be given to a place-based impact investment fund, but given the diversity of financing needs, a series of investment initiatives and projects led by qualified actors are more likely to deliver results, for example, separate investment projects for local business investment, affordable housing and community transport. Developing and implementing such a strategy will require strong local leadership and political will and developing a shared vision and sense of purpose among stakeholders.

The business survey elicited high levels of engagement and interest in the inclusive growth agenda. We found a strong sense of community amongst the business managers and owners surveyed and a commitment to improving the local area. There is fertile ground for developing a business-led, place-based approach to inclusive growth in the South of Scotland, which also leverages impact investment as a driver of positive change.

Image credits, left to right: VisitScotland / Damian Shields, VisitScotland / Paul Tomkins



ANNEX 1  
List of Business Survey Participants

Business	Location	Sector
All Awards Ltd	Jedburgh	Manufacturing
Allan Ramsay Hotel	West Linton	Accommodation and food services
Alpha Solway	Annan	Manufacturing
ArmstrongWatson	Dumfries	Professional, scientific and technical
Autolink UK	Crossmichael	Wholesale and retail trade
Balfour Wilson Recruitment Specialist	Ancrum	Administrative and support services
Beltie Book Store	Wigtown	Accommodation and food services
Bibliographic Data Services Ltd	Dumfries	Information and communication
Borders Employment Law	Galashiels	Professional, scientific and technical
Brand Satellite	Melrose	Professional, scientific and technical
Broughton Ales	Broughton	Manufacturing
Cademuir Building Consultants Ltd	Peebles	Professional, scientific and technical
Castle MacLellan Foods	Kirkcudbright	Manufacturing
Charlesfield Farms Ltd	Melrose	Melrose
CodeArcs	Dumfries	Information and communication
Cows and Co	Urr	Agriculture, forestry and fishing
Crabtree and Crabtree	Kelso	Administrative and support services
Creatomatic Ltd	Annan	Information and communication
Cringletie House Hotel	Eddleston	Accommodation and food services
Currie European Transport Ltd	Locharbriggs	Transportation and storage
Dark Sky Spirits Ltd	Moffat	Manufacturing
David Allen	Dumfries	Professional, scientific and technical
Dirt School	Glentess	Arts, entertainment and recreation
DNG24	Annan	Information and communication
Duncan House	Kelso	Accommodation and food services
Dupont Teijin Films	Dumfries	Manufacturing
Ecosafety	Galashiels	Professional, scientific and technical
Eden	Hawick	Wholesale and retail trade
Eildon Housing Association	Selkirk	Real estate activities
Eskdale Solutions	Langholm	Information and communication
Fairy Bodmother	Dumfries	Arts, entertainment and recreation
Galloway Activity Centre	Parton	Arts, entertainment and recreation
Gates Power Transmission	Locharbriggs	Manufacturing
Genesis OHS	Dumfries	Professional, scientific and technical
Glenrath Farms Ltd	West Linton	Agriculture, forestry and fishing
Global Sports Innovation	Galashiels	Professional, scientific and technical
Hawick Knitwear	Hawick	Manufacturing
Henry's Bay House	Stranraer	Accommodation and food services
HGS Solutions	Selkirk	Administrative and support services

Business	Location	Sector
Hillside Outside	Peebles	Arts, entertainment and recreation
Hutton Stone	Hutton	Manufacturing
I-Cycles	Innerleithen	Wholesale and retail trade
Integrity Support Solutions Group Ltd	Moffat	Mining, quarrying, oil and gas
Jas P Wilson	Urr	Manufacturing
Johnstons of Elgin	Hawick	Manufacturing
Lellie Bags	Moffat	Wholesale and retail trade
Liberty Star Trading	Selkirk	Wholesale and retail trade
Live Borders	Galashiels	Arts, entertainment and recreation
Mainetti (UK)	Jedburgh	Wholesale and retail trade
Natural Power	Kells	Professional, scientific and technical
Ridelines	Innerleithen	Arts, entertainment and recreation
Rudi & Co	Peebles	Wholesale and retail trade
Russell Rooftiles	Lochmaben	Manufacturing
Saint & Co Chartered Accountants	Annan	Professional, scientific and technical
Schofield Dyers and Finishers Ltd	Galashiels	Manufacturing
Selkirk Distillers	Selkirk	Manufacturing
Spacial Integrity Landscape Services	Eyemouth	Administrative and support services
Stewartry Care Limited	Dalbeattie	Health
Sweet Inspiration	Dumfries	Wholesale and retail trade
Tarff Valley Limited	Tongland	Wholesale and retail trade
The Fleece Bar & Kitchen Limited	Selkirk	Accommodation and food services
The Hawick Tartan Company	Hawick	Wholesale and retail trade
The IT Centre	Castle Douglas	Education
The Langholm Initiative	Langholm	Administrative and support services
The Three Stills Company	Hawick	Manufacturing
Turnbull and Scott	Hawick	Manufacturing
Vodafone (105 Comms Ltd)	Dumfries	Wholesale and retail trade
Whitmuir Organics Ltd	Newlands	Agriculture, forestry and fishing
You Can Cook	Peebles	Education

ANNEX 2  
Business Finance Providers

Organisation Name	Overview	Sector	Business Products / Services
Royal Bank of Scotland Plc	Banking Services	Banking	Small Business Loan (£1,000 up to £50,000 over 1 to 10 years, Arranged Business Overdraft (up to £50,000 unsecured), Business credit cards (limit from £500 to £10,000), Variable Rate Loan (£35,001+ for 3 months to 25 years), Fixed Rate Loan (£35,001 to £10,000,000 for 3, 5, 7 or 10 years), Commercial Mortgage (£35,001 to £10m for 3, 5, 10 or 25 years)
Santander	Banking Services	Banking	Overdrafts (£500 up to £25,000), Credit cards (£30 annual fee applies / 1% cashback on your day-to-day business spend / 23.7% APR Representative (variable), Working Capital Loans (up to £100,000 – repay over 6 months), Small Business Loans (£2,000 to £25,000 – Pay back over 1–5 years), Asset Finance, Corporate & Commercial Lending (overdraft or loan needs over £25,000, or if you require a commercial mortgage).
Triodos Bank	Triodos Bank is a global pioneer in sustainable banking, using the power of finance to support projects that benefit people and the planet.	Banking	Business current account (Interest rates up to 0.75% gross/AER), Fixed term deposits (minimum opening deposit of £10,000 from 3 months to 3 years, Interest rate up to 1.10% gross / AER), Small loans (£100k to £500k), Large loans (£500k to £20m), Raising capital directly from investors (£250k to £10m using unsecured debt, bond and share offers)
Solway Credit Union Ltd	Set up in 1999 by a group of local people to encourage better ‘financial health’ through regular saving and low cost loans. Provide a range of practical, affordable and straightforward financial services to everyone living or working in our Common Bond area of Annandale & Eskdale, Nithsdale and the Stewartry	Credit Union	Savings, Rent First Account, Free Insurance, School Savings Scheme, Payroll Deduction, Loans from £50 to £7,500. The interest rate is 1% per month (12.67%APR)
Sovereign Credit Union (Previous name: Cumnock & Doon Valley Credit Union)	Sovereign Credit Union provides money management services for people living or employed in Ayrshire, Arran, Dumfries & Galloway	Credit Union	You can apply for a loan once you have been saving regularly with us for thirteen weeks (three months). Your first loan is capped at 1.5 times your shares (the savings in your Ordinary Saving Account) or £300, whichever is lower, over a maximum of 1-year repayment term. Subsequent loans can be up to 3 times your shares up to £5,000, repayable over a maximum term of three years
Close Brothers Property Finance	We provide bespoke finance solutions to experienced Property Developers and Commercial Landlords to assist with the acquisition/refinance and development of residential and commercial buildings throughout England, Scotland and Wales	Development Finance	Residential Lending – Up to 60% of Gross Development Value (typically 85% + of costs) / Loans ranging from £750,000–£20,000,000 for a term of up to 24 months.  Commercial Lending – Maximum 65% of Gross Development Value for Commercial Development (typically 85% + of costs) / Up to 70% of Market Value for Commercial Investment loans / Loans ranging from £1,000,000–£20,000,000

Organisation Name	Overview	Sector	Business Products / Services
DSL Ltd	DSL Business Finance is a Community Development Finance Institution providing business start-up and growth loans for small businesses and social enterprises that cannot access funding from banks and other traditional sources	Lending	Loans provided to social enterprises – Scottish Microfinance Loan @ 6% (£500–£25,000) / EFG scheme up to £50,000 Services Provided for Fund Management, Loan Appraisal, Grant Appraisal, Investment Readiness Services, Mentoring and Bespoke Consulting
TriCapital Business Angels	TRICAPITAL’s members invest in a varied portfolio of companies stretching from Aberdeen, Glasgow, and Lothians to the Borders, with sectors including IT, software, electronics, biomedical, textiles, and engineering	Private Equity	Equity investments provided by angel investor members. . (Charged for Due Diligence and Member Fee)
First Port	Scotland’s development agency for start-up social entrepreneurs and social enterprise	Social Investment	<b>Start It</b> – £5,000 start-up costs for individuals with an innovative business idea which addresses a social, environmental and/or community issue  <b>Build It</b> – Funding of up to £20,000 is available to cover an individual’s salary/living costs for one year, so that they can begin running the business full time. An additional £5,000 discretionary funding is available on top of this for other costs in certain cases  <b>Pounds for Purpose</b> – If you had £500, how would you use it to change your world for the better?  <b>LaunchMe</b> – Scotland’s accelerator programme for ambitious, social enterprise start-ups Social Innovation Competition – Firstport wants to uncover the most innovative business ideas addressing social issues across Scotland
Resilient Scotland	Resilient Scotland provides social investment to enable organisations to have an impact on the regeneration of their communities	Social Investment	<b>Start &amp; Grow</b> – £10,000 and £60,000 to enable businesses to start-up, develop and expand. Investments are made up of one third grant and two thirds loan (repayable over up to five years).  <b>Making Enterprise Happen</b> – £61,000 and £500,000 mixed grant and loan package (repayable over up to 10 years)
Scottish Community Re: Investment Trust	The Scottish Community Re: Investment Trust aims to support all communities to pool their financial resources for the mutual benefit of those communities and the people within them	Social Investment	<b>Community Bonds</b> – The money raised is used to establish a Community Loan Fund which lends to social and enterprises operating in that community
Social Investment Scotland	Provide investment for other charities and social enterprises looking to make a positive impact on people’s lives, society or the environment	Social Investment	Core loan fund providing loans from £10,000 to £250,000, including a popular bridging loan product  Asda Community Capital – supports early-stage social enterprises looking to access social investment for the first time. Loans range from £10,000 to £50,000, with a 5% interest rate (interest-free for the first year)



ANNEX 3A

The Good Economy’s Place-based Indicators for Inclusive Job Growth: 3-Year Growth Indicators

Growth Indicator	Notes	Source
Private Sector Jobs Growth	All Jobs (Full-time and Part-time)	Business Register and Employment Survey (BRES) – Public / Private Sector Employment (2014–2017), ONS
Private Sector Output Growth – GVA	All Sectors excluding OPQ (Public Administration and Defence, Human Health and Social Work Activities)	Regional Gross Value Added (Balanced) by Local Authority in the UK (2013–2016), ONS
Private Sector Output Growth – GVA per Capita	All Sectors excluding OPQ (Public Administration and Defence, Human Health and Social Work Activities)	Regional Gross Value Added (Balanced) by Local Authority in the UK (2013–2016), ONS
Business (5 – 9 employees) Growth	Private Sector (legal status)	UK Business Counts – Enterprises by Industry and Employment Size Band (2014–2017), ONS
Business (10 – 49 employees) Growth	Private Sector (legal status)	UK Business Counts – Enterprises by Industry and Employment Size Band (2014–2017), ONS
Median Workplace Earnings Growth	Total (Full-time and Part-time) – Weekly Pay Gross	Annual Survey of Hours and Earnings – Workplace Analysis (2014–2017), ONS
Working Age Population Growth	Age 16–64	Population Estimates – Local Authority Based by Five Year Age Band (2014–2017), ONS

ANNEX 3B

The Good Economy’s Place-based Indicators for Inclusive Job Growth: Inclusion Indicators

Inclusion Indicator	Notes	Source
Median Resident Earnings	Total (Full-time and Part-time) – Weekly Pay Gross	Annual Survey of Hours and Earnings – Resident Analysis (2017), ONS
Private Sector Job Density	Private Sector Jobs per Working Age Population	BRES and Population Estimates (2017), ONS
Risk of Unemployment	Long-term employment rate (average over 5 years)	Annual Population Survey (APS) (2012–2017), ONS
Future Job Outlook	Area labour market projections calculated using occupational profiles	APS (2014, 2017), ONS. Working Futures 2014 to 2024, UKCES
Permanent Employment	% of all in employment in permanent employment (3-year average)	APS (2015–2017), ONS
Qualifications Profile	Weighted average of employee qualifications – higher qualifications have higher weighting (3-year average)	APS (2015–2017), ONS
NEETS	% young people (15–24) neither in employment nor in education or training (3-year average)	Young people neither in employment nor in education and training by sex and NUTS 2 regions (2015–2017), Eurostat
Earning above the Real Living Wage (RLW)	Based on Total (Full-time and Part-time) – Hourly Pay Gross	Annual Survey of Hours and Earnings – Resident Analysis (2017), ONS
Youth Employment Rate	Employment rate – aged 16–24 (3-year average)	APS (2015–2017), ONS
Female Employment Rate	Employment rate females – aged 16–64 (3-year average)	APS (2015–2017), ONS
Low Skilled Employment Rate	Employment rate NVQ2 or below – aged 16–64 (3-year average)	APS (2015–2017), ONS
Older people Employment Rate	Employment rate – aged 50+ (3-year average)	APS (2015–2017), ONS

ANNEX 3C

Scores for Place-based Growth Indicators (3 Year)

Local Authority	Private Sector Jobs	GDP (Private Sector)	GDP per Capita (Private Sector)	Private Business Stock (Emp 5-9)	Private Business Stock (Emp 10-250)	Median Earnings	Working Age Population
Aberdeen City	-4.16	-1.50	-1.90	0.19	-2.15	-1.35	-0.44
Aberdeenshire	-0.20	1.33	0.76	0.34	0.54	0.39	0.40
Angus	0.94	3.69	3.62	-1.98	0.00	1.46	0.56
Argyll and Bute	-0.95	3.16	3.52	-1.72	2.12	4.04	-0.76
Clackmannanshire	-0.40	6.99	6.94	-5.51	-2.53	5.10	-0.41
Dumfries and Galloway	1.14	4.11	4.29	0.16	0.49	0.95	-0.71
Dundee City	-0.19	5.31	5.27	-3.00	0.64	1.68	0.07
East Ayrshire	0.19	3.27	3.33	-0.38	2.50	4.93	-0.52
East Dunbartonshire	0.55	3.66	3.12	0.50	3.43	1.08	-0.15
East Lothian	2.26	4.28	3.37	1.28	1.52	4.66	0.57
East Renfrewshire	1.64	4.85	3.99	-0.63	4.77	3.56	0.29
Edinburgh	0.90	3.78	2.41	1.63	3.03	1.55	1.40
Eilean Siar	-0.63	1.45	2.08	1.14	1.43	2.23	-1.23
Falkirk	1.23	4.48	3.99	1.76	1.18	3.48	0.26
Fife	1.29	5.10	4.77	2.25	1.87	1.82	0.06
Glasgow City	0.48	3.02	1.98	0.80	1.74	1.80	1.45
Highland	0.40	2.36	2.10	-0.72	1.49	3.80	-0.07
Inverclyde	-1.88	5.50	6.02	5.85	0.89	1.34	-0.86
Midlothian	2.90	3.61	2.07	1.06	1.14	5.77	1.15
Moray	-0.16	-1.54	-2.13	-0.38	1.92	4.13	0.11
North Ayrshire	0.59	3.06	3.32	0.00	0.96	1.21	-0.55
North Lanarkshire	1.00	3.57	3.41	-0.17	0.00	1.99	0.00
Orkney Islands	1.40	2.77	2.31	3.13	1.22	-1.89	0.00
Perth and Kinross	-0.49	2.25	1.59	0.19	0.94	3.96	0.04
Renfrewshire	4.72	5.01	4.60	0.00	2.33	0.87	0.38
Scottish Borders	0.46	3.97	3.77	-0.43	-1.04	1.88	-0.15
Shetland Islands	-2.83	3.76	3.76	1.98	0.97	3.73	-0.68
South Ayrshire	0.27	4.36	4.48	-1.87	1.22	4.29	-0.54
South Lanarkshire	0.19	3.44	3.19	1.62	1.40	4.42	0.00
Stirling	1.55	5.76	4.81	-0.71	0.81	3.63	0.95
West Dunbartonshire	1.37	3.29	3.27	0.64	2.88	2.72	-0.46
West Lothian	-1.02	4.27	3.50	1.42	-0.31	4.61	0.46
Scotland	0.28	3.04	2.55	0.39	1.17	2.16	0.26

Below Scotland Average (highlighted)  Above Scotland Average

ANNEX 3D

Scores for Place-based Inclusion Indicators

Local Authority	Mean Earnings	Private Sector Job Density	Risk of Unemployment	Future Job Outlook	Permanent Employment	Qualifications Profile	NEETs	Earning above the RLW	Youth Emp' Rate	Female Emp' Rate	Low Skilled Emp' Rate	Older Emp' Rate
Aberdeen City	443.0	0.89	75.26	105.75	95.43	3.01	7.40	80.57	57.58	73.22	63.53	70.84
Aberdeenshire	439.10	0.60	79.90	105.27	96.70	2.88	7.40	81.75	69.96	73.74	70.44	75.03
Angus	407.70	0.45	74.22	104.94	95.56	2.83	10.77	77.60	58.71	71.29	63.18	71.23
Argyll and Bute	394.90	0.57	75.62	105.08	94.32	2.80	10.77	75.80	60.13	73.24	68.93	71.78
Clackmannanshire	430.60	0.35	68.69	104.78	94.95	2.74	10.77	80.24	48.84	65.35	58.61	66.58
Dumfries and Galloway	371.70	0.61	73.02	104.30	95.05	2.63	11.43	75.77	63.70	69.77	66.45	68.33
Dundee City	409.90	0.54	63.69	104.63	94.27	2.77	10.77	81.33	48.78	64.35	52.42	60.72
East Ayrshire	436.50	0.39	68.61	104.99	95.68	2.70	11.43	78.18	51.10	65.18	55.24	62.41
East Dunbartonshire	533.20	0.33	74.98	107.40	95.23	3.24	11.43	90.00	49.59	71.66	59.95	71.18
East Lothian	447.80	0.39	75.07	105.82	94.96	2.97	10.77	84.84	55.60	71.75	63.19	69.95
East Renfrewshire	552.40	0.30	74.81	107.24	94.66	3.23	11.43	88.43	54.68	71.43	58.88	74.44
Edinburgh	478.80	0.71	72.88	107.06	92.72	3.25	10.77	84.32	48.62	70.63	60.27	67.69
Eilean Siar	430.10	0.69	76.31	105.18	91.84	2.91	10.10	92.28	59.40	75.83	73.44	79.72
Falkirk	452.70	0.47	74.52	104.91	95.36	2.69	10.77	81.94	62.38	70.31	64.11	69.07
Fife	432.50	0.47	72.30	105.12	92.97	2.92	10.77	79.77	57.01	68.66	61.39	65.98
Glasgow City	422.60	0.75	64.55	105.95	93.91	2.89	11.43	80.24	46.77	62.70	49.78	64.45
Highland	439.10	0.65	77.43	104.20	94.32	2.81	10.10	80.67	67.83	76.45	71.56	77.03
Inverclyde	406.10	0.42	69.39	105.42	95.46	2.79	11.43	79.72	54.88	69.38	56.53	63.03
Midlothian	449.20	0.45	75.11	105.12	95.36	2.86	10.77	82.62	65.10	73.61	65.85	67.88
Moray	361.60	0.50	75.94	104.23	96.03	2.67	10.10	75.00	57.53	69.29	63.13	69.31
North Ayrshire	447.90	0.38	64.92	104.63	95.49	2.71	10.77	80.34	49.31	60.33	50.54	64.52
North Lanarkshire	441.60	0.46	71.96	103.92	96.15	2.59	11.43	81.65	61.60	70.36	61.83	67.09
Orkney Islands	318.00	0.67	85.69	104.15	91.56	2.66	10.10	88.41	82.58	87.02	85.42	81.86
Perth and Kinross	424.70	0.61	76.77	105.69	95.37	2.95	10.77	79.66	62.26	75.61	66.44	71.04
Renfrewshire	445.60	0.62	73.45	104.94	95.13	2.90	11.43	84.42	65.23	74.23	61.85	69.47
Scottish Borders	425.00	0.53	75.51	105.60	94.02	2.83	10.77	82.67	58.57	71.22	64.34	72.83
Shetland Islands	489.30	0.80	83.59	104.22	92.36	2.89	10.10	90.59	75.75	83.78	81.13	85.91
South Ayrshire	461.70	0.55	71.90	105.66	95.70	2.83	11.43	77.14	60.22	69.26	60.59	64.08
South Lanarkshire	466.60	0.46	74.43	104.74	96.33	2.79	11.43	83.81	61.23	71.56	63.30	68.84
Stirling	487.50	0.68	72.34	106.54	93.41	3.04	10.77	83.93	53.83	70.23	60.32	69.18
West Dunbartonshire	424.20	0.36	68.60	104.76	94.89	2.67	11.43	83.18	55.33	68.51	58.27	63.32
West Lothian	457.50	0.54	74.90	104.68	96.10	2.70	10.77	84.71	60.76	71.08	66.89	66.99
Scotland	441.4	0.57	72.45	105.35	94.77	2.88	10.57	81.70	56.50	69.88	61.09	68.58

Below Scotland Average (highlighted)  Above Scotland Average



ANNEX 4A

The Good Economy’s Sector-based Inclusive Job Growth Indicators: 3-Year Growth Indicators

Growth Indicator	Notes	Source
Jobs Growth	All Jobs (Full-time and Part-time)	Business Register and Employment Survey (BRES) – Employment (2014–2017), ONS
Output Growth – GVA		Gross Value Added (Income Approach) by SIC07 industry at current basic prices (2013–2016), ONS
Output Growth – GVA per Job	Output per job % change on year (3-year average)	Labour Productivity Time Series (2013–2016), ONS
Business (5–9 employees) Growth		UK Business Counts – Enterprises by Industry and Employment Size Band (2014–2017), ONS
Business (10–49 employees) Growth		UK Business Counts – Enterprises by Industry and Employment Size Band (2014–2017), ONS
Median Earnings Growth	Total (Full-time and Part-time) – Weekly Pay Gross	Annual Survey of Hours and Earnings – by SIC07 Industry (2014–2017), ONS
Indirect Employment	Type I employment multipliers	Type I employment multipliers and effects (2010), ONS – User Requested (BIS)

ANNEX 4B

The Good Economy’s Sector-based Inclusive Job Growth Indicators: Inclusion Indicators

Inclusion Indicator	Notes	Source
Median Earnings	Total (Full-time and Part-time) – Weekly Pay Gross	Annual Survey of Hours and Earnings (ASHE) – by SIC07 Industry (2017), ONS
Earnings Distribution	Full-time – Weekly Pay Gross (Quartile 75: Quartile 25)	ASHE – by SIC07 Industry (2014–2017), ONS
Earnings Fairness	Differential between full-time earnings for the sector and the expected earnings for the sector based on its occupational skills profile	ASHE – by SIC07 Industry/SOC10 Occupation (2017), ONS, Labour Force Survey (LFS) (2017)
Risk of Unemployment	Unemployment rates by industry of last job (3-year average)	Unemployment by Previous Industrial Sector (2014–2017), ONS
Future Job Outlook		Working Futures 2014 to 2024, UKCES
Permanent Employment	% of all in employment in permanent employment (4 quarter average)	LFS (2017)
Qualifications Profile	Weighted average of employee qualifications – higher qualifications have higher weighting (4 quarter average)	LFS (2017)
Occupational Mobility (Vocational and Entry-Level Opportunity)	% Employees in ‘intermediate’ occupations (Skilled Trades, Administrative and Process and Plant Occupations), which enable in-work progression (4 quarter average)	LFS (2017)
Earning above the RLW	Based on Total (Full-time and Part-time) – Hourly Pay Gross	ASHE – by SIC07 Industry (2017), ONS
Female Management Differential	% female Managers, Directors And Senior Officials : % Female Employment (all occupations) in sector (4 quarter average)	LFS (2017)
Youth Employment	Workforce share aged 16-24 (4 quarter average)	LFS (2017)
Female Employment	Workforce share females – aged 16–64 (4 quarter average)	LFS (2017)
Low Skilled Employment	Workforce share NVQ2 or below – aged 16–64 (4 quarter average)	LFS (2017)
Older people Employment	Workforce share – aged 50+ (4 quarter average)	LFS (2017)



Image credit: VisitScotland / Ian Rutherford

ANNEX 4C  
Scores for Sector-based Growth Indicators (3 Year)

Sector	Private Sector Jobs	GVA	Output per Job	Private Business Stock (Emp 5-9)	Private Business Stock (Emp 10-250)	Indirect Employment	Median Earnings Growth
Agriculture, Forestry and Fishing	0.45	2.78	-0.80	-2.66	-0.08	2.69	2.29
Mining and Quarrying	-1.74	-7.78	0.77	-5.90	1.60	1.85	-5.15
Oil and Gas	-8.78	-7.78	0.77	4.55	-5.90	5.26	7.19
Manufacturing (Low Tech)	-0.40	2.55	-0.34	-0.47	0.20	1.89	2.25
Manufacturing (Medium High Tech)	1.71	5.41	0.91	-0.17	-1.22	2.22	2.84
Manufacturing (Medium Low Tech)	1.18	4.78	0.16	-1.03	0.30	1.67	2.09
Manufacturing (High Tech)	-1.31	0.57	3.11	-0.54	-1.02	2.20	0.95
Electricity and Gas	6.87	5.95	0.77	22.33	24.58	4.31	2.37
Water Supply	3.84	0.57	0.77	1.12	2.33	1.85	1.54
Construction of Buildings	3.04	5.90	2.60	2.75	2.82	1.88	2.52
Civil Engineering	6.03	5.90	2.60	0.09	-0.15	1.88	1.24
Motor Trade	0.13	5.07	3.40	1.66	0.59	1.41	3.72
Wholesale	0.09	5.07	3.40	-0.85	0.55	1.66	2.34
Retail	-0.21	5.07	3.40	-0.90	2.13	1.32	5.03
Transport	4.17	4.67	-2.97	5.36	3.25	1.87	1.63
Postal and Courier	-0.27	4.67	-2.97	2.73	2.29	1.65	1.28
Accommodation	1.84	5.56	0.33	-0.39	2.16	1.32	4.18
Food and Beverage Services	3.11	5.56	0.33	1.33	5.35	1.25	5.78
Media	1.24	4.33	3.97	3.97	1.56	2.10	2.64
Information Technology	5.76	4.33	3.97	1.79	4.76	1.54	2.02
Telecommunications	1.07	4.33	3.97	2.90	2.85	1.89	3.62
Finance and Insurance	0.00	-0.78	0.77	3.01	0.86	2.72	2.73
Real Estate	1.08	5.61	-0.10	2.95	3.20	1.29	2.36
Professional, Scientific and Technical	2.83	5.66	1.00	3.20	3.12	1.48	2.57
Business Support Services	2.34	4.17	1.43	6.28	3.03	1.33	2.97
Education	0.66	0.79	0.17	2.20	2.31	1.13	2.04
Human Health	1.32	3.71	0.17	-0.41	-0.27	1.22	2.52
Arts, Entertainment and Recreation	2.85	5.45	-0.77	2.63	3.57	1.44	3.43
Public Administration	-0.62	0.95	0.17	0.77	2.88	4.92	0.72
Great Britain	1.52	3.76	0.73	1.68	2.11	1.85	2.4

Below Great Britain Average (highlighted) Above Great Britain Average



ANNEX 4D

Scores for Sector-based Inclusion Indicators

Sector	Median Earnings	Earnings Distribution	Earnings Fairness	Future Outlook	Risk of Unemployment	Permanent Employment	Qualifications Profile	Occupational Mobility
Agriculture, Forestry and Fishing	383.10	1.63	-18.30	-2.71	3.35	94.36	2.05	57.56
Mining and Quarrying	681.39	1.45	15.11	0.64	3.35	96.65	2.46	57.28
Oil and Gas	1015.45	1.99	40.31	0.64	3.35	94.20	2.87	34.60
Manufacturing (Low Tech)	453.98	1.78	-11.67	-0.27	4.48	95.13	2.32	50.71
Manufacturing (Medium High Tech)	649.90	1.74	13.79	-1.71	4.48	95.94	2.61	46.33
Manufacturing (Medium Low Tech)	549.92	1.71	2.34	-0.93	4.48	97.08	2.43	56.24
Manufacturing (High Tech)	638.10	1.87	4.48	-3.01	4.48	96.46	3.00	24.27
Electricity and Gas	712.20	1.92	23.18	1.54	3.35	98.02	2.73	34.18
Water Supply	553.00	1.67	6.95	0.66	3.35	97.03	2.35	39.67
Construction of Buildings	547.74	1.76	7.55	1.36	4.28	96.29	2.30	67.62
Civil Engineering	611.50	1.77	8.34	1.28	4.28	95.50	2.66	40.44
Motor Trade	452.30	1.66	-6.97	0.08	5.59	97.18	2.23	57.14
Wholesale	484.20	1.90	-4.57	0.84	5.59	96.63	2.44	34.38
Retail	275.50	1.75	-18.40	0.72	5.59	95.92	2.22	14.73
Transport	549.73	1.76	15.09	0.00	4.52	95.11	2.14	59.28
Postal and Courier	468.90	1.49	10.64	1.32	4.52	94.62	1.69	33.88
Accommodation	303.40	1.56	-37.75	0.23	8.20	90.25	2.07	21.65
Food and Beverage Services	225.00	1.61	-25.48	1.69	8.20	90.00	1.72	25.69
Media	590.23	1.90	3.44	-0.13	3.43	92.72	3.07	11.65
Information Technology	708.70	2.11	10.14	1.52	3.43	97.20	3.53	8.74
Telecommunications	689.50	1.82	14.60	1.46	3.43	97.94	2.95	22.97
Finance and Insurance	677.10	2.49	19.38	0.27	3.04	96.99	2.93	24.33
Real Estate	474.10	1.67	-18.75	0.18	3.04	96.27	2.88	24.17
Professional, Scientific and Technical	594.10	2.00	5.11	1.32	2.50	95.72	3.14	20.29
Business Support Services	356.16	1.83	-8.16	0.92	6.28	92.30	2.24	22.55
Education	444.00	1.82	0.88	-0.02	2.44	89.33	3.07	9.92
Human Health	401.40	1.89	-7.85	0.39	2.96	94.35	2.83	11.32
Arts, Entertainment and Recreation	310.10	1.90	-21.02	0.85	4.13	88.24	2.62	18.61
Public Administration	561.90	1.67	7.04	0.02	2.28	95.38	2.83	27.35
Great Britain	448.5	1.94	-0.34	0.54	6.07	94.22	2.60	27.23

Below Great Britain Average (highlighted)  Above Great Britain Average

Sector	Earning above the RLW	Female Management Differential	Youth Employment Rate	Female Employment Rate	Low Skilled Employment Rate	Older Employment Rate
Agriculture, Forestry and Fishing	66.79	-19.40	9.51	30.50	43.46	40.77
Mining and Quarrying	96.53	2.53	0.00	16.38	38.46	42.23
Oil and Gas	96.53	1.31	11.92	19.37	16.71	30.15
Manufacturing (Low Tech)	77.98	-23.65	9.26	32.56	37.78	28.56
Manufacturing (Medium High Tech)	94.26	-11.18	8.11	19.57	28.97	32.08
Manufacturing (Medium Low Tech)	89.56	-4.93	9.55	18.44	36.88	34.15
Manufacturing (High Tech)	94.86	-25.76	9.49	35.34	25.03	27.41
Electricity and Gas	96.98	-22.65	9.49	26.95	24.90	22.55
Water Supply	89.82	-4.07	8.29	17.40	39.67	37.18
Construction of Buildings	89.31	-2.30	11.08	19.23	34.39	29.85
Civil Engineering	92.40	-9.45	9.37	17.16	28.57	26.62
Motor Trade	75.11	-8.66	16.82	19.75	39.23	25.31
Wholesale	83.70	-20.44	11.23	33.27	39.07	29.06
Retail	52.86	-45.75	24.31	55.73	45.70	24.61
Transport	89.42	-14.61	6.74	22.78	39.64	34.35
Postal and Courier	93.40	-17.00	8.37	26.81	50.82	33.68
Accommodation	44.59	-42.83	27.13	60.36	39.75	23.22
Food and Beverage Services	35.71	-43.07	38.44	53.20	41.71	13.30
Media	90.24	-31.07	9.69	44.35	14.44	21.82
Information Technology	95.92	-11.32	7.39	23.70	12.23	20.05
Telecommunications	95.78	-20.81	6.89	30.90	27.34	26.25
Finance and Insurance	95.99	-33.00	7.80	44.32	22.14	20.99
Real Estate	88.55	-27.89	9.36	52.17	27.55	32.47
Professional, Scientific and Technical	93.54	-34.08	9.15	45.08	15.05	26.19
Business Support Services	67.97	-40.93	12.90	50.01	34.78	28.41
Education	87.85	-71.18	7.59	72.94	14.87	31.42
Human Health	82.00	-72.92	8.92	78.15	22.13	33.76
Arts, Entertainment and Recreation	66.50	-37.53	24.42	47.07	30.67	23.47
Public Administration	95.48	-45.92	6.21	52.58	23.56	32.47
Great Britain	80.12	-41.47	12.47	49.40	29.14	28.51

ANNEX 5  
Innovative Financial Instruments

Finance Instrument	Characteristics
Microfinance / microcredit	Small-sized loans, characterized by absence of collateral and supply of tutoring / coaching services to the borrower. These loans can be granted to micro and small enterprises, non-profit organisations (both associations and cooperatives) and individuals in vulnerable economic conditions.
Crowdfunding	Crowdfunding is a form of investment where people invest certain amounts of money (also very small-sized) through online platforms to finance entrepreneurial projects; it can be either be equity-based or loan-based depending on the type of capital supplied.
Social bonds	Specific “use of proceeds” bonds launched in the mainstream capital markets to raise private finance to fund pre-identified projects. Bonds are a good form of finance for infrastructure projects that are asset-backed and have defined revenue streams. Issuers include housing associations and local government.
Charitable / Retail Charity bonds	Philanthropic institutions and social service providers can issue bonds as a form of long-term debt financing, if they are able to generate enough revenues to pay back the capital. Retail Charity bonds is London Stock Exchange listed platform that supports the issuance of charitable bonds.
Social Impact Bonds (SIB)	<p>A SIB is a contract with the public sector or governing authority whereby it pays the better social outcomes in certain areas and passes on part of the savings achieved to the investors who have funded the initiative.</p> <p>The cost of funding is variable, due to the fact that public institutions pay the issuing company for the measurable saving of public resources achieved by the initiative and on the condition of achieving the agreed social outcome; the amount is thus utilized to pay back the investors.</p>
Investment funds	<p>Terminology and definition varies with country but investment funds are often referred to as investment pools, collective investment vehicles, collective investment schemes, manages funds, or simply funds.</p> <p>An investment fund may be held by the public, such as a mutual fund, exchange-traded fund, or closed-end fund, or it may be sold only in a private placement, such as a private equity fund. Investment funds are promoted with a wide range of aims, targeting specific geographic regions (e.g., emerging markets or Europe) or specified industry sectors (e.g., technology).</p> <p>Many social enterprise and impact investment funds are structured as Limited Partnership funds.</p>
Revenue participation agreements (RPA)	<p>RPAs are quasi-equity instruments that entitle the buyer to a predetermined percentage of the financed subject’s revenues up to a multiple of the invested capital, thus determining a positive return for the investor.</p> <p>RPAs are particularly suited for non-profits. They allow sharing of risks and benefits, while providing patient capital at more flexible conditions than traditional debt.</p> <p>RPAs are being developing mostly in the UK where the primary platforms are impact investors such as Bridges Ventures, Big Issue Invest, CAF Venturesome, and Social Investment Business.</p>
Guarantee funds	Guarantee funds consist of financial resources that public institutions grant as collateral for loans (including microcredit) to small and medium enterprises, start-ups and individuals, in order to support and facilitate their borrowing process.

SOURCE: Adapted from EIB, 2016



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