



Scottish Enterprise

**South of Scotland
Economic Review**

March 2009

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1. Introduction

1.1 The study

SLIMS, in partnership with Oxford Economics, was commissioned by Scottish Enterprise to carry out a series of economic reviews focusing on the functional economic geographies of Scotland's regions, which form the Scottish Enterprise operating area. These are:-

- Aberdeen City & Shire
- Dundee City Region
- East Region
- West Region
- South of Scotland

The data presented in these reports have been organised around these geographies, full details of which can be found in Appendix 1. The consultants were also commissioned to provide a supplementary data matrix, which includes all of the data contained within the reports across a range of other geographies including local authority and strategic development planning authority areas.

The key objectives of this work have been to:

- Provide a review of economic trends and performance since 1999;
- Assess the potential contribution of each of the regions to the Government Economic Strategy's (GES) purpose targets; and
- To identify the likely impact of the current economic downturn on each of the regions.

The regional reviews are complemented by a national economic review which provides an overview of recent economic trends, progress towards the GES targets and an economic outlook for Scotland as a whole.

This report represents the economic review for the **South of Scotland**, which comprises the local authority areas of Dumfries & Galloway and the Scottish Borders. Where possible, we have benchmarked the performance of the region against Scotland and the UK. However, for some indicators, UK figures are not available and in these cases GB has been used as a comparator, though it should be noted that these figures exclude Northern Ireland.

1.2 Assessing the contribution of the regions to the GES Purpose Targets

The Government Economic Strategy (GES) sets out seven purpose targets which will form the basis of assessing progress towards improving Scotland's economic performance. These are referred to throughout the report.

These targets cover a range of timescales and a range of indicators – some of which are not readily available at the regional level. At the beginning of the study SLIMS agreed a set of measures that would be used in the reviews to assess the contribution of the SE regions to the purpose targets. These are highlighted in Appendix 2 which includes information on:

- The purpose targets;
- The scale of the gap between current and expected performance;

- The preferred indicators identified by the Scottish Government to measure performance against the target; and
- The data used in this review, and where and why the data differs.

1.3 Report Structure

The remainder of this report is structured as follows:

- **Chapter 2** contains an executive summary of the main findings from the review.
- **Chapter 3** sets out the global and national economic context.
- **Chapter 4** provides a review of recent economic trends and performance in the South of Scotland.
- **Chapter 5** benchmarks the performance of the region against some key comparator areas.
- **Chapter 6** reviews the industrial structure of the region, including representation within the key sectors outlined in the Government Economic Strategy and other growth sectors supported Scottish Enterprise.
- **Chapter 7** looks at infrastructure and place issues.
- **Chapter 8** contains an economic outlook for the region.

In the appendices to the main report:

- **Appendix 1** contains a definition of the regional geographies covered in this set of Reviews.
- **Appendix 2** provides details on the GES purpose targets.
- **Appendix 3** details the sources of the key performance indicators.
- **Appendices 4 & 5** contain the SIC definitions used for the analysis of the key and other growth sectors.

2. Executive Summary

The South of Scotland is a relatively small part of the Scottish Economy. Looking across some of the key economic indicators, the Region:

- Generated 3.8% of total economic output from Scotland in 2006;
- Accounts for 4.3% of all Scottish jobs; and
- Is home to 5% of Scotland's population.

Purpose Target 1: Raise Scotland's GDP Growth rate to match that of the UK by 2011.

Economic growth in the South of Scotland lagged behind Scotland and the UK for most years between 1999 and 2006. The regional economy actually contracted throughout much of the period, meaning that it is currently falling somewhat short of the national growth target.

Oxford Economics' forecast suggest that GVA growth rates in the South will move closer to the UK average over the decade ahead, but that a significant gap will remain.

- The South of Scotland economy grew at an average annual rate of 1.6% between 1999 and 2006, slower than the equivalent growth rate of 2.5% for Scotland and half the UK average of 3.2%.
- Oxford Economics forecast that the region will make a return to modest growth from 2010 onwards. For the period 2011–2015 growth is expected to average 2.5% per annum, though this is slower than the expected rates of 2.9% for Scotland and 3.4% for the UK.

The recent performance of the South of Scotland economy compares more favourably when benchmarked against other predominantly rural areas...

- There has been an increase of 1% in the total number of jobs located in the region since 1999, though this contrasts with the strong growth of 11% across Scotland and 7% across GB.
- The region's relatively slow growth can be partly explained by the fact that it has a very small financial & business services sector, which has been a key driver of growth across both Scotland and the UK over the past decade.
- The region's performance on these measures is more favourable when benchmarked against other rural areas across the UK with similar industrial structures. Our analysis suggests that, in this context, the South of Scotland is a mid-performing region in terms of growth.
- The region is dependent on a couple of manufacturing sectors to generate the majority of export sales and the importance of tourism to the regional economy is evident in the relatively high share of export sales from retail & catering. Growth in export sales has been volatile, but has been close to the Scottish average of 3%.

Purpose Target 2: Rank in the top quartile for productivity amongst key OECD countries.

Scotland (14th out of 30) and the UK (11th out of 30) both rank in the second quartile for productivity as measured by GVA per employee. The Scottish figure is around 96% of the UK average. GVA per employee in the South of Scotland is well below both the Scottish and UK averages, indicating that the region is currently falling short of the GES target.

To help achieve the GES target, the South of Scotland would need to increase productivity at a rate faster than the highly performing OECD economies. However, there is evidence to suggest that productivity levels in the region have actually been falling in recent years, meaning that the region is unlikely to be in a position to help achieve this target. More positively, the relative performance of the region on this measure is better when compared to other rural areas.

- GVA per employee in the South of Scotland amounted to £29,000 per employee in 2006, compared to £35,200 in Scotland and £36,900 in the UK.
- There was a fall of 4% in the level of GVA per employee in the South of Scotland between 1999 and 2006, in contrast to increases of 10% for Scotland and 15% for the UK.
- Productivity is below average across all almost all industry sectors, with the exception of agriculture. The productivity gap is proportionately widest within manufacturing, extraction and utilities.
- However, the South of Scotland performs better on this measure when compared to other benchmark regions across the UK, with higher productivity levels than Cumbria, Cornwall and the Highlands & Islands.

In terms of the wider drivers of productivity identified in the GES, the South of Scotland's performance has been mixed...

- The proportion of South of Scotland residents educated to degree level (28%) is lower than across Scotland as a whole (33%), whilst a slightly higher share have no qualifications at all.
- The annual rate of new graduates from the South of Scotland is in line with Scotland as a whole, but relatively few return to the region following graduation, suggesting a lack of graduate opportunities locally.
- Business density levels in the region are high, which is a typical characteristic of predominantly rural areas, partly reflecting the relative importance of agriculture and tourism, where businesses are often small and there is a high incidence of self-employment.
- The region has strong representation in four key and other growth sectors – food & drink, tourism, forestry and textiles. Of these, only tourism and forestry experienced jobs growth between 1999 and 2007.
- Inward investment represents an important source of high value jobs and the South of Scotland has performed well on this measure in recent years. In 2007, the region attracted 13% of all inward investment in Scotland, well above the area's share of national economic output (4%).

Purpose Target 3: Maintain Scotland's position as the top performing country in the UK in terms of labour market participation and close the gap with the top 5 OECD economies by 2017.

The employment rate in the South of Scotland was consistently higher than both the Scottish and GB averages between 1999 and 2007. As a result, the region is already making a positive contribution to the national target.

Looking to the future, Oxford Economics' forecasts suggest that labour market participation levels in the South of Scotland will remain above the national averages over the decade ahead.

- The labour market in the South of Scotland is currently operating at the Government's definition of 'full employment' with 80% of all working age residents in work. This compares to a Scottish average of 76% and a GB figure of 75%.
- In line with the national trend, we predict a short-term fall in labour market participation levels in the region over the next couple of years. However, the participation rate is expected to remain comfortably above the national averages over the decade ahead.

Ahead of the recession, the South of Scotland outperforms the Scottish average across the key measures of economic inactivity and benefit dependency, although the number of incapacity benefit claimants is increasing...

- ILO unemployment within the South of Scotland was 4% in 2007, compared to 5% across Scotland and GB.
- There was a substantial decline of 5,600 in the total number of economically inactive residents in the region between 1999 and 2007, a fall of 18% compared to 11% nationally.
- The Incapacity Benefit claimant rate in the region remains below the average for Scotland. However, the total numbers claiming the benefit have been rising in recent years, in contrast to a rapid fall in the number of Jobseekers Allowance claimants.
- The South of Scotland is a net-exporter of labour, with 10% of employed residents working outside the area in 2001. Carlisle is the most popular destination for out-commuters from Dumfries & Galloway, whilst large numbers of Borders residents work in Edinburgh & the Lothians.

Purpose Target 4: To match EU 15 population growth over the period 2007 - 2017

The total population of the South of Scotland increased by 2% between 1999 and 2007, relative to a 1% increase across Scotland over the period. Over the last ten years for which data is available (1995 – 2005) the EU 15 population increased by 4%.

Official forecasts predict modest population growth for the region over the decade ahead. The region is therefore unlikely to make a contribution to the GES target in the absence of increased migration.

- Population growth in the South of Scotland has outpaced Scotland as a whole in recent years, though has been slower than the strong growth experienced across the UK.

- Growth has been driven by in-migration to the region, though this has been concentrated among older age groups – growth in the working age population has been relatively slow.
- The population of the South of Scotland is characterised by a notable gap in the number of young adults in their 20s and 30s. In addition, the region has an above average number of residents over the age of 50 and above retirement age.
- The population growth witnessed in the South of Scotland is predicted to continue at a similar rate over the next decade, according to official population projections. A challenge will be to attract and retain a higher proportion of working age residents than has been the case in recent years.

Purpose Target 5: To increase overall income and the proportion of income earned by the lowest 3 deciles as a group by 2017.

The preferred measure used by the Scottish Government to track the GES target is not yet available at a sub-national level. However, median earnings in the South of Scotland are below the national average, though the region compares more favourably with other rural areas on this measure.

- The median weekly earnings of all those working in the South of Scotland (full-time and part-time workers combined) were £330 in 2008. This was below the equivalent figures of £375 for Scotland and £388 for the UK.
- Median wage levels of those working in the South of Scotland have been around 12% lower than across Scotland as a whole, and around 15% lower than across the UK, since 1999. However, they are mid-range when compared to other rural benchmark areas.
- Average household income levels in the Borders are broadly in line with the national average, though in Dumfries & Galloway they are somewhat below. This suggests that many Borders residents are benefiting from access to a pool of higher wage jobs located in Edinburgh.

Purpose Target 6: To narrow the gap in participation between Scotland's best and worst local authority areas by 2017.

The South of Scotland has a high employment rate, relative to Scotland as a whole. The Borders has one of the highest employment rates in the country, while Dumfries & Galloway sits broadly in the middle of the spectrum relative to the best and worst performing local authority areas on this measure.

- Between 1995 and 2007 the gap in the employment rate between the best and worst performing local authority areas in Scotland fell from 22% to 15%.
- The Borders has the 5th highest employment rate of all local authority areas in Scotland. By comparison, Dumfries & Galloway sits broadly in the middle of the spectrum and was ranked 18th out of 32 on this measure.
- Deprivation, although an important issue, is not as widespread in the South as in some other parts of Scotland. In 2006, 1% of all residents lived in the 5% most deprived neighbourhoods in Scotland, whilst 4% lived in the 15% most deprived.

Purpose Target 7: Reduce CO² emissions by 2011 and by 80% by 2050

Data on the government's preferred measure of Greenhouse Gases is not available at the sub-national level, though some regional data on CO² emissions is available. The South of Scotland accounts for just 4% of all Scottish CO² emissions, while emissions per head of population are lower than the equivalent national averages.

- In 2006, the South of Scotland generated 7.3 tonnes of CO² emissions per head of population. This was among the lowest of all regions in Scotland and below the Scottish and UK averages of 8.5 and 8.8 respectively.
- The total volume of CO² emissions from the South of Scotland increased by 3% between 2005 and 2006, in contrast to little change across Scotland and the UK. However, care should be taken in interpreting any trend from such a limited data set.
- Around a third of all waste from the South of Scotland and Scotland was recycled or composted in 2008 – roughly a six fold increase from the level in 2002.

Looking to the future...

The review of performance of the South of Scotland economy covers a period (1999 – 2007) of uninterrupted growth across Scotland and the UK. The recession means that the next 12-18 months will see economic growth stall and reverse.

Our forecasts predict that the impact of the recession will be slightly more severe in the South of Scotland than across Scotland, but less severe than the UK. However, as the upturn is expected to be largely service-sector led, the region is forecast to recover at a slower rate than both Scotland and the UK.

- GVA in the South of Scotland in 2009 is forecast to contract by 2.6% compared with a 2.5% fall in Scotland and a drop of 2.9% in the UK. The region has strong representation within tourism and the public sector, which are likely to show some resilience during the downturn. However, high levels of low and medium tech manufacturing in the region make it more exposed to falling global demand.
- However as the recovery will be service sector led, the sectoral mix of the South means that its recovery will be weaker than most other regions in Scotland and indeed the UK. Average annual GVA growth between 2011 and 2015 in the South is expected to be 2.5% compared with 2.9% for Scotland and the recovery in the UK of 3.4%.
- We estimate that 4,100 jobs are likely to be lost in the South of Scotland during the recession, but that there will be a return to jobs growth from 2011 onwards. However, we expect that the region will not return to its 2008 employment level until after 2020.
- Manufacturing will suffer the biggest job losses over the decade ahead, with food & drink and textiles in particular likely to shed jobs. The tourism sector will provide a cushion during the recession (helped by the weak pound) as well as public services in the short-term.
- We expect a short-term fall in labour market participation levels in the UK, Scotland, and the South of Scotland with participation rates expected to recover to around their recent peaks by 2015 in all three areas.

3. Global / National Economic Context

This chapter provides a review of national and global economic trends and outlook with a focus on the issues which may have a particular importance for the South of Scotland.

3.1 Financial crisis

The credit crunch which began in July 2007 intensified dramatically in September 2008 with a series of bank failures, prompting rescues and effective nationalisation of major financial institutions worldwide. Despite massive intervention, financial stress rose to new highs at the start of Q4 2008 as credit dried up and stock markets plunged. In turn business and consumer confidence nosedived, world trade seized up and businesses cut investment and employment in an effort to conserve cash.

Faced with the collapse of the financial sector, many governments have recapitalised banking sectors and guaranteed interbank loans and bank deposits to try to shore up confidence in the financial system. Such moves have averted a collapse of the financial system, but second round impacts on the banking system from the weakening economy are likely to mean more write offs to come from the banks and further measures by governments to bail out the banking system.

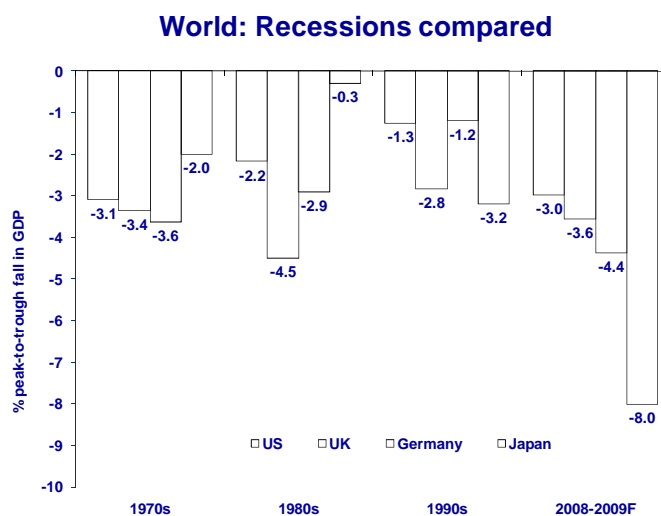
3.2 The global recession

The economic releases so far in 2009 underline the extent of the shock to the real economy and precipitous drops in output since the autumn. In the US, more than 500,000 jobs were lost in December, taking the Q4 tally to 1.3 million – the worst quarter since 1945. Data for other countries point to a remarkably synchronised and deep downturn. Industrial output data for the UK and France for November were weak, and German factory orders for the same month fell by some 27% on the year. A range of data from key emerging market countries also suggested weakening conditions – exports from Taiwan fell 42% year-on-year, with sales to China falling 57%. In turn Chinese exports have themselves turned negative, falling from an annual growth rate of 13% in early 2008 to -2% in early 2009, underlining the global nature of the downturn.

The figure below compares past recessions for major world economies and includes forecasts on how deep the current recession will be. The uniformity of experience across the major economies, reflecting the stronger global linkages that have built up in recent years, points to a more severe recession in world activity than at any time in the post-war era, with world growth forecast to dip to -0.8% in 2009, compared with an average growth rate of 3.5% over the last five years.

Chart 3.1

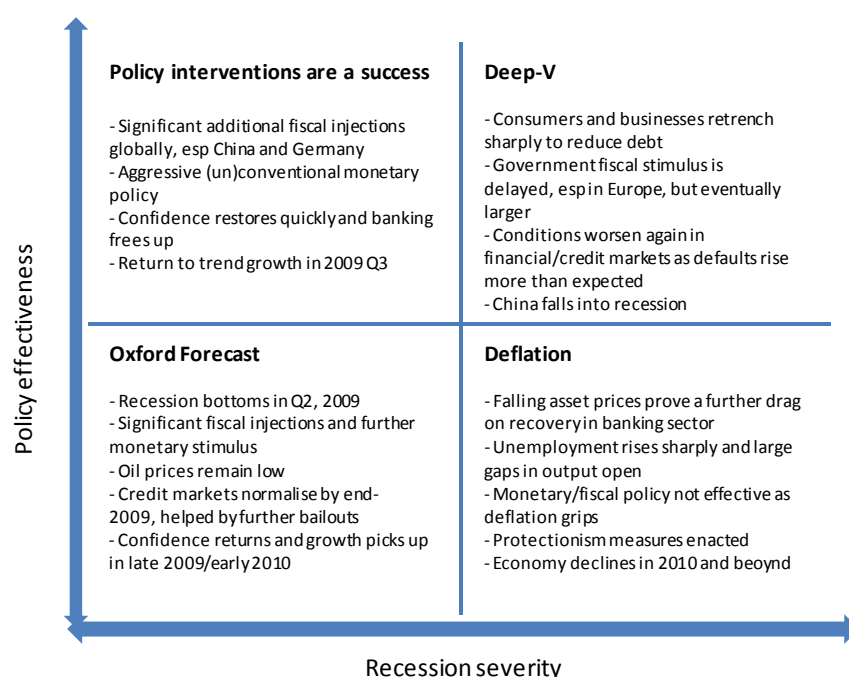
Source: Oxford Economics / Haver Analytics



3.3 Global outlook

The unprecedented nature of the crisis and the aggressive global policy response add considerable uncertainty to forecasts for 2009 and beyond. The Chart below provides an overview of the possible scenarios that could play out. With policy efforts, particularly unorthodox measures by the Federal Reserve, such as direct purchases of mortgage backed securities, appearing to ease some of the stresses in the credit markets, Oxford Economics believes that the most likely outcome at this stage is for the recession to bottom in the second quarter of 2009. The recovery led by the US, will be anaemic, with GDP not recovering its mid-2008 level in the US until mid 2010 and not until mid-2011 in the Eurozone and the UK.

Other outcomes are clearly possible, particularly if credit markets do not normalise or if the fiscal and other stimulus measures are delayed. Indeed a fall into outright deflation, with output continuing to fall through 2010 is a possibility. As a result of its banking / credit market origins we rate the chances of a quick recovery from this recession as the least likely of the scenarios that we have described.

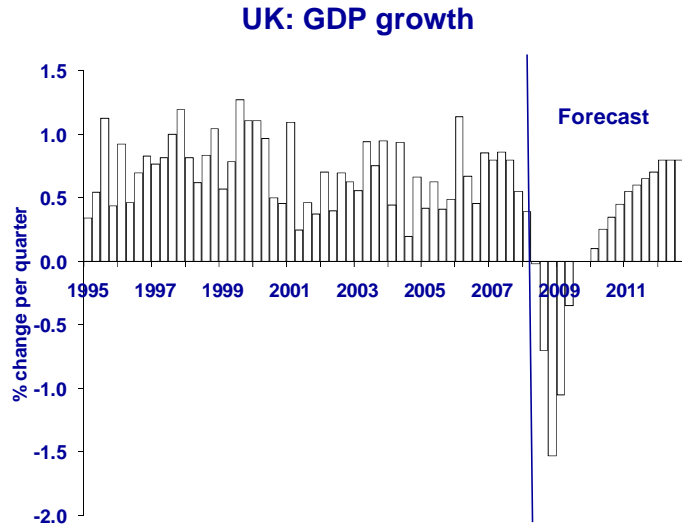


3.4 UK badly hit

As the global financial crisis intensified in late 2008 the UK, with its large financial services sector, was particularly badly affected. GDP growth stalled in Q2 after 15 years of continuous growth and fell by 2.1% in the second half of the year, giving the UK its first recession since 1991. Our current forecast suggests a drop in GDP for the UK in 2009 of 2.9% with a modest recovery setting in early 2010. The impact of the recession will see sharp falls in investment, consumer spending on durables and house prices. These will be accompanied by increases in unemployment and company liquidation. These effects will be felt right across the UK, with output expected to fall in all regions in 2009. The forecasts suggest that output within Scotland will fall by 2.5% in 2009 – a slightly better performance than the UK as a whole.

Chart 3.2

Source: Oxford Economics

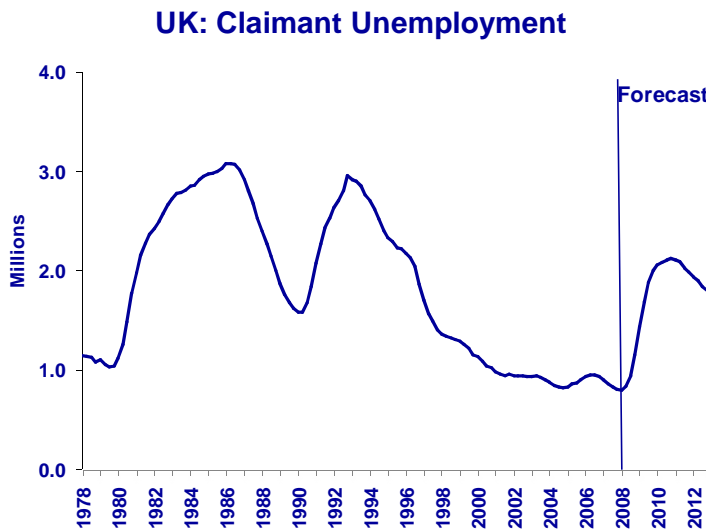


3.5 Rising unemployment

As a result of falling employment levels, the number of people unemployed is increasing rapidly, adding further pressures on aggregate consumer spending and the housing market. The forecasts suggest that unemployment within the UK will increase by a further 700,000 by the end of 2010, taking unemployment back to the level experienced in the mid 1990's. Although the recovery will bring a return to jobs growth, unemployment is expected to remain above the levels experienced through the early part of the century.

Chart 3.3

Source: Oxford Economics

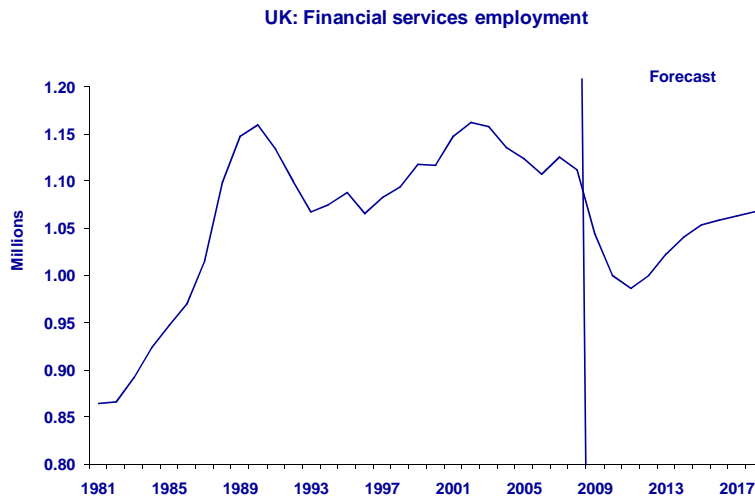


3.6 Financial services – eye of the storm

Although systemic collapse of the financial sector appears to have been averted, the outlook for the financial & business services sector remains bleak. A fall of over 65,000 jobs within the sector is expected across the UK in 2009. Over half of the financial services job losses will be concentrated within London – the global financial centre for the world home to vulnerable segments such as investment banking. However, all UK regions will be impacted too, with Scotland no exception. The forecasts suggest that up to 6,000 of the expected losses could come from Scottish financial services. Edinburgh City, with a higher proportion of financial services jobs than London, bears the brunt of the Scottish job losses.

Chart 3.4

Source: Oxford Economics



3.7 Scottish outlook

Scotland has not been exempt from the impending recession; all the UK traits of falling house prices; rising unemployment and loss of confidence are evident in the region. A diversified labour market covering professional services, industrial sectors, tourism and the public sector provide a modest cushion but the extended reach of the recession means almost all sectors are adversely affected.

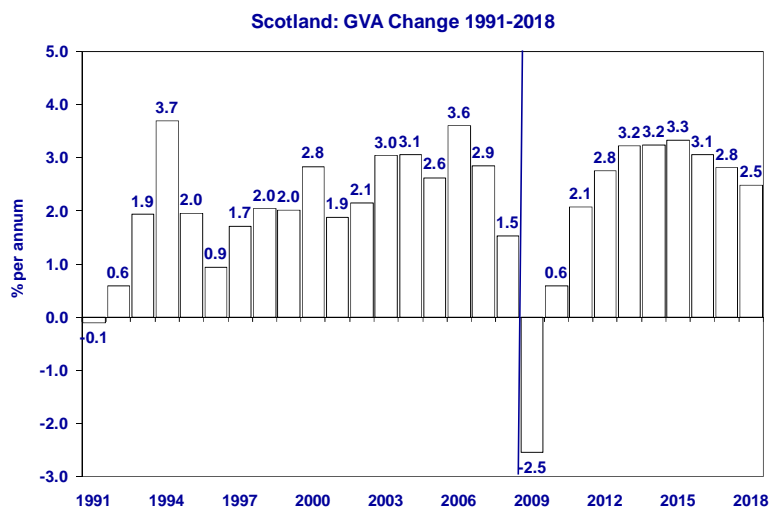
Scotland's professional and financial services bases around the major cities of Glasgow and Edinburgh will be adversely affected in 2009 and further increases its vulnerability. Elsewhere the slowing global economy will bring the regions manufacturing base under more pressure, and though tourism (as result of the weak pound) and a significant public sector base will provide an element of support for the regions labour market, the overwhelming experience across the region will be one of contraction in the short run.

Output

- The stark 2009 contraction is clear in the annual chart of GVA growth below. A relatively modest recovery in 2010 is followed by a few 'recovery years' before growth settles down at a more modest rate around 2.8% per annum.

Chart 3.5

Source: Oxford Economics

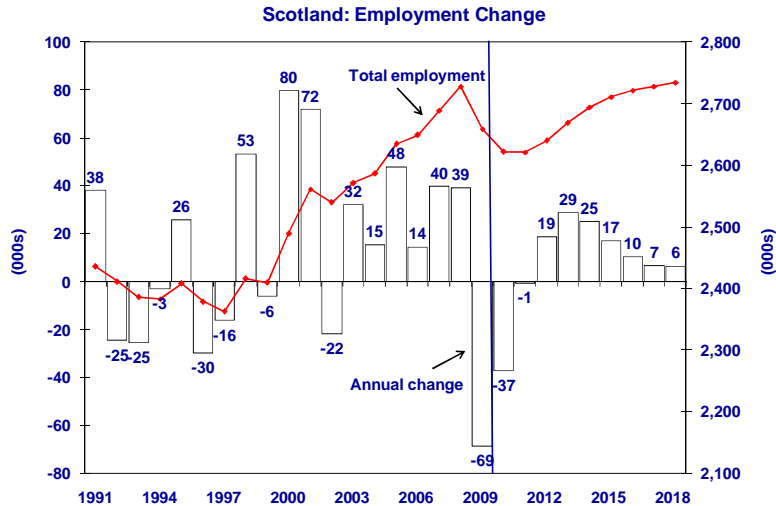


Employment

- Employment is forecast to fall by approximately 68,700 in 2009 with further contraction expected in 2010 and 2011 before modest growth returns. However it will take until 2017 for employment to return to its 2008 peak. Employment growth over the medium term is expected to be lead by business services, health and other personal services. Financial services employment is not expected to return to its 2008 level until 2018.

Chart 3.6

Source: Oxford Economics

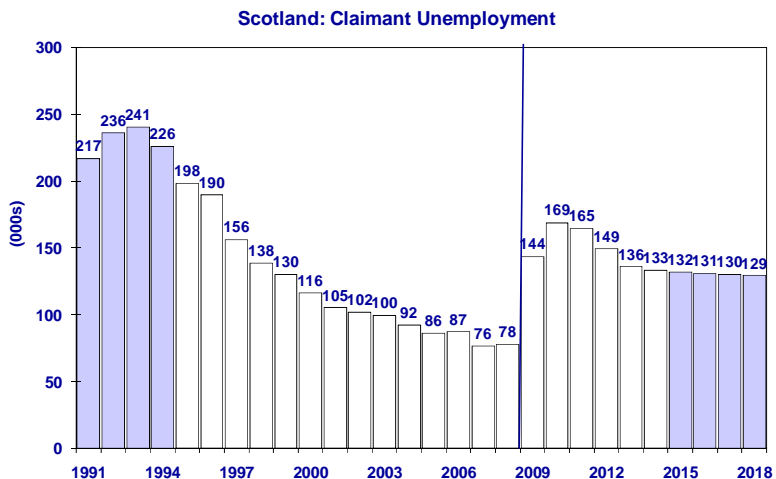


Unemployment

- In response to the weakening job opportunities, unemployment (claimant count) is forecast to rise above 140,000 in 2009 and reach close to 170,000 by 2010. These figures could be higher but the model predicts a reasonable outflow of migrants who lose their job and do not remain to claim benefits. Unemployment, though falling in the medium term, does not return to below 80,000 until after 2018, though again migration assumptions matter significantly for this forecast.

Chart 3.7

Source: Oxford Economics



At the time of writing the economy is heading into perhaps its darkest hours with 2009 looking bleak for the most parts. Perhaps the economy will exit the year better than it started in terms of confidence and with a return to global growth and confidence in the domestic housing markets could be grounds for optimism in late 2009. However getting to that point will be painful and recovery in job numbers to their 2008 peak is likely to take to 2017 to be reached.

4. Key Performance Indicators / Trends in Performance

4.1 Introduction

This chapter provides an overview of economic trends within the South of Scotland since 1999. It focuses specifically on the performance of the region in relation to the purpose targets set out in the government economic strategy for Scotland. the remainder of the chapter is set out as follows:

- Key Performance Indicators
- Economic Growth
- Increasing Productivity
- Increasing Labour Market Participation
- Increasing Population
- Ensuring that Growth is Shared and Sustainable

Chapter 8 sets out our economic forecasts for the region. However, we have made reference to some of the analysis contained within that chapter in the conclusions of each of the sections above, particularly where this may help provide an understanding of the region's potential to meet the GES targets.

4.2 Key Performance Indicators*

	South of Scotland	Scotland
Economic Growth		
Total GVA 2006 (£bn)	£3.5	£93.4
Average Annual GVA Growth Rate 1999-2006	1.6%	2.8%
Total Exports 2006 (£bn)	£0.5	£20.6
Change in Export Sales 2002 -2006	2%	3%
Productivity		
GVA per Employee 2006	£29,000	£35,200
Change in GVA per Employee 1999-2006	-4%	10%
% school leavers entering positive destinations 2007	88%	86%
% adults with degree level qualifications 2007	28%	33%
% adults with no qualifications 2007	15%	14%
Businesses per 1,000 adults 2007	49	33
Business Birth Rate per 1,000 adults 2006	3.1	2.8
Inward Investment 2007/08 (£m)	£33.8	£263.8
% Change in Inward Investment 04/05 - 07/08	3637%	87%
Labour Market Participation		
Employment Rate 2007	80%	76%
Unemployment Rate 2007	4%	5%
Economic Inactivity Rate 2007	17%	20%
Self Employment Rate 2007	12%	8%
Jobseeker's Allowance (JSA) Claimant Rate 2008	2.0%	2.4%
Incapacity Benefit (IB) Claimant Rate 2008	6.9%	8.4%
Population		
Total Population 2007	259,700	5,144,200
Population Change 1999-07	5,700	72,300
% Population Change 1999-07	2.2%	1.4%
% working Age Population Change 1999-07	1.3%	2.6%
Projected Population 2018	266,100	5,294,300
% Change Projected Population 2008-18	2.5%	3.0%
Solidarity & Cohesion		
Median Weekly Wages 2008	£330	£375
% Change in Weekly Wages, 1999-2008	38%	36%
% residents living in 15% most deprived data zones	4%	15%
Sustainability		
CO ² emissions per head of population 2006	7.3	8.5
% waste recycled or composted 2007/08	32%	32%

*Sources for the above data can be found in Appendix 3

4.3 Economic Growth

Economic growth is a key indicator of wealth creation and economic performance. The Government Economic Strategy notes Scotland's economic growth has underperformed relative to both the UK and other small European countries in recent decades. A key target set out in the Strategy is to **raise the country's economic growth rate to the UK level by 2011**.

This section focuses on economic growth within the South of Scotland and covers:

- Total GVA
- GVA by Sector
- GVA Growth
- GVA Growth by sector
- Exports

4.3.1 Total GVA

Total economic output (as measured by Gross Value Added) from the South of Scotland amounted to £3.5bn in 2006¹. This represented 4% of Scotland's total GVA, broadly in line with the region's share of national jobs.

4.3.2 GVA by Sector

Table 4.1 shows economic output by broad industry sector in the South of Scotland, relative to Scotland as a whole.

Table 4.1

Source: Oxford Economics

GVA by Sector 2006				
	South of Scotland		Scotland	
	Total (£m)	%	Total (£m)	%
Agriculture	250	7%	1,270	1%
Extraction	10	0%	1,630	2%
Manufacturing	560	16%	12,990	14%
Utilities	100	3%	2,230	2%
Construction	320	9%	6,700	7%
Retail & catering	590	17%	12,640	14%
Transport & communications	210	6%	6,020	6%
Financial & business services	470	13%	24,870	27%
Public admin & defence	160	5%	5,920	6%
Education & health	680	19%	14,330	15%
Other services	160	5%	4,750	5%
Total	3,510	100%	93,360	100%

- In terms of wealth generation, *financial & business services* is the largest sector across Scotland, accounting for 27% of national economic output in 2006. This key industry is significantly underrepresented in the South, generating just 13% of total GVA in 2006.
- The South of Scotland is more dependent on *education & health* to generate economic output than Scotland as a whole. The sector accounted for almost a fifth (19%) of all GVA from the region in 2006, compared to 15% nationally.

¹ Source: Oxford Economics – based on the latest UK National Accounts and refers to GVA in current prices.

- The importance of *agriculture* to the regional economy is evident from the fact that it accounted for 7% of all output in 2006, seven times higher than across Scotland as a whole.
- *Manufacturing* and *retail & catering* account for slightly higher shares of economic output in the South than across Scotland as a whole.

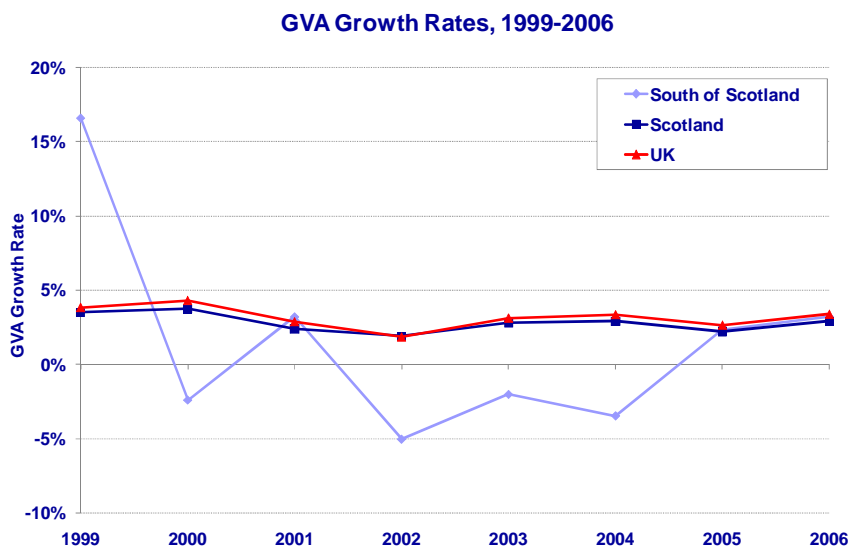
4.3.3 GVA Growth

Chart 4.1 shows that there were some fluctuations in GVA growth rates within the South of Scotland between 1999 and 2006. The regional economy temporarily outperformed the Scottish and UK averages on this measure in 1999, but experienced below average growth throughout most of the rest of the period and actually contracted in four of the eight years. **The region is therefore currently falling short of the national target of raising the economic growth rate to the UK level by 2011.**

Overall, the South of Scotland economy grew at an average annual rate of 1.6% between 1999 and 2006. This was much lower than the Scottish average of 2.8% and half the UK figure of 3.2%.

Chart 4.1

Source: Oxford Economics



4.3.4 GVA Growth by Sector

Table 4.2 shows change in GVA by broad industry sector in the South of Scotland between 1999 and 2006.

- *Education & health* was the only sector in the region to experience substantial growth in output over the period. Total GVA from the sector was £120m higher in 2006 than in 1999, a growth rate of 22%.
- The only other industry to experience growth in output was *electricity, gas & water*, which added £20m more to the GVA total in 2006 than in 1999.
- There was a contraction in output across all other industry sectors in the region, with a particularly large fall of £80m in the level of output from *financial & business services*. This has been a key driver of growth across the Scottish economy as a whole over the past decade.
- Output from *manufacturing* fell by 10% over the period, but this was much slower than the rate of employment decline in the sector (see Section 6.2.2, Table 6.3), suggesting a move within the industry towards higher value added activities and increasing levels of productivity.

Table 4.2

Source: Oxford Economics

GVA by Industry in the South of Scotland (£m)				
	1999	2006	Change 1999-2006	
			No.	%
Agriculture	250	250	0	0%
Extraction	20	10	-20	-74%
Manufacturing	620	560	-60	-10%
Electricity, gas & water	80	100	20	23%
Construction	380	320	-60	-15%
Retail & catering	620	590	-40	-6%
Transport & communications	260	210	-50	-19%
Financial & business services	550	470	-80	-14%
Public administration & defence	170	160	0	-1%
Education & health	560	680	120	22%
Other personal services	170	160	-10	-4%
Total	3,680	3,510	-160	-4%

Figures in table have been individually rounded to the nearest 10

4.3.5 Exports

Exports refer to the sale of goods and services to other countries. The amount of export sales generated by an economy is believed to have an impact on wealth creation and GVA growth. The National Performance Framework for Scotland has set a national target to **grow exports at a faster average rate than GDP.**

The latest export figures from the Global Connections Survey, produced by the Scottish Government, were published in March 2009. These figures are for 2007 and will be included in the national review as part of this economic review series. However, the latest figures are not available at the regional level and so the analysis contained within this section is based on 2006 figures, which are reported in current prices.

In 2006, the value of export sales from the South of Scotland amounted to £525m. This represented 3% of Scotland's total export sales of £20.6bn, slightly lower than the region's share of national jobs (4%).

Table 4.3 shows change in the level of exports by industry from the South of Scotland between 2002 and 2006. It shows that there was a small increase of 2% in total export sales from the region over the period, though this was slower than the equivalent growth of 3% for Scotland as a whole.

Export growth in the South has been driven by increases within *retail & catering* and *other services*, and to a lesser extent *metals*. This was enough to offset the declines in export sales from *primary & construction industries* and *food & drink*.

Table 4.3

Source: Global Connections Survey, Scottish Government

South of Scotland Exports by Industry (£m)*				Change 2002-06	
	2002	2006	No.	%	
Primary & Construction Industries	10	5	-5	-50%	
Manufacture of Food & Drink	45	40	-5	-11%	
Manufacture of Chemical Products	145	145	0	0%	
Manufacture of Metals Products	25	30	5	20%	
Manufacturing of Electronics	10	10	0	0%	
Other Manufacturing	135	135	0	0%	
Retail & Catering	70	85	15	21%	
Financial & Business Services	30	30	0	0%	
Other Services	30	40	10	33%	
Total Exports	515	525	10	2%	

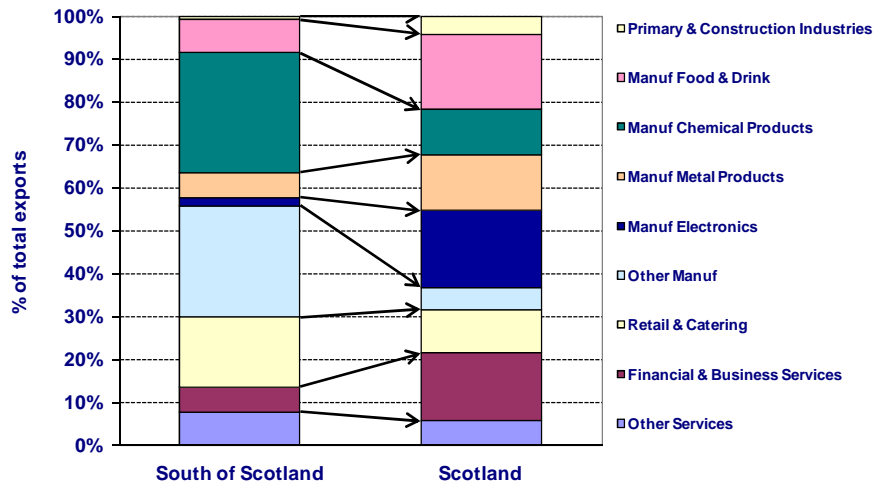
* Figures refer to value of exports in current prices

Chart 4.2 shows 2006 exports by industry from the South of Scotland, relative to Scotland as a whole. The largest exporting industries in the region are *chemicals* and *other manufacturing*, which combined accounted for more than half the total in 2006. The region generates relatively little exports from *financial & business services* and *electronics*, both of which are key exporting sectors nationally. The *retail & catering* sector accounts for a larger

Exports by Industry, 2006

Chart 4.2

Source: Global Connections Survey, Scottish Government



share of exports from the region than across Scotland as a whole, reflecting the relative importance of tourism to the regional economy.

4.3.6 Conclusions – Economic Growth

Economic growth in the South of Scotland lagged behind Scotland and the UK for most years between 1999 and 2006. The regional economy actually contracted throughout much of the period, meaning that it is currently falling some way short of the national growth target.

- The South of Scotland economy grew at an average annual rate of 1.6% between 1999 and 2006, slower than the equivalent growth rate of 2.5% for Scotland and half the UK average of 3.2%.
- The region's relatively poor performance on this measure can be partly explained by the fact that it has a very small financial & business services sector, which has been a key driver of economic growth across both Scotland and the UK over the past decade.
- The region has been largely dependent on the public sector, particularly education & health, to generate economic growth in recent years. Economic output from manufacturing has been contracting at a rate much slower than the decline in employment, suggesting a move within the industry towards higher value added activities.
- Export success is one of the crucial building blocks of economic growth as trading with others is how an area increases its wealth. The level of foreign exports from the South of Scotland is slightly lower than the area's share of national employment, though has increased in recent years.
- The region is dependent on a couple of manufacturing sectors to generate the majority of export sales and the importance of tourism to the regional economy is evident in the relatively high share of export sales from retail & catering.
- If the region is to help contribute to the national target of increasing export sales at a rate faster than GDP, a better performance in terms of service sector exports is likely to be required.

4.4 Increasing Productivity & Competitiveness

The Government Economic Strategy identifies increasing productivity and competitiveness as one of the principal drivers of economic growth. In 2005, Scotland (14th out of 30) and the UK (11th out of 30) both ranked in the second quartile for productivity as measured by GVA per employee. The Scottish figure is around 96% of the UK figure. The government has set a long-term target for Scotland **to rank in the top quartile for productivity amongst our key trading partners in the OECD by 2017.**

This section focuses on the South of Scotland's performance in terms of productivity and competitiveness and covers:

- Productivity
- Productivity by Industry
- Qualifications of the workforce
- The business base
- Investment
- Innovation

4.4.1 Productivity

Productivity levels within the South of Scotland have been consistently below the Scottish and UK averages since 1999.

Productivity is a central driver of sustained economic growth and often a key target for economic development policy. A common measure of productivity is GVA per employee, which is calculated by taking economic output of an area (GVA) and dividing it by the total number of employees². Chart 4.3 shows trends in productivity levels within the South of Scotland, Scotland and the UK between 1999 and 2006.

Chart 4.3

Source: ONS and SLIMS / Oxford Economics Calculations



- GVA per employee in the South of Scotland amounted to £29,000 in 2006. This was below the average of £35,200 for Scotland and just 79% of the UK figure of £36,900.
- Productivity levels within the region have been consistently below both the Scottish and UK averages since 1999.
- The level of GVA per employee in the South of Scotland fell by 4% between 1999 and 2006. This contrasts with growth of 10% for Scotland and 15% for the UK on this measure, meaning that the productivity gap widened over the period.

4.4.2 Productivity by Industry

Productivity levels in the South of Scotland are below the Scottish average across almost all industry sectors.

Chart 4.4 shows productivity levels in the South of Scotland by broad industry, relative to Scotland as a whole. It shows that:

- GVA per employee in the region is below the Scottish average across almost all industry sectors with the exception of *agriculture*, where it is 5% higher.
- The productivity gap is proportionately widest within *manufacturing, extraction and electricity, gas & water*.
- The *electricity, gas & water* sector is the most productive in terms of the level of GVA generated per employee, both within the South of Scotland and Scotland as a whole.

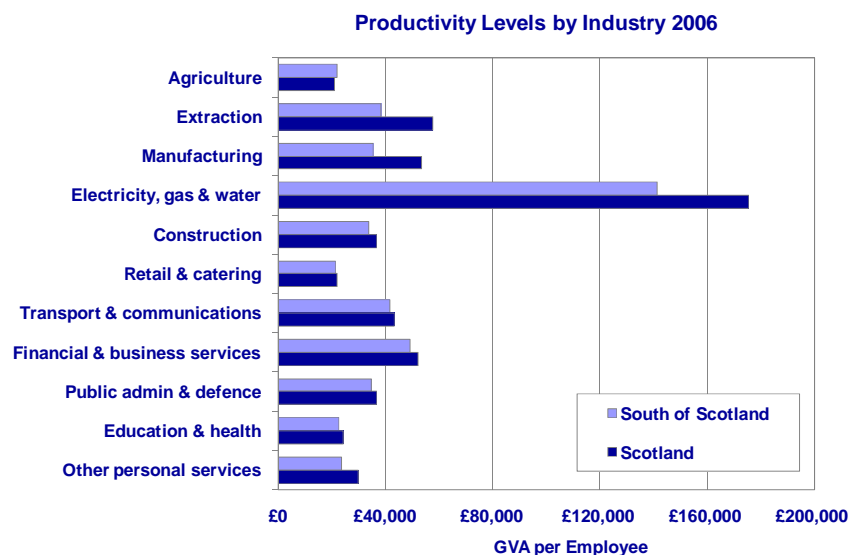
² Figures are calculated by dividing total GVA (2006 prices) by the total number of employees + self-employed (both full and part-time workers)

However, in employment terms the sector is very small accounting for 1% of all jobs within the region.

- In line with the national trend, *retail & catering* and *education & health* are among the largest employing sectors in the South of Scotland, but generate the lowest levels of GVA per employee.

Chart 4.4

Source: ONS and SLIMS / Oxford Economics Calculations



4.4.3 Qualifications of the workforce

Relative to Scotland as a whole, a smaller proportion of South of Scotland residents are educated to degree level while more have no qualifications at all.

Workforce skills and qualifications are believed to have a direct impact on productivity levels and are a key measure of economic competitiveness. Table 4.4 shows the current breakdown of qualifications amongst the working age population of the South of Scotland. Over a quarter (28%) of all working age residents in the region were qualified to degree level (NVQ Level 4) or above in 2007 – this was broadly in line with the average for the UK, but below the equivalent rate for Scotland.

The industrial restructuring that has occurred throughout the UK in recent decades has led to increased demand by employers for individuals with higher levels of skills and qualifications, leaving limited opportunities available to those with no qualifications at all. In 2007, 15% of all South of Scotland residents had no qualifications. This was slightly higher than the averages for Scotland and the UK, but much lower than the equivalent rate of 22% in 2000.

Table 4.4

Source: Annual Population Survey

Qualifications of the Workforce, 2007*			
Highest Level Qualification:	South of Scotland	Scotland	UK
NVQ Level 4+	28%	33%	29%
NVQ Level 3	14%	15%	16%
Trade Apprenticeships	9%	6%	5%
NVQ Level 2	15%	14%	16%
NVQ Level 1	10%	10%	14%
Other Qualifications	9%	7%	9%
No Qualifications	15%	14%	13%

* % of working age population (males aged 16-64, females aged 16-59)

School Leavers

The Government Economic Strategy has set a target **to increase the proportion of school leavers in positive and sustained destinations (FE, HE, employment or training).**

Table 4.5 shows the destinations of school leavers in the South of Scotland relative to Scotland in 2007. The proportion of school leavers in the region entering HE is in line with the national average and a higher proportion continue their studies within FE. South of Scotland school leavers are more likely to go into employment, and slightly less likely to be unemployed, than across Scotland as a whole.

Table 4.5

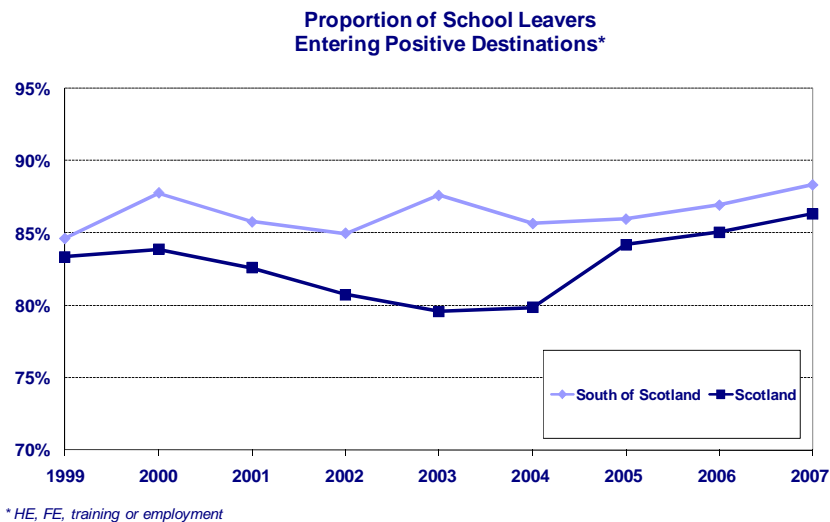
Source: Scottish Government

Destination of School Leavers, 2007		
	South of Scotland	Scotland
Higher Education	30%	30%
Further Education	25%	23%
Training	3%	5%
Employment	30%	28%
Unemployment	11%	12%
Unknown	1%	1%

Chart 4.5 shows change in the proportion of school leavers entering positive destinations in the South of Scotland and Scotland between 1999 and 2007. Despite some fluctuation, the proportion of South of Scotland leavers going into positive destinations has increased between 1999 and 2007, and has been consistently higher than the Scottish average over the period. The Region is therefore on course to make a positive contribution towards the national target.

Chart 4.5

Source: Scottish Government



More Choices, More Chances

The Scottish Government launched the *More Choices, More Chances* strategy in 2006, which sets out an action plan aimed at reducing the number of young people aged 16 to 19 years old that are not in employment, education or training. **The South of Scotland has a slightly lower proportion of young people in this category than across Scotland as a whole.**

Table 4.6 shows that there were 1,010 16-19 year olds in the South of Scotland not in employment, education or training in 2006. This amounted to 8.6% of all people in this age group, slightly below the Scottish average of 8.9%.

There was a slight increase of 4% in the number of young people in this category in the South of Scotland between 2003 and 2006. This was in contrast to a decrease of 15% across Scotland as a whole.

Table 4.6

Source: Scottish Government

16-19 Year Olds not in Employment, Education or Training					
	2003	2006	Change 2003-2006		Rate 2006
			No.	%	
South of Scotland	970	1,010	40	4%	8.6%
Scotland	27,550	23,530	-4,020	-15%	8.9%

Graduates

Over the past decade, there has been a rapid expansion in the Higher Education sector across the UK in recognition of the key role that graduates play in increasing productivity and competitiveness.

Table 4.7 shows that a total of 1,900 South of Scotland residents graduated from universities across the UK in 2007. This was 58% higher than the total in 1996, faster than the increase of 39% across Scotland as a whole over the period. Following this growth, the rate of new graduates from the region (9 per 1,000 working age residents) is now in line with the Scottish average.

Table 4.7

Source: HESA

Total Graduates				
	1996	2007	Change 1996-07	
			No.	%
South of Scotland	1,200	1,900	700	58%
Scotland	374,900	519,800	144,900	39%

Graduate Destinations

Chart 4.6 shows the location of the first job or place of further study for 2007 graduates originally from the South of Scotland:

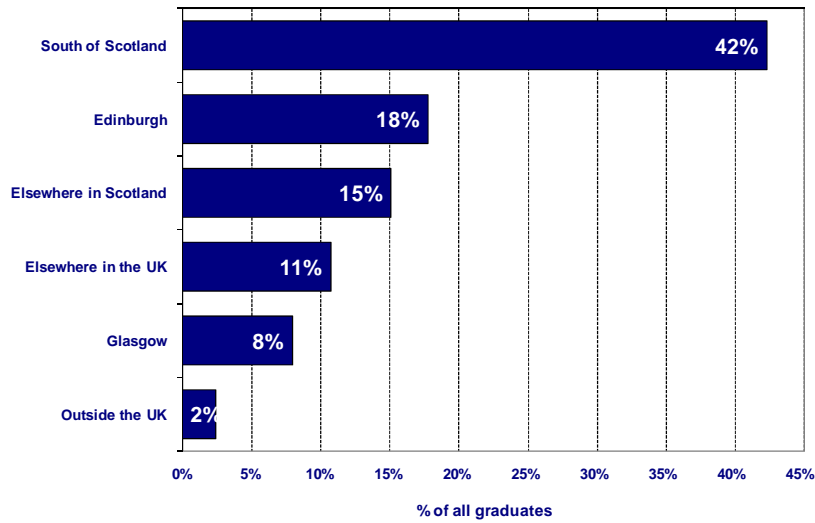
- More than two-fifths (42%) of graduates found their first job within the region immediately following graduation;
- Edinburgh is the second most popular destination for graduates from the area, attracting around a fifth of the total;
- Glasgow attracted 8%, whilst a further 15% went elsewhere in Scotland; and
- Just 13% left the country, mainly to go elsewhere in the UK. This is slightly above the 11% of graduates which left Scotland as a whole.

This analysis shows that less than half of all graduates from the South of Scotland find their first job in the region, which might be indicative of a lack of graduate opportunities. It should be noted that, whilst a relatively large proportion find work in Edinburgh, many may continue to live in the region.

Chart 4.6

Source: HESA

Location of Employment of Graduates from South of Scotland, 2007



Graduate Employment

In line with the trend across Scotland as a whole, the vast majority (78%) of new graduates originally from the South of Scotland enter the 'traditional' graduate roles of *managerial, professional or associate professional* jobs. However, as shown above, less than half (42%) of all new graduates find their first job within the region suggesting that many have to go elsewhere to find graduate-level jobs.

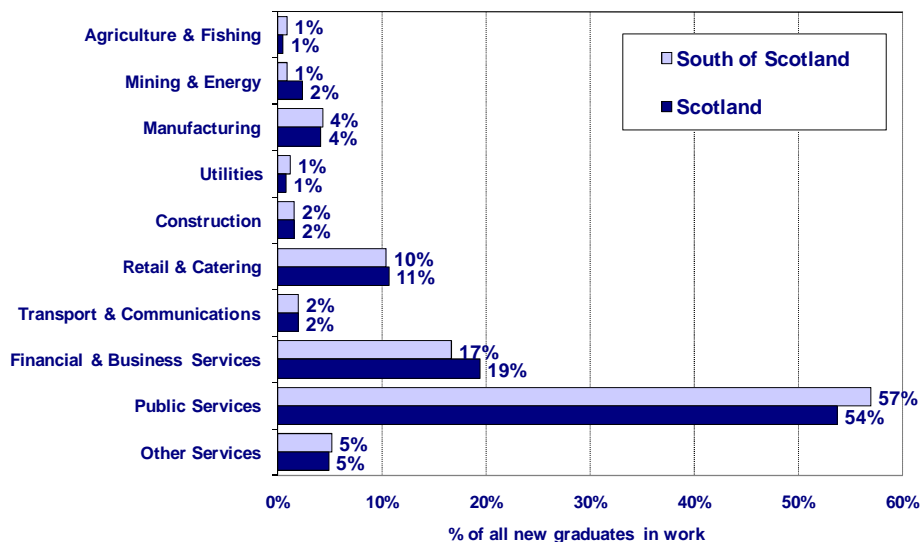
Chart 4.7 shows graduate employment by industry in the South of Scotland and Scotland in 2007. It shows that nearly three-fifths of all new graduates from the region find their first job in the public sector, higher than the average for Scotland as whole.

The second most popular industry of employment for new graduates originally from the South of Scotland is *financial & business services*, accounting for 17% of the total in 2007. This was lower than across Scotland as a whole, where 19% of new graduates enter *financial & business services*.

Chart 4.7

Source: HESA

Graduate Employment by Industry, 2007



It should be noted that these figures are gathered at a relatively early stage (6 months) following graduation and the industry of employment for many new graduates at this stage is not necessarily indicative of where they will remain throughout the remainder of their working life.

4.4.4 The Business Base

The Government Economic Strategy identifies the key role that enterprise must play to help Scotland achieve its productivity target and the National Performance Framework sets a target of **growing the business start up rate**.

VAT Registrations

Table 4.8 shows that there were 10,500 VAT registered businesses in the South of Scotland in 2007, an increase of 7% from the total in 1999. This was slower than the equivalent growth rates for both Scotland and the UK as a whole.

Table 4.8

Source: Inter-Departmental Business Register (IDBR), ONS

Business Stocks, 1999-2007				
	1999	2007	Change 1999-2007	
			No.	%
South of Scotland	9,800	10,500	700	7%
Scotland	125,000	136,900	11,900	10%
UK	1,710,600	1,956,800	246,100	14%

Business Density

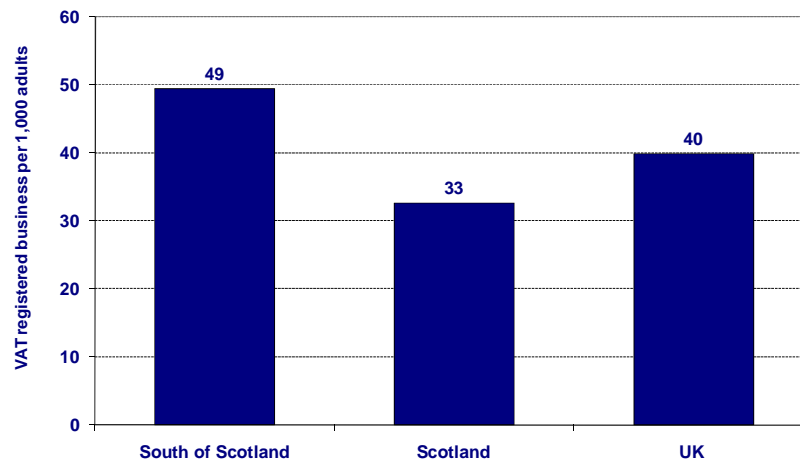
Chart 4.8 shows business density levels, in terms of the number of businesses per head in the South of Scotland, Scotland, and the UK. The chart shows that there were 49 VAT registered businesses per 1,000 adults in the region in 2007. This was well above the equivalent figures for Scotland (33, per 1000) and the UK (40 per 1,000).

Business density levels are often higher in rural parts of the UK than in urban areas due to the higher prevalence of self-employment and greater dependency on agricultural and tourism, where businesses are often small.

Business Density, 2007

Chart 4.8

Source: Inter-Departmental Business Register (IDBR), ONS



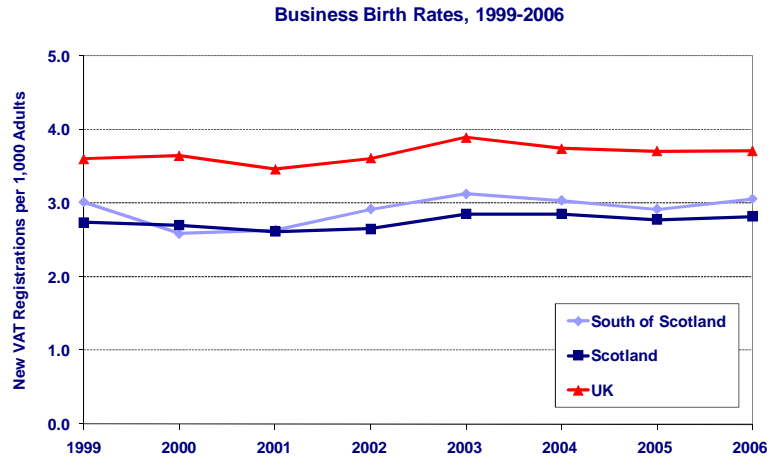
Business Birth Rate

The business birth rate is a calculation of the number of new VAT registrations per 1,000 adults and is a good indicator of the level of entrepreneurial dynamism within an area. Chart 4.9 shows that the business birth rate in the South of Scotland has been slightly above the Scottish average in recent years, but has lagged significantly behind the UK since 1999.

The company birth rate stood at 3.1 per 1,000 adults in 2006, the same as the figure in 1999. Raising entrepreneurial activity would increase the region's contribution to the national target.

Chart 4.9

Source: Inter-Departmental Business Register (IDBR), ONS



4.4.5 Investment

Private Equity Investment

Developing a supportive business environment is one of the key strategic priorities of the Scottish Government. Sitting below this priority is a commitment to provide *'responsive and focused enterprise support to increase the number of highly successful, competitive businesses'*.

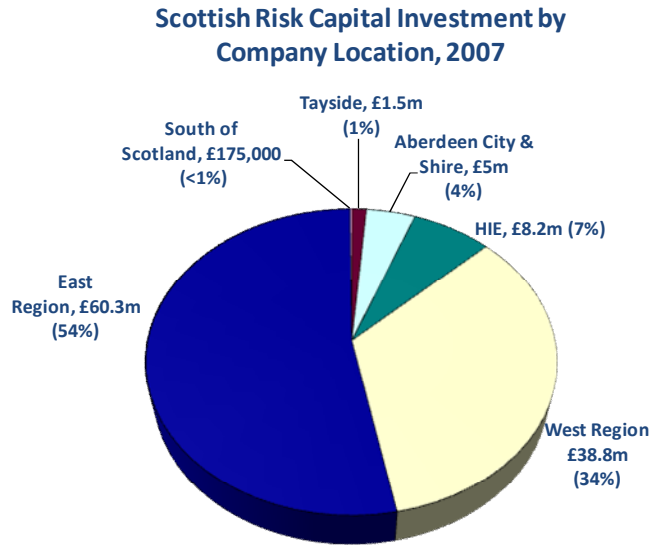
One of the key indicators of the competitiveness of a region is the level of risk capital attracted by its business base. Flows of capital are global and regions compete internationally to attract investment. A study into the Risk Capital Market in Scotland³ estimated that a total of £114m of early stage risk capital was invested in Scottish businesses in 2007.

Chart 4.10 shows how this investment was distributed across the different regions in Scotland. The East & West Regions dominate in terms of the *value* of investments made, accounting for just under £100m (88%) of all private investments in 2007. The South of Scotland attracted the lowest share of risk capital investment of all Scottish regions in 2007, amounting to £175,000 – less than 1% of the total.

³ Scottish Enterprise (2008) – *The Risk Capital Market in Scotland 2005 – 2007*. This document reported on investment in the regional operations area of East, West, South, Tayside and Aberdeen. These are comparable to the geographical boundaries of the city regions.

Chart 4.10

Source: Scottish Enterprise



The report also analysed the geographic origins of risk capital investments in Scotland between 2005 and 2007. It found that, of the 400 or so investments made over this period, 12% (a total of 49) came from investors based in the South of Scotland. The majority of investments from the South were made in the East Region.

Information on private equity investment within key sectors at a regional level is limited⁴. However, information on the key sector preferences of geographically based investors is available. Risk capital investment from investors based in the South are concentrated within Enabling Technologies (73%) and Life Sciences (23%). This is similar to the national trend, where these two sectors tend to dominate investment.

Public Equity Investment in Partnership with Private Sector

Scottish Enterprise has the facility to make investments alongside the private sector, primarily through the Scottish Co-Investment Fund (SCF) and Scottish Venture Fund (SVF). In line with the level of private equity investment, public equity investment in the South of Scotland is also comparatively low. Analysis of investment activity shows that SE invested around £100,000 in the region, accounting for over a third (36%) of all investment (public & private investment) in the area in 2007.

Inward Investment

Inward investment refers to the movement of capital for specific investment purposes where the investor gains control over the investment asset. It usually involves companies setting up or buying operations within another region or country and can encompass new projects, expansions of existing projects, or mergers and acquisitions activity. The level of inward investment attracted by a region is a key indicator of competitiveness, though it should be noted that it often varies widely over time meaning that year on year trends can appear quite volatile.

This section provides an overview of known inward investment activity within the South of Scotland, based on figures provided by Scottish Enterprise, and covers:

- Total Investment
- Investment by Sector

⁴ See Section 6.3 for a detailed discussion of Scottish Enterprise key sectors

- Employment Impacts of Investment
- Origin of Investment

Total Investment

In 2007/08, the total value of known inward investment within the South of Scotland was £33.8m, representing 13% of the Scottish total of £263.8m. The proportion of Scottish inward investment attracted by the South of Scotland was therefore well above the area's share of national economic output (4%).

Table 4.9 shows that the value of inward investment in the region has increased substantially since 2004/05. This massive growth is mainly due to one large investment at Chirnside, Berwickshire by global textile manufacturer Ahlstrom. The company invested around £25m to build a new production facility with additional office and laboratory space. Even so, it is evident that growth has been substantial even when this investment is excluded, outpacing the equivalent growth seen across Scotland as a whole in the same period. However, it should be noted that this is a relatively volatile series and so too much emphasis should not be placed on a single years' figures.

Table 4.9

Source: Scottish Enterprise

Inward Investment (£m)	2004/05	2007/08	Change 2004/05 - 2007/08	
			No.	%
South of Scotland	£0.9	£33.8	£32.9	3637%
South of Scotland excluding Chirnside Investment	£0.9	£8.5	£7.6	844%
Scotland	£140.8	£263.8	£123.0	87%

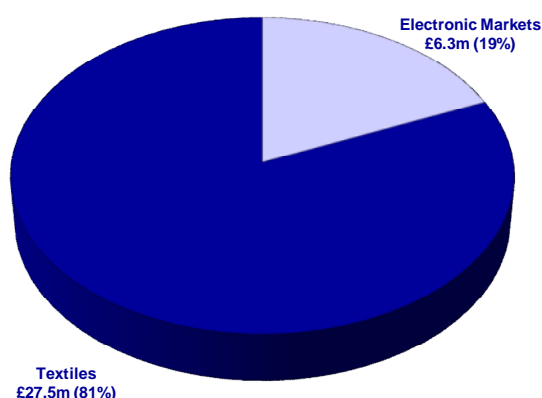
Investment by Sector

Chart 4.11 shows the total value of inward investment within the South of Scotland in 2007/08 by industry sector. Investment in the region over the period was concentrated within only a couple of key sectors. The overwhelming majority of known investment (£27.5m) was in *textiles*, accounting for around four-fifths of the total. This position was again heavily influenced by the afore-mentioned investment by Ahlstrom in Chirnside, Berwickshire. The remaining 19% of investment in 2007/08 was in *electronic markets*.

Chart 4.11

Source: Scottish Enterprise

Value of Known Inward Investment by Industry, South of Scotland 2007/08



Employment Impacts of Investment

The £33.8m of inward investment in the South of Scotland in 2007/08 generated a total of 127 new jobs and safeguarded a further 290 jobs. This means that, in total, the monies were responsible for retaining over 400 jobs in the region. Of the 400 or so jobs created or safeguarded through the investment, 30% were 'high value' and 25% were salaried at £30k or more.

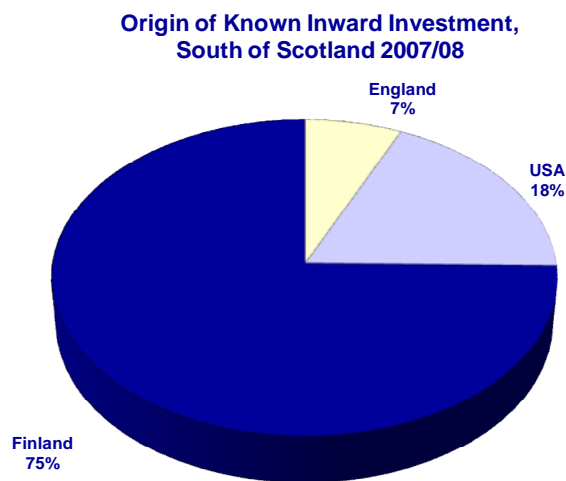
This analysis of the employment impacts of inward investments demonstrates its importance in terms of generating high value / high productivity jobs for the region.

Origins of Investment

Chart 4.12 shows the country of origin of known investors in the South of Scotland in 2007/08. The majority (75%) of investment came from Finland; a further 18% (£6.2m) came from the USA with the remainder coming from England.

Chart 4.12

Source: Scottish Enterprise



4.4.6 Innovation

Innovation is believed to be a key driver of increased productivity and hence economic growth. However, measuring the level of innovation in an economy has traditionally been challenging. A recent NESTA paper⁵ asserted that existing innovation metrics fail to capture the 'hidden innovation' which takes place in services, the public sector and creative industries. Traditional R&D expenditure measures are derived from a time when governments spent heavily on large scale military and scientific projects and are therefore poorly suited to adequately measure innovation in a service based economy NESTA argue.

Innovation is covered in detail in the national review and is examined through three measures widely used as a proxy for innovation. These are:

- Business Expenditure on Research and Development (BERD)
- The Community Innovation Survey
- The research quality of Higher Education Institutions.

Data on BERD at the South of Scotland level is incomplete and the Community Innovation Survey only provides information at the national level. Furthermore, although a number of

⁵ NESTA Policy Briefing – Measuring Innovation – July 2008

HEIs have a presence in the South of Scotland, none are headquartered there, rendering a discussion of research quality irrelevant.

Innovation in the South of Scotland

Three HEIs have a presence in the region:

- The University of Glasgow has four research departments based at the Crichton Campus in Dumfries. Together these focus on sustainability, tourism, health and social issues.
- The University of the West of Scotland is also based at the Crichton Campus and offers a range of advanced study in health and education.
- Heriot-Watt University houses its School of Textiles and Design and part of its School of Management and Languages at its campus in Galashiels. In 2007, the School of Textiles received £32m of investment to upgrade its campus and research facilities.

In 2006, the Scottish Executive published a report which investigated the Scottish Innovation System⁶. The report looked at issues in Scotland in terms of knowledge exploitation, mediation and sharing. The report highlighted that the Innovation System has boundaries (sectoral, conceptual and physical) which effectively exclude both Dumfries & Galloway and Borders from participation. The key weaknesses, in terms of innovation, identified within the South of Scotland were:

- Very low levels of R&D in firms and particularly in the majority of indigenously owned firms;
- Inability within these firms to absorb knowledge and commercialise it;
- A lack of networking both within the business base and with academia;
- Differences in organisational agendas resulting in a mismatch between the activities and strategies of universities and indigenous business sectors;
- Geographical factors, and the location of higher education institutions, resulting in firms in the Highlands and Islands, Borders, and Dumfries and Galloway being excluded from any positive interaction in the innovation agenda; and
- Only where research and incubation facilities are co-located (such as the medical cluster in HIE) is there any evidence of a robust system in rural areas.

A recent study of the innovation system in the South of Scotland identified a number of key recommendations for improving innovation performance⁷. The majority of the recommendations were focussed on the innovation potential offered by the FE/HE institutions in the region. The key recommendations were that the HEIs should become more pro-active in terms of engaging with local businesses and that there are potential opportunities to take a more unified approach to business support from the FE colleges. The report also identifies a need for a greater focus on promoting entrepreneurialism among young people and improved incubation and innovation support for new business start-ups within the FE/HE sectors.

The study identified low levels of collaboration between businesses currently involved in innovation-focused activities within the region as a key weakness, though it acknowledges that this is a fairly typical issue for rural areas, where businesses and innovation expertise are dispersed and often isolated. A key recommendation was to make better use of existing networking opportunities to promote and discuss innovation, both through Scottish networks, as well as links to Northumbria and Cumbria.

⁶ *The Scottish Innovation System: Actors, Roles and Actions*, Scottish Executive, January 2006.

⁷ *South of Scotland Innovation System Initiative*, SQW Consulting, 2008

4.4.7 Conclusions – Increasing Productivity & Competitiveness

Scotland (14th out of 30) and the UK (11th out of 30) both rank in the second quartile for productivity as measured by GVA per employee. The Scottish figure is around 96% of the UK average. GVA per employee in the South of Scotland is well below both the Scottish and UK averages, indicating that the region is currently falling short of the GES target.

To help achieve the GES target, the South of Scotland would need to increase productivity at a rate faster than the highly performing OECD economies. However, there is evidence to suggest that productivity levels in the region have actually been falling in recent years, meaning that the region is unlikely to be in a position to help achieve this target. More positively, the relative performance of the region on this measure is better when compared other rural areas.

- GVA per employee in the South of Scotland amounted to £29,000 per employee in 2006, compared to £35,200 in Scotland and £36,900 in the UK.
- There was a fall of 4% in the level of GVA per employee in the South of Scotland between 1999 and 2006, in contrast to increases of 10% for Scotland and 15% for the UK.
- Productivity is below average across all almost all industry sectors, with the exception of agriculture. The productivity gap is proportionately widest within manufacturing, extraction and utilities.

In terms of the wider drivers identified in the GES, the South of Scotland's performance has been mixed...

- The proportion of South of Scotland residents educated to degree level (28%) is lower than across Scotland as a whole (33%), while slightly more people have no qualifications at all.
- The annual rate of new graduates originally from the region is in line with Scotland as a whole, but relatively few return to the region following graduation, suggesting a lack of graduate opportunities locally.
- Business density levels in the region are high, which is a typical characteristic of predominantly rural areas, partly reflecting the relative importance of agriculture and tourism, where businesses are often small and there is a high incidence of self-employment.
- Inward investment represents an important source of high value jobs and the South of Scotland has performed well on this measure in recent years. In 2007 the region attracted 13% of all Scottish inward investment, well above the area's share of national economic output (4%).

4.5 Increasing labour market participation

Increasing the level of labour market participation in Scotland is the second principal driver of economic growth identified in the Government Economic Strategy. The strategy sets a target **to maintain our position on labour market participation as the top performing country in the UK and close the gap with the five top OECD economies.**

This section provides an overview of labour market participation levels within the South of Scotland and focuses on:

- Resident employment

- Unemployment and Inactivity
- Workless Benefit Claimants.

The region's performance across each of the indicators included within this section is benchmarked against Scotland and GB, rather than the UK. This is because labour market participation data for the UK is not available prior to 2003, meaning that a time series from 1999 is not possible, and the Department for Work and Pensions (DWP) do not hold benefit claimant data for Northern Ireland.

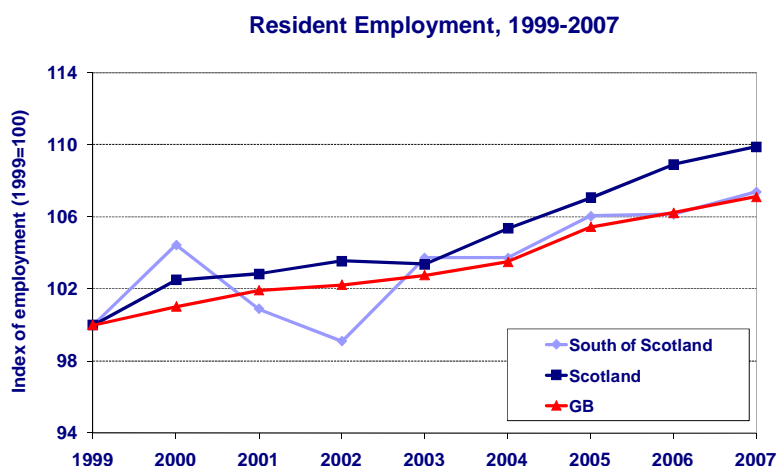
4.5.1 Resident Employment

The total number of South of Scotland residents in work has been increasing at a rate in line with GB, but slower than across Scotland in recent years.

Chart 4.13 shows change in the total number of residents in work in the South of Scotland, Scotland and GB since 1999. In 2007, there were 120,300 South of Scotland residents in work, 7% higher than the total in 1999. This was in line with the growth across GB over the period, but slower than the 10% increase across Scotland.

Chart 4.13

Source: Annual Population Survey, 2005-07; Labour Force Survey, 1999-2004



It should be noted that the figures for resident employment above include those that are self-employed. Looking at this category separately, there were 18,700 self-employed residents in the region in 2007 accounting for 12% of all those in work. This was higher than the equivalent rates of 8% for Scotland and 9% for GB. High rates of self-employment are a common feature of rural areas, where there is greater dependency on primary and tourism sectors where self-employment is particularly prevalent.

Employment Rates

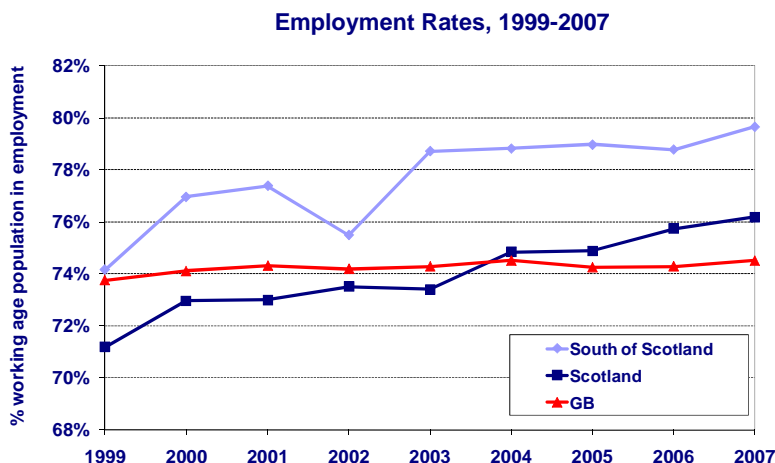
The employment rate in the South of Scotland has been consistently higher than the national averages since 1999.

The 'employment rate' of an area is simply the proportion of the resident working age population that are in work. This is a key labour market participation measure and one of the indicators used to assess Scotland's progress towards the targets set out in the Economic Strategy.

Chart 4.14 shows that the employment rate in the South of Scotland has been consistently above the national averages since 1999. In 2007, the employment rate in the region was 80% - an increase of six percentage points from the position in 1999, and higher than the equivalent rates for both Scotland (76%), and GB (75%). The region is therefore performing well in relation to the national participation target.

Chart 4.14

Source: Annual Population Survey, 2005-07; Labour Force Survey, 1999-2004



4.5.2 Unemployment & Economic Inactivity

Reducing unemployment and economic inactivity lies at the heart of the participation target set by the Scottish Government. This section of the report focuses on trends in unemployment, inactivity and workless benefit claimants using official measures of these groups.

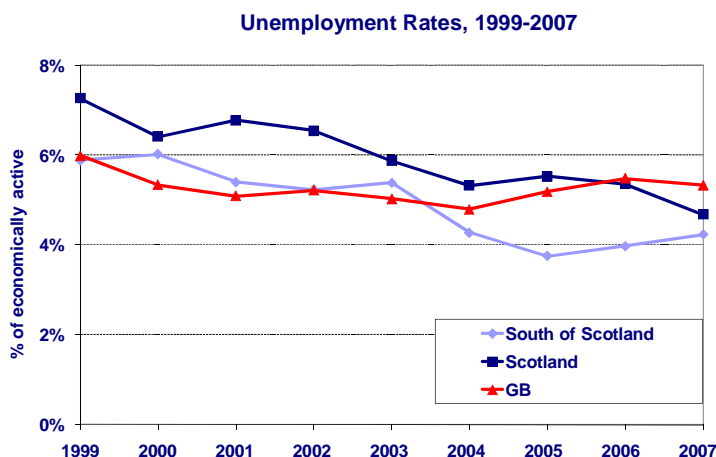
ILO Unemployment

The unemployment rate in the South of Scotland has been consistently lower than across Scotland in recent years.

The International Labour Organisation (ILO) definition of unemployment is the UK Government's preferred measure. This is a count of all jobless people who want to work, are available to work, and are actively seeking employment. In 2007, a total of 4,300 South of Scotland residents were unemployed, representing 4% of the total working age population. Chart 4.15 shows that the unemployment rate has been consistently lower than the Scottish average since 1999.

Chart 4.15

Source: Annual Population Survey, 2005-07; Labour Force Survey, 1999-2004



Economic Inactivity

Economic inactivity rates in the South of Scotland have been consistently below the national averages since 1999.

Economic inactivity is a measure of those of working age that are not in work, but who do not show up on traditional measures of unemployment as they are not actively seeking work. Those that are economically inactive represent a much larger group than the official measure

of unemployment. Table 4.10 shows that a total of 26,400 South of Scotland residents were economically inactive in 2007. This was 18% lower than the total in 1999, a faster rate of decline than across Scotland as a whole, and in contrast to growth in this group across GB.

Table 4.10

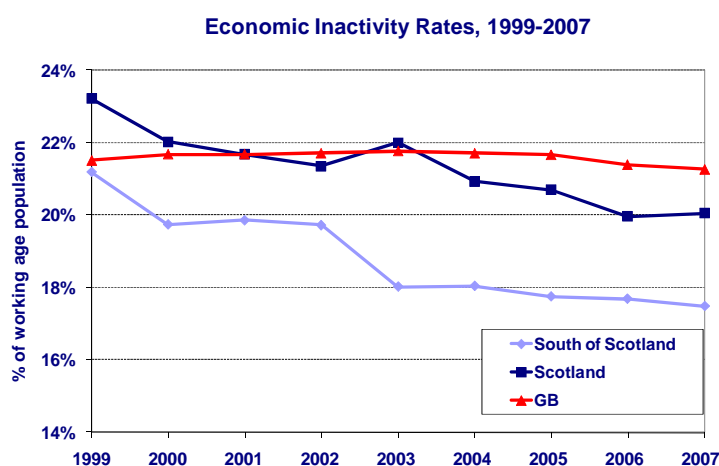
Source: Annual Population Survey, 2007; Labour Force Survey 1999

Economically Inactive, 1999-2007				
	1999	2007	Change 1999-2007	
			No.	%
South of Scotland	32,000	26,400	-5,600	-18%
Scotland	724,000	642,400	-81,600	-11%
GB	7,414,000	7,774,400	360,400	5%

Chart 4.16 shows change in inactivity rates in the South of Scotland, Scotland and GB since 1999. In 2007, just 17% of the working age population in the region were economically inactive – below the equivalent rates for Scotland (20%) and GB (21%). Inactivity levels within the South of Scotland have been consistently lower than both national averages throughout the period.

Chart 4.16

Source: Annual Population Survey, 2005-07; Labour Force Survey, 1999-2004



4.5.3 Workless Benefit Claimants

Relative to Scotland as a whole, the South of Scotland has a smaller proportion of workless benefit claimants.

Table 4.11 shows change in the total number and rate of workless benefit claimants in the South of Scotland, relative to Scotland and GB, since 2000. These figures include those claiming Jobseekers Allowance, incapacity and other disability benefits, lone parents, carers and others on income related benefits.

There were 21,310 South of Scotland residents in receipt of workless benefits in 2008, representing 14% of the working age population. This rate is lower than the equivalent rate for Scotland and in line with that of GB.

The total number of workless benefit claimants in the region has fallen by 7% since 2000 - slower than the rate of decline across Scotland (-15%). However, the claimant rate in the region has remained below the national average throughout the period.

Table 4.11

Source: DWP

Workless Benefit Claimants, 2000-08						
	Claimants 2000		Claimants 2008		Change 2000-08	
	Total	Rate	Total	Rate	No.	%
South of Scotland	22,880	15%	21,310	14%	-1,570	-7%
Scotland	614,480	19%	525,340	16%	-89,140	-15%
GB	5,468,490	16%	5,156,000	14%	-312,490	-6%

Incapacity Benefit

The proportion of South of Scotland residents in receipt of incapacity benefits remains below the Scottish average, although the total number has increased since 2000.

Table 4.12 shows change in the total number and rate of Incapacity Benefit (IB) claimants in the South of Scotland, relative to Scotland and GB, since 2000. There were 10,500 residents in receipt of IB in the region in 2008, equating to a claimant rate of 7%. This was slightly lower than the Scottish average, though higher than the equivalent rate for GB.

The total number of IB claimants in the South of Scotland rose by 1,100 between 2000 and 2008 – resulting in an increase in the claimant rate from 6% in 2000 to 7% in 2008. Across Scotland, there has been a substantial decline of more than 19,000 in the total number of IB claimants, reflecting the increased policy focus on assisting claimants back into work.

Table 4.12

Source: DWP

Incapacity Benefit Claimants, 2000-2008						
	Claimants 2000		Claimants 2008		Change 2000-08	
	Total	Rate	Total	Rate	No.	%
South of Scotland	9,400	6%	10,500	7%	1,100	12%
Scotland	290,800	9%	271,400	8%	-19,400	-7%
GB	2,331,100	7%	2,389,600	6%	58,400	3%

A growing IB population could represent a challenge for the region in terms of future growth, particularly given the relatively small stock of unemployed residents.

Jobseekers Allowance

In line with the national trend, the total number of JSA claimants in the South of Scotland has fallen rapidly in recent years.

Jobseekers Allowance (JSA) is a benefit available to those of working age that are unemployed and seeking work. A total of 3,100 South of Scotland residents claimed JSA in 2008.

Table 4.13 shows change in the total number and rate of JSA claimants in the South of Scotland, relative to Scotland and GB, since 2000. The table shows that there was a rapid decline of more than 2,900 in the total number of JSA claimants in the region over the period – a fall of 49%. This rate of decline outpaced equivalent decreases across both Scotland and GB.

As a result of this decline, the JSA claimant rate in the region halved from 4% in 2000, to just 2% in 2008. The claimant rate in the region has been below the equivalent rates for both Scotland and GB throughout the period.

Table 4.13

Source: DWP

JSA Claimants, 2000-08						
	Claimants 2000		Claimants 2008		Change 2000-08	
	Total	Rate	Total	Rate	No.	%
South of Scotland	6,000	4.0%	3,100	2.0%	-2,900	-49%
Scotland	133,500	4.2%	76,100	2.4%	-57,400	-43%
GB	1,183,000	3.4%	824,300	2.3%	-358,700	-30%

It should be noted that, in the twelve months since these figures were gathered, there has been a steep rise in the totals claiming JSA across all areas.

4.5.4 Commuting

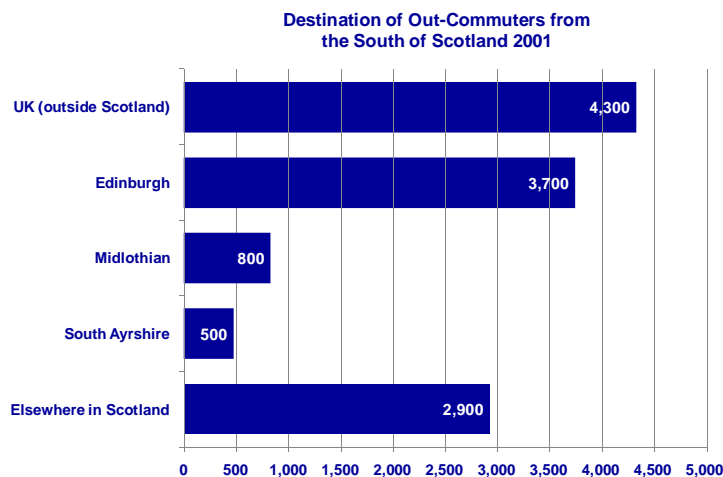
The only reliable source of commuting data remains the 2001 Census. In 2001, 10% of all employed residents in the South of Scotland worked outside the region. In addition, 4% of the

region's workforce commuted in from elsewhere. The region is therefore a net-exporter of labour.

Chart 4.17 shows the destination of out-commuters from the region in 2001. More than 4,300 people (35% of the total) worked elsewhere in the UK, mainly in the North of England. Carlisle was the most population destination for out-commuters from Dumfries & Galloway.

Chart 4.17

Source: Census 2001, Origin-Destination Statistics



One in every three commuters from the region worked in Edinburgh, the vast majority (97%) of which were from the Borders. More than 800 residents worked in Midlothian; again these came mainly from the Borders. Around 500 residents, mainly from Dumfries & Galloway, worked in South Ayrshire in 2001.

Analysis of commuting flows **within** the South of Scotland shows that there is very little movement of labour between Dumfries & Galloway and the Borders. Less than 300 Borders residents worked in Dumfries & Galloway in 2001 and less than 200 people commuted the other way. This low level of movement can be partly explained by the fact that these areas have very similar industrial structures so that the job opportunities available within each are broadly similar. An additional constraint on commuting within the region is the relatively weak transport & road connectivity between the areas.

4.5.5 Conclusions - Increasing labour market participation

The employment rate in the South of Scotland has consistently outperformed the Scottish and GB averages between 1999 and 2007. As a result, the region is already making a positive contribution to the national target.

Looking to the future, Oxford Economics' forecasts suggest that labour market participation levels in the South of Scotland will remain above the national averages over the decade ahead.

- The labour market in the South of Scotland is currently operating at the Government's definition of 'full employment' with 80% of all working age residents in work. This compares to a Scottish average of 76% and a GB figure of 75%.
- The employment rate in the South of Scotland was consistently higher than both national averages between 1999 and 2007.
- In line with the national trend, we predict a short-term fall in economic activity levels in the region over the next couple of years. However, the economic activity rate is expected to remain comfortably above the national averages over the decade ahead.

Ahead of the recession, the South of Scotland outperforms the Scottish average across the key measures of economic inactivity and benefit dependency, although the number of incapacity benefit claimants is increasing...

- ILO unemployment within the South of Scotland was 4% in 2007, compared to 5% in Scotland and the UK. The number of economically inactive people fell by 5,600, a fall of 18% compared to a fall of 11% in Scotland.
- However, while the rate of Incapacity Benefit claimants remains below the Scottish average, the total number in the region has been growing in recent years, in contrast to a rapid fall in the number of Jobseekers Allowance claimants.
- The South of Scotland is a net-exporter of labour, with 10% of employed residents working outside the area in 2001. Carlisle is the most popular destination for out-commuters from Dumfries & Galloway, whilst large numbers of Borders residents work in Edinburgh & the Lothians.

4.6 Increasing Population

Population growth is a key contributor to, and consequence of, economic performance – and is the third principal driver of economic growth identified in the Government Economic Strategy. The GES sets out a clear target for Scotland in the future **to match European (EU-15) population growth over the period from 2007 to 2017**. Scottish Population increased by 1% between 1999 and 2007, compared to an increase of 4% in the EU 15 population between 1995 and 2005.

This section looks at population trends within the South of Scotland and covers:

- Total Population
- Components of Population Change
- Age Structure of the Population
- Population Projections

Total Population

The population of the South of Scotland has been growing at a rate faster than across Scotland as a whole, but slower than UK, in recent years.

Table 4.14 shows that the South of Scotland population totalled 259,700 in 2007, 2% higher than in 1999. This rate of growth was slightly faster than the equivalent growth across Scotland, but slower than across UK as a whole.

Table 4.14

Source: GRO (Scotland) and ONS

Total Population, 1999-2007				
			Change 1999-2007	
	1999	2007	No.	%
South of Scotland	254,000	259,700	5,700	2%
Scotland	5,072,000	5,144,200	72,300	1%
UK	58,684,400	60,975,400	2,291,000	4%

Figures may not sum to totals as each figure is individually rounded to nearest 100

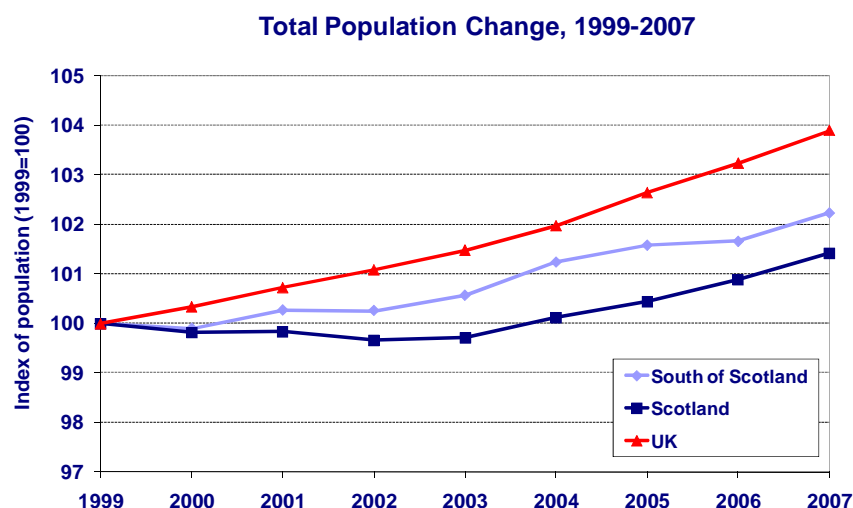
There are differences in population trends between the two local authorities within the South of Scotland. The population of Dumfries & Galloway was the same in 2007 than in 1999, in contrast to strong growth of 5% in the population of the Borders over the period.

Chart 4.18 shows trends in total population levels in the South of Scotland, Scotland and the UK since 1999. It shows that:

- the region has experienced consistent population growth throughout the majority of the period and this appears to have accelerated in recent years;
- the long term decline in Scotland's population has been reversed and the country as a whole has experienced some population growth in recent years; and
- there has been consistent population growth across the UK over the past decade.

Chart 4.18

Source: GRO (Scotland) and ONS



The strong population growth experienced in the South of Scotland in recent years can be attributed to net in-migration. Natural change, that is the difference between births and deaths, has actually been negative throughout the period.

Working Age Population

The working age population in the South of Scotland has increased slightly since 1999.

Table 4.15 shows change in the working age population in the South of Scotland, Scotland and the UK since 1999. The working age population is defined as men aged 16-64 and women aged 16-59.

The working age population of the region grew by 1% over the period, slower than the equivalent growth rates of 3% for Scotland and 6% for the UK. The slower growth in the working age population suggests that in-migration to the region over the period has been concentrated among non-working age groups.

Table 4.15

Source: GRO (Scotland) and ONS

Working Age Population, 1999-2007				
			Change 1999-2007	
	1999	2007	No.	%
South Region	149,900	151,900	2,000	1%
Scotland	3,143,800	3,226,600	82,800	3%
UK	35,927,700	37,904,500	1,976,800	6%

Figures may not sum to totals as each figure is individually rounded to nearest 100

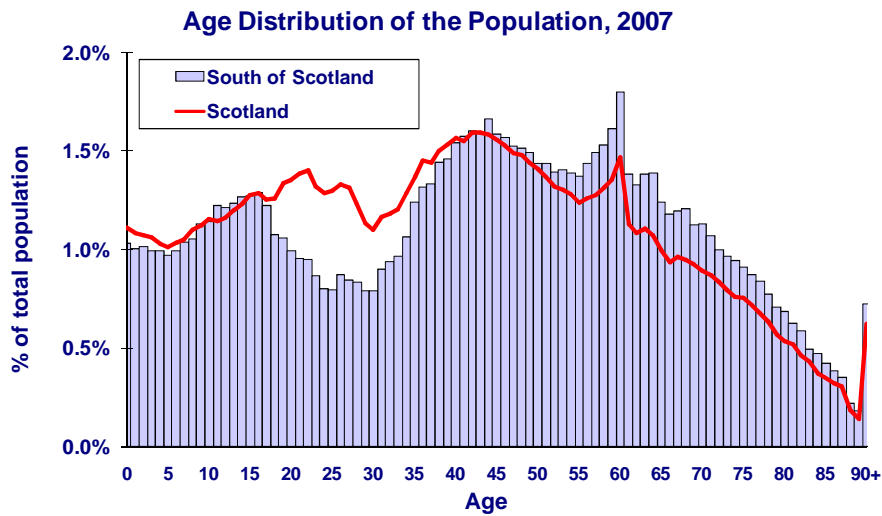
Age Distribution

Relative to Scotland as a whole, the population of the South of Scotland is characterised by fewer young adults and above average numbers of residents over the age of 50.

Chart 4.19 shows the current age distribution of the population in the South of Scotland, relative to Scotland as a whole.

Chart 4.19

Source: GRO (Scotland)



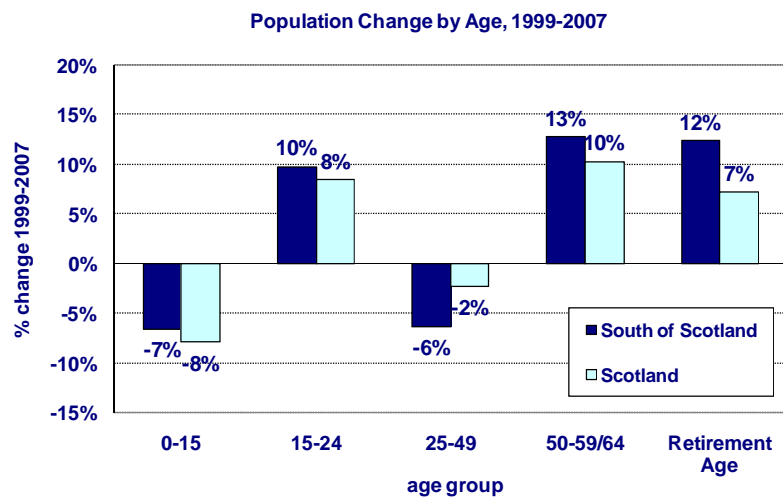
The South of Scotland has fewer residents in their 20s and 30s (the 'prime' working age group) compared to Scotland as a whole. The region also has above average proportions of residents over the age of 50 and above retirement age.

Population Change by Age

There have been important changes in the age structure of the population in both South of Scotland and Scotland over the past decade, as shown in Chart 4.20.

Chart 4.20

Source: GRO (Scotland)



This analysis shows:

- greatest population increases among those over the age of 50 in both the South of Scotland and Scotland as a whole;
- a marked decrease in the number of residents in the 'prime' working age group of 25-49 in the region; therefore
- The South of Scotland appears to be experiencing an even more severe ageing of the population than that witnessed across Scotland as a whole.

Population Projections

The population of the South of Scotland is expected to continue to grow over the coming decade according to the most recent official population projections.

Total population is expected to reach 266,100 by 2018, 3% higher than the total in 2008. This is in line with the rate of growth expected for Scotland as a whole over the coming decade, though slower than the 7% increase expected for the UK, as shown in the table and chart below.

Chart 4.21

Source: GRO (Scotland) and ONS

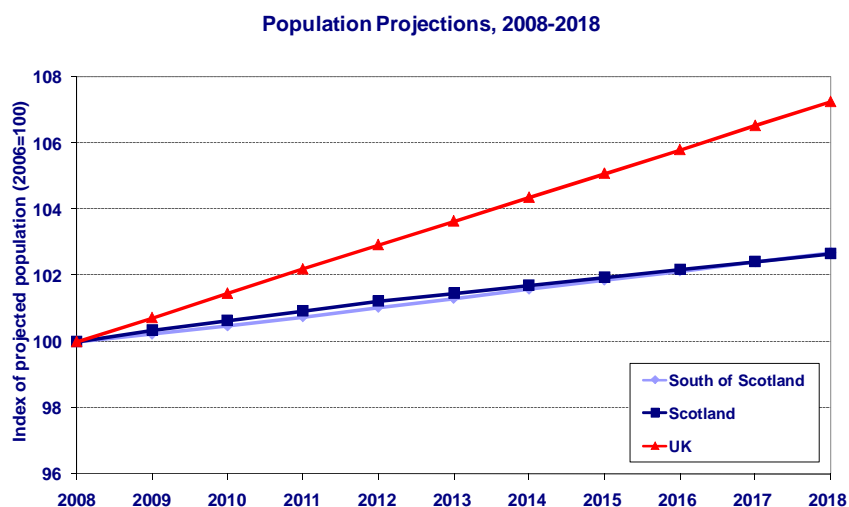


Table 4.16

Source: GRO (Scotland) and ONS

Population Projections, 2008-18				
			Change 2008-18	
	2008	2018	No.	%
South of Scotland	259,200	266,100	7,000	3%
Scotland	5,157,100	5,294,300	137,200	3%
UK	61,411,700	65,867,200	4,455,500	7%

Figures may not sum to totals as each figure is individually rounded to nearest 100

4.6.1 Conclusions – Increasing Population

Population growth in the South of Scotland was 2% between 1999 and 2007 – this compares to population growth of 1% across Scotland over the same period. Over the last ten years for which data is available (1995 – 2005) the EU 15 population increased by 4%.

Looking to the future, our forecasts suggest that the population of the South of Scotland will grow by around 2% between 2008 and 2018. The region is unlikely to make a contribution to the GES target in the absence of increased in-migration.

- Population growth in the South of Scotland has outpaced Scotland as a whole in recent years, though has been slower than the strong growth experienced across the UK.
- Growth has been driven by in-migration to the region, though this has been concentrated among older age groups – growth in the working age population has been relatively slow.
- The population of the South of Scotland is characterised by a notable gap in the number of young adults in their 20s and 30s. In addition, the region has an above average number of residents over the age of 50 and above retirement age.
- The population growth witnessed in the South of Scotland is predicted to continue at a similar rate over the next decade, according to official population projections. A challenge will be to attract and retain a higher proportion of working age residents than has been the case in recent years.

4.7 Ensuring that Growth is Shared and Sustainable

The Government Economic Strategy sets out a set of desired characteristics for equitable economic growth in Scotland. These fall under the categories of:

- Solidarity
- Cohesion
- Sustainability

This chapter looks at the performance of the South of Scotland in relation to each these desired characteristics.

4.7.1 Solidarity

The Government Economic Strategy identifies *persistent levels of inequality* as one of the biggest challenges facing the economy. The GES sets a specific target **to increase overall income and the proportion of income earned by the three lowest deciles as a group by 2017**. The preferred measure used by the Scottish Government, however, to track the GES target is not yet available at a sub-national level.

This section considers the South of Scotland's performance in relation to levels of solidarity and covers:

- Median Weekly Earnings – All People
- Median Weekly Earnings – Full-Time Workers
- Household Income
- Deprivation

Median Weekly Earnings – All People

The median earnings of those working in the South of Scotland are lower than across Scotland as a whole, and there are some disparities between the constituent parts of the region.

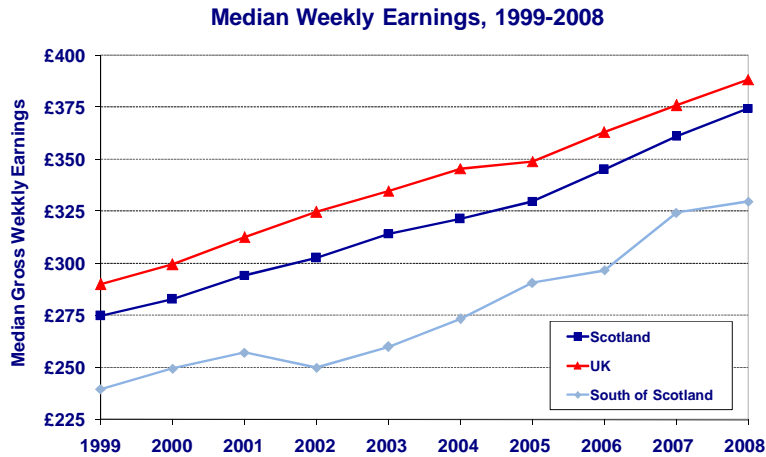
All of the figures in this section refer to the **median** weekly earnings of all those in employment, including both full-time and part-time workers. Median is the preferred measure (over mean) for earnings data as it is influenced less by extreme values and because of the skewed distribution of earnings data.

The Chart and Table below show change in median weekly earnings in the South of Scotland, relative to Scotland and the UK since 1999.

- Median weekly earnings in the region amounted to £330 in 2008;
- This was well below the equivalent figures of £375 for Scotland, and £388 for the UK; and
- Wage levels have been consistently below the national levels since 1999.

Chart 4.22

Source: Annual Survey of Hours and Earnings, ONS



The figures above are *workplace-based*, that is, they refer to the earnings of all those employed in the South of Scotland rather than the earnings of residents. The median earnings of residents of the region were £349 in 2008. This was 6% higher than the workplace median suggesting that residents commuting out of the region for work are concentrated in higher paying jobs.

Table 4.17

Source: Annual Survey of Hours and Earnings, ONS

	Median Weekly Earnings, 1999-2008		Change 1999-2008	
	1999	2008	No.	%
South of Scotland	£240	£330	£90	38%
Scotland	£275	£375	£100	36%
UK	£290	£388	£98	34%

It should be noted that the headline figure for the South of Scotland masks variations between the constituent local authority areas that make up the region. Median weekly earnings for those working in Dumfries and Galloway are 7% higher than the regional median, whilst in the Borders they are around 7% lower.

Median Weekly Earnings – Full-Time Workers

The earnings of full-time workers in the South of Scotland are also lower than across Scotland as a whole, though growth has kept pace with Scotland and the UK in recent years.

The previous section looked at the median earnings of all those employed in the South of Scotland. This section looks at the median earnings of **full-time workers** living in the region. Full-time workers are defined as those who work more than 30 paid hours per week or those in teaching professions working 25 paid hours or more per week.

Table 4.18 shows change in the median earnings of full-time workers in the South of Scotland between 2002 and 2008, relative to Scotland and the UK. The earnings of those working full-time in the South of Scotland are lower than across both Scotland and the UK. However, the increase in median earnings of full-time workers between 2002 and 2008 was slightly faster in the region than across both Scotland and the UK.

Table 4.18

Source: Annual Survey of Hours and Earnings, ONS

	Median Weekly Earnings of Full-Time Workers		Change 2002-2008	
	2002	2008	No.	%
South of Scotland	£340	£436	£96	28%
Scotland	£369	£462	£93	25%
UK	£391	£479	£88	22%

Household Income

Average household income in the Borders is broadly in line with the equivalent figure for Scotland. However, Dumfries & Galloway falls some way short of the national average on this measure.

Average weekly workplace earnings covers only the income of those who are in employment. Gross Disposable Household Income (GDHI) is a measure of the total amount of money available to each person in the household after taking account of all types of income, and allowing for essential financial outgoings.

GDHI figures are not available for the South of Scotland region as a whole, but are available separately for the areas within the region. Table 4.19 shows average household income levels for the Borders and Dumfries & Galloway, relative to Scotland and the UK.

In 2006, average household income in the Borders was £13,300 per person – broadly in line with the Scottish average. The equivalent figure for Dumfries & Galloway was £11,700, amounting to 89% of the Scottish average and just 85% of the UK average of £13,800.

Growth in average household income levels in the Borders has outpaced the national averages since 1999. However, growth in Dumfries & Galloway has been much slower on this measure meaning that the gap with the national averages has widened in recent years.

Table 4.19

Source: ONS

Gross Disposable Household Income, 1999-2006						
			% of Scotland's GDHI	Change 1999-2006		
	1999	2006		No.	%	
Borders	£9,400	£13,300	102%	£3,800	41%	
Dumfries & Galloway	£9,100	£11,700	89%	£2,500	28%	
Scotland	£9,700	£13,100	100%	£3,400	35%	
UK	£10,400	£13,800	-	£3,400	33%	

Figures may not sum to totals as each figure is individually rounded to nearest 100

4.7.2 Conclusions – Solidarity

The preferred measure used by the Scottish Government to track the GES target is not yet available at a sub-national level. However, median earnings in the South of Scotland are below the national average, though the region compares more favourably with other rural areas on this measure.

- The median weekly earnings of those working in the South of Scotland were £330 in 2008. This was well below the median figures for Scotland (£375) and the UK (£388).
- Median wage levels of those working in the South of Scotland have been around 12% lower than across Scotland as a whole, and around 15% lower than across the UK, since 1999. However, they are mid-range when compared to other rural benchmark areas.
- Average household income levels in the Borders are broadly in line with the national average, though in Dumfries & Galloway they are somewhat below. This suggests that many Borders residents are benefiting from access to a pool of higher wage jobs located in Edinburgh.

4.7.3 Cohesion

The GES identifies low participation rates in some regions as a drag on Scotland's overall economic performance. The Cohesion target focuses on the need to address regional disparities in labour market performance and sets a specific target **to narrow the gap in participation between Scotland's best and worst performing regions by 2017.**

This section looks at the level of cohesion within the South of Scotland and covers:

- Participation
- Deprivation

Participation

The indicator identified within the National Performance Framework for measuring progress towards the GES cohesion target is the employment rate. The extent of progress will be measured by the reduction in the percentage difference between the three local authority areas with the lowest rate and the three with the highest rate.

Table 4.20 shows that the employment rate in the Scottish Borders is one of the best in the country while Dumfries and Galloway sits broadly in the middle of the spectrum, relative to the best and poorest performing local authority areas.

Table 4.20

Source: ONS

Best & Worst Employment Rates in Scottish LA's, 2007			
	Local Authority Area	Rate 2007 (%)	Ranking 2007
Top 3	Shetland Islands	87.7	1
	Orkney Islands	84.1	2
	Highland	84.0	3
	Scottish Borders	81.9	5
	Dumfries & Galloway	77.9	18
Bottom 3	North Ayrshire	70.6	30
	Clackmannanshire	69.3	31
	Glasgow City	68.0	32

Deprivation

As well as increasing the employment rate of those areas with low labour market participation levels, the Scottish Government has also identified reducing deprivation and social exclusion as a national priority.

The Scottish Index of Multiple Deprivation (SIMD) is the Scottish Government's official measure for identifying small area concentrations of multiple deprivation across all of Scotland. The SIMD is relevant to policies and funding wholly or partly aimed at tackling or taking account of the causes and effects of concentrations of multiple deprivation.

Table 4.21 shows that the South of Scotland was home to 14 of the 15% most deprived neighbourhoods in Scotland in 2006. To look at this information in another way, 4% of the region's population live in these areas. In other words, the South of Scotland has below average levels of deprivation.

Table 4.21

Source: Scottish Index of Multiple Deprivations (SIMD)

Concentration of Deprivation, 2006						
	Most deprived 5% of data zones			Most deprived 15% of data zones		
	No. of zones	Population No.	%	No. of zones	Population No.	%
South of Scotland	2	1,672	1%	14	10,938	4%
Scotland	325	246,052	5%	976	751,130	15%

4.7.4 Conclusions – Cohesion

The South of Scotland has a comparatively high employment rate, relative to Scotland as a whole. The Borders has one of the highest employment rates in the country, while Dumfries & Galloway sits broadly in the middle of the spectrum relative to the best and poorest performing local authority areas.

This suggests that the main challenge for the region lies in increasing participation to 2017 in Dumfries & Galloway.

- Between 1995 and 2006 the gap in the employment rate between the best and worst LA areas in Scotland fell from 22% to 16%. In 2007, the gap stood at 15%.
- The Borders employment rate of 81.9% ranks it the fifth-highest out of the 32 local authorities in Scotland. At 77.9% (18th placed out of 32), Dumfries & Galloway sits broadly in the middle of the spectrum, relative to the best and performing local authority areas.
- Just 1% of the population in the South of Scotland live in the 5% most deprived data zones in Scotland, while only 4% live in the 15% most deprived data zones

4.7.5 Sustainability

The GES identifies the quality of Scotland's environment and natural heritage as a key asset and source of competitive advantage. It states that economic growth should not occur at the expense of this and has set a target **to reduce emissions over the period to 2011 and to reduce emissions by 80% by 2050.**

This section looks at the South of Scotland's performance in relation to sustainable growth and covers:

- CO² Emissions
- Waste Recycling

CO² Emissions

The rate of CO² emissions per head of population in the South of Scotland is lower than across Scotland and the UK.

The South of Scotland was responsible for generating 1,900kt of CO² emissions in 2006, representing 4% of all Scottish emissions⁸. This amounted to 7 tonnes per head of population, below both the Scottish and UK averages (8.5 and 8.8 respectively).

⁸ This is an adjusted total which takes account of factors such as land use and forestry, which offset some of the total carbon dioxide produced by the region.

Table 4.22 shows how CO² emissions are disaggregated by sector within the South of Scotland relative to Scotland and the UK. It shows that industrial and commercial activities account for a lower share of emissions from the region than across Scotland and the UK. Road transport emissions account for a higher share, reflecting the high levels of car usage common to rural areas.

There appears to have been an increase of more than 3% in the total level of emissions from the region between 2005 and 2006, although care should be taken when interpreting such a limited data set. This upward trend will have to be reversed if the region is to make a positive contribution to the national target.

Table 4.22

Source: DEFRA

CO ² Emissions 2006					
	Total Emissions (kt)	% Industry & Commercial	% Domestic	% Road Transport	% Change since 2005
South of Scotland	1,900	38%	25%	37%	3.2%
Scotland	43,500	47%	30%	24%	0.8%
UK	531,700	46%	29%	25%	-0.1%

Waste Recycling

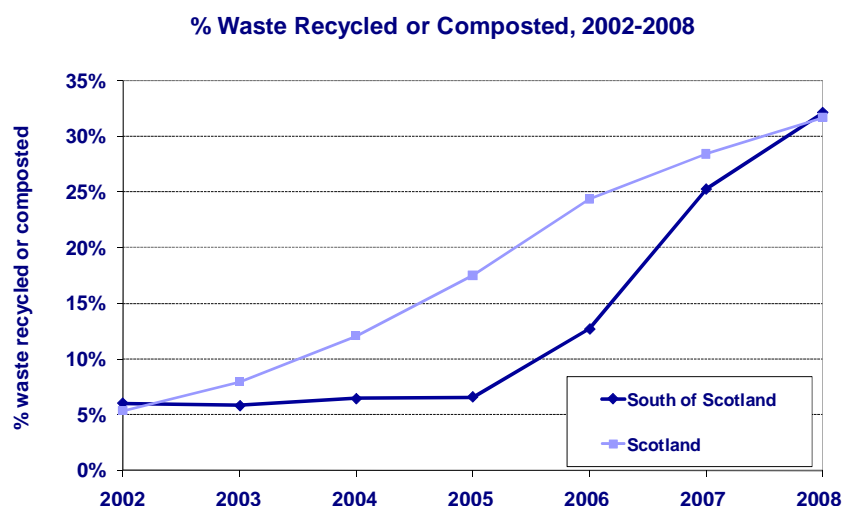
The proportion of waste that is recycled or composted has increased rapidly in recent years, both in the South of Scotland and across Scotland as a whole.

The Scottish Government have announced their commitment to reducing the amount of waste currently sent to landfill. In relation to this, they have set long term targets **to increase the level of waste recycled or composted to 70%, and to decrease the levels sent to landfill to just 5%, by 2025.**

In 2008, a third of all waste from the South of Scotland was recycled or composted – broadly in line with the national average. Chart 4.23 shows that this has increased rapidly in recent years from a rate of just 5% in 2002. Both the South of Scotland and Scotland as a whole still have some way to go to meet the 70% target, but if the recent upward trend can be maintained this is likely to be achievable.

Chart 4.23

Source: Scottish Environment Protection Agency (SEPA)



4.7.5 Conclusions – Ensuring Growth is Sustainable

Data on the government's preferred measure of Greenhouse Gases is not available at the sub-national level, though some regional data on CO² emissions is available. The South of Scotland accounts for just 4% of all Scottish CO² emissions, while emissions per 1,000 of population are lower than the equivalent national averages.

Although based on a limited dataset, it appears that the level of CO² emissions from the region increased between 2005 and 2006.

- At 7 tonnes per head of population, the rate of CO² emission from the South of Scotland is one of the lowest of all the SE regions and also lower than the Scottish and UK averages (8t and 9t respectively).
- The total volume of CO² emissions from the South of Scotland increased by 3% between 2005 and 2006, in contrast to little change across Scotland and the UK. However, care should be taken in interpreting any trend however from such a limited data set.
- Around a third of all waste from the South of Scotland and Scotland was recycled or composted in 2008 – roughly a six fold increase from the level in 2002.

5. Benchmarking

5.1 Introduction

In this section, the economic performance of the South of Scotland is compared to that of four other benchmark regions across the key indicators of:

- GVA Growth
- Productivity
- Labour Market Participation
- Population
- Wage Levels
- CO² Emissions

This analysis provides an overview of the relative economic strengths and weaknesses of the regional economy. Across each indicator, the South of Scotland will be benchmarked against:

- Highlands & Islands
- Cornwall & Isles of Scilly
- Cumbria
- Northumberland
- Scotland and the UK

The table below sets out a brief description of each of the regions and the reason they have been chosen as suitable benchmark areas for the South of Scotland.

Benchmarking Areas for the South of Scotland	
Area	Description & Justification
Highlands & Islands	The Highlands & Islands region shares many similarities with the South of Scotland; it is located on the periphery of the country and is predominantly rural, with a very dispersed settlement pattern and high dependence on traditional / agricultural industries. However, unlike the South, the Highlands & Islands region contains a small city in Inverness.
Cornwall & Isles of Scilly	Cornwall is a County located on the South West periphery of England. The area is essentially rural in character, with farming being the mainstay of the economy over much of the region and agriculture the predominant land use.
Cumbria	Cumbria is located in the North West of England and is a predominantly rural area with the second lowest population density in England. Cumbria was selected as a benchmark on account of its close proximity and existing economic links with the South of Scotland.
Northumberland	Northumberland is a county within the North East of England. The area contains a number of market towns, although there is no city, and is sparsely populated. The region has current economic links with the South of Scotland.

5.2 GVA Growth

GVA growth in the South of Scotland has outpaced Cumbria and Northumberland in recent years, but has lagged behind that achieved in the Highlands & Islands and Cornwall.

Table 5.1 shows the total level of economic output (as measured by GVA) from the South of Scotland relative to each of the benchmark regions, as well as average annual GVA growth rates since 1999.

In 2006, economic output from the South of Scotland amounted to £3.5bn. Since 1999, economic output from the region has grown at an average annual rate of 4.4%, below both the Scottish and UK averages. However, the region outperformed Cumbria and Northumberland on this measure, though fell behind the Highlands & Islands and Cornwall.

Table 5.1

Source: ONS and SLIMS Calculations

Gross Value Added (GVA)*		
	Total GVA 2006 (£bn)	Average Annual GVA Growth 1999-2006
South of Scotland	3.5	4.4%
Highlands & Islands	6.2	6.0%
Cornwall & Isles of Scilly	6.3	6.6%
Cumbria	7.0	3.5%
Northumberland	3.8	4.0%
Scotland	93.4	4.8%
UK	1,177	5.2%

* refers to GVA at current prices

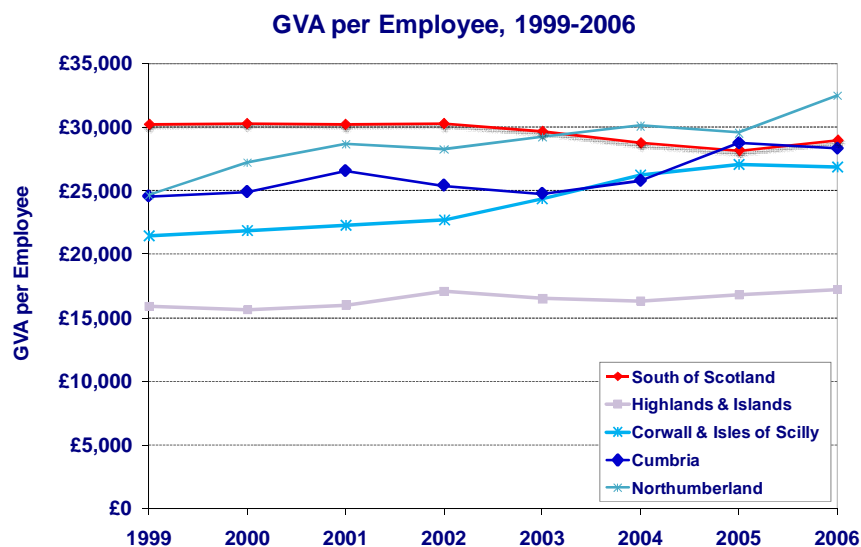
5.3 Productivity

Productivity levels in the South of Scotland are below the national averages, though compare favourably with the other benchmark regions.

Chart 5.1 shows change in productivity levels (as measured by GVA per employee) in each of the regions between 1999 and 2006. In 2006, the average level of GVA generated per employee in the South of Scotland was £29,000. This was above the averages for each of the benchmark regions, with the exception of Northumberland. Between 1999 and 2006, productivity levels in the South of Scotland fell by 4% in contrast to growth across each of the other regions.

Chart 5.1

Source: ONS and SLIMS Calculations



5.4 Labour Market Participation

The South of Scotland performs well in terms of labour market participation, with a high employment rate alongside low levels of unemployment and inactivity.

Table 5.2 compares the labour market performance of the regions across the key indicators of employment, unemployment, inactivity and workless benefit claimant rates. The South of Scotland performs well in relation to each of these measures, with particularly low levels of economic inactivity. The only other region with a higher employment rate is Highlands & Islands.

Given that the local labour market is already performing at the government's definition of full employment (80%), this analysis suggests that the potential labour supply within the South of Scotland is smaller than some of the other regions, which may represent a challenge in terms of future growth.

Table 5.2

Source: Annual Population Survey & DWP

Labour Market Participation 2007				
	Employment Rate	Unemployment Rate	Economic Inactivity Rate	Workless Benefit Claimant Rate
South of Scotland	80%	4.2%	17%	14%
Highlands & Islands	83%	2.7%	15%	13%
Cornwall & Isles of Scilly	75%	4.9%	21%	14%
Cumbria	78%	3.5%	19%	14%
Northumberland	75%	5.3%	20%	15%
Scotland	76%	4.7%	20%	16%
UK	75%	5.3%	21%	14%

5.5 Population

The rate of population growth in the South of Scotland has been broadly in line with the other regions in recent years, with the exception of Cornwall which grew rapidly between 1999 and 2007.

Table 5.3 shows total population and population change over the period 1999 to 2007 across each of the regions. There were around 260,000 people living in the South of Scotland in 2007, 2% higher than the total in 1999. This rate of growth was broadly in line with the other comparator regions, apart from Cornwall where population grew rapidly by 8% over the period.

Table 5.3

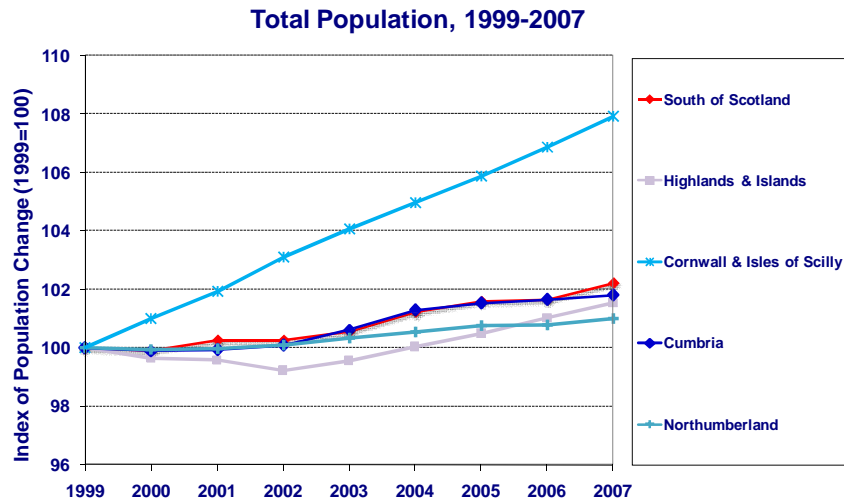
Source: GRO (Scotland) & ONS

Total Population		
	Total Population 2007	Change 1999-2007
South of Scotland	259,700	2%
Highlands & Islands	463,770	2%
Cornwall & Isles of Scilly	531,700	8%
Cumbria	496,900	2%
Northumberland	310,600	1%
Scotland	5,144,200	1%
UK	60,975,400	4%

Chart 5.2 shows population change across each of the regions since 1999. There has been strong, consistent, population growth within Cornwall throughout the period. The majority of the growth within the other regions has occurred since 2002.

Chart 5.2

Source: GRO (Scotland) & ONS



5.6 Wage Levels

Median wage levels in the South of Scotland are below the national levels, but compare favourably with some of the benchmark regions.

Table 5.4 compares the median earnings of all those working in the South of Scotland (including both full-time and part-time workers) with each of the benchmark regions, as well as Scotland and the UK. Median earnings in the South of Scotland fall substantially short of the national figures.

However, the region performs well on this measure in comparison to Cornwall and Northumberland. Cumbria and the Highlands & Islands have the highest wage levels of each of the benchmark regions, though these also fall below the national level.

Table 5.4

Source: Annual Survey of Hours & Earnings, ONS

Workplace Earnings 2008	
	Median Gross Weekly Earnings
South of Scotland	£330
Highlands & Islands	£351
Cornwall & Isles of Scilly	£307
Cumbria	£357
Northumberland	£303
Scotland	£375
UK	£388

5.7 CO² Emissions

The South of Scotland generates relatively low levels of CO² emissions in comparison to the other benchmark regions.

Table 5.5 shows total CO² emissions from each of the regions in 2006 and the percentage change from the previous year. It also shows total emissions per head of population and industrial emissions as a proportion of economic output (GVA).

In 2006, the South of Scotland generated 1,900kt of CO², which amounted to 7 tonnes per 1,000 population. This was much lower than the equivalent rates for both Northumberland and Cumbria and broadly in line with Cornwall and the Highlands & Islands.

With regard to industrial CO² levels, the South of Scotland again generates much lower levels of emissions than Cumbria and Northumberland, which are home to a higher concentration of industrial activities. Cornwall has the lowest rate of industrial emissions of all the benchmark areas.

Table 5.5

Source: DEFRA

CO² Emissions				
	Total CO² Emissions 2006 (kt)	% Change in CO² Emissions 2005-06	Total CO² per head of Population	Industrial CO² per £1,000 GVA
South of Scotland	1,900	3%	7	323
Highlands & Islands	2,793	-2%	6	331
Cornwall & Isles of Scilly	4,296	1%	8	246
Cumbria	6,475	-4%	13	447
Northumberland	5,740	5%	18	1,100
Scotland	43,500	1%	8	238
UK	531,700	0%	9	208

5.8 Conclusions - Benchmarking

This analysis has shown that, although the South of Scotland lags behind Scotland and the UK on some of the key indicators set out in the National Performance Framework for Scotland, it performs well on these measures in relation to some other rural areas across the UK.

In particular, the South of Scotland has underperformed relative to the national averages across the key economic indicators of GVA growth and productivity. However, the region compares favourably on these measures relative to other rural areas within the UK that have similar industrial structures. Similarly, despite being lower than across both Scotland and the UK, wage levels in the South of Scotland are around average for a predominantly rural economy. With regard to population, the recent upward trend in the region has been similar to that experienced in the Highlands & Islands, Cumbria and Northumberland.

6. Industrial Structure

6.1 Introduction

This section looks at the industrial structure of the South of Scotland in terms of the number and types of jobs available and performance across the key sectors outlined in the Government Economic Strategy and other growth sectors supported by Scottish Enterprise. It will cover:

- Total Employment
- Industrial Structure
- Key and Other Growth Sectors
- Detailed Analysis of 3 Sectors

The employment data within this section is based on the Annual Business Inquiry (ABI), published by the Office for National Statistics. It is the government's preferred source of information on industrial structure and employment levels. ABI figures are not available for the UK as a whole and so the region's performance has been benchmarked against Scotland and GB.

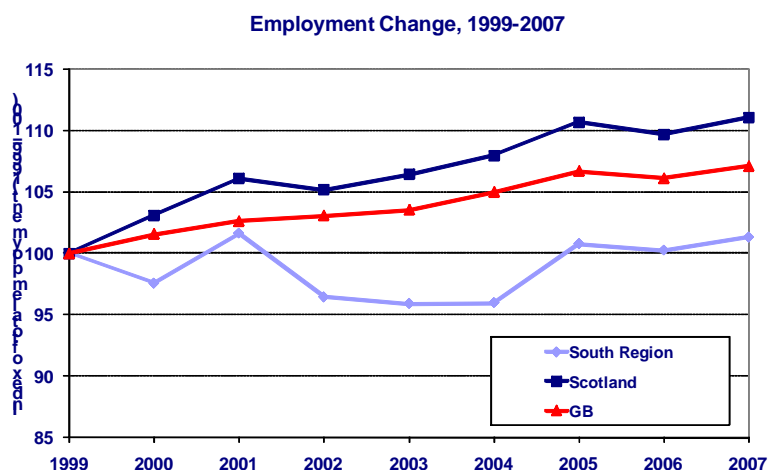
6.2 Total Employment

The South of Scotland has achieved limited jobs growth in recent years, in contrast to strong growth nationally.

Chart 6.1 shows the change in the total number of jobs located within the South of Scotland, relative to Scotland and GB, since 1999. In 2007, there were 102,600 jobs in the region representing an increase of just 1% from the total in 1999. This contrasts with the growth rates of 11% for Scotland and 7% for GB.

Chart 6.1

Source: Annual Business Inquiry



6.2.1 Employment by Gender and Type

Table 6.1 shows employment change in the South of Scotland by gender and type since 1999. There were 1,100 more women working in the region in 2007 than in 1999, an increase of 2%. There compares to an increase of just 300 in the number of men working in the region over the period, growth of 1%.

The expansion of the South of Scotland economy has been primarily the result of growth in part time work. There were 2,200 more part-time jobs in the region in 2007 than in 1999, in contrast to a decline of 900 in the number of full-time posts.

The differences in the types of employment taken by men and women do remain. More than half (53%) of women employees in the region worked part-time in 2007, more than three times the proportion among men (17%). The proportion of men working part-time increased from 14% in 1999 to 17% in 2007, whilst the proportion of women working part-time remained the same.

Table 6.1

Source: Annual Business Inquiry

Employment Change by Gender & Type in the South of Scotland				
	1999	2007	Change 1999-2007	
			No.	%
Male full-time	43,200	41,600	-1,600	-4%
Male part-time	6,800	8,700	1,900	28%
All males	50,000	50,300	300	1%
Female full-time	24,100	24,800	700	3%
Female part-time	27,100	27,500	300	1%
All Females	51,200	52,300	1,100	2%
All full-time	67,300	66,500	-900	-1%
All part-time	33,900	36,100	2,200	7%
All Employees	101,200	102,600	1,300	1%

Figures may not sum to totals as each figure is individually rounded to nearest 100

6.2.2 Industrial Structure

The largest employing industries in the South of Scotland are *public services* (31% of all jobs), *retail & catering* (24%) and *manufacturing* (13%). Table 6.2 shows that, relative to Scotland as a whole, the region has higher shares of jobs within *agriculture* and *manufacturing* and a very small *financial & business services* sector.

Table 6.2

Source: Annual Business Inquiry

Employment by Industry, 2007				
	South of Scotland		Scotland	
	Total	%	Total	%
Agriculture	6,500	6%	39,200	2%
Utilities	1,100	1%	42,500	2%
Manufacturing	13,600	13%	220,900	9%
Construction	6,400	6%	137,600	6%
Retail & catering	24,900	24%	528,700	22%
Transport & communications	4,400	4%	130,300	5%
Financial & business services	8,400	8%	451,500	19%
Public services	32,200	31%	729,600	30%
Other services	5,000	5%	127,300	5%
Total	102,600	100%	2,407,700	100%

Figures may not sum to totals as each figure is individually rounded to nearest 100

Table 6.3 shows the change in employment by sector, between 1999 and 2007:

- *Public services* was the fastest growing sector in the region, both in absolute and percentage terms
- The only other sectors to experience growth were *retail & catering*, *other services* and *utilities*, though the numbers involved were much smaller

- *Construction* and *transport & communications* both contracted, each losing around 1,000 jobs
- The *manufacturing* sector continued its long term trend decline, with more than 5,000 jobs lost in the sector over the period.

Table 6.3

Source: Annual Business Inquiry

Employment Change in the South of Scotland, 1999-2007				
			Change 1999-2007	
	1999	2007	No.	%
Agriculture	6,500	6,500	0	1%
Utilities	1,000	1,100	200	16%
Manufacturing	19,000	13,600	-5,400	-28%
Construction	7,500	6,400	-1,100	-15%
Retail & catering	24,500	24,900	400	2%
Transport & communications	5,400	4,400	-1,000	-19%
Financial & business services	8,500	8,400	-100	-1%
Public services	24,300	32,200	7,900	33%
Other services	4,500	5,000	400	10%
Total	101,200	102,600	1,300	1%

Figures may not sum to totals as each figure is individually rounded to nearest 100

6.3 Key and Other Growth Sectors

The Government Economic Strategy outlines six key sectors which provide Scotland with the best prospects to raise Scotland's underlying trend rate of sustainable economic growth. The key sectors are:

- Energy
- Financial & Business Services (though the analysis in this report focuses on Financial Services)
- Food & Drink
- Life Sciences
- Tourism
- Creative Industries (Digital media & enabling technologies)

Scottish Enterprise focuses on identifying and responding to the needs of the key sectors. Its contribution to the Creative Industries which encapsulates a number of markets and capabilities is focused on Digital Media and Enabling Technologies.

A further five 'other growth sectors' have been identified by Scottish Enterprise which merit further public sector support. These are:

- Textiles
- Aerospace, Defence & Marine
- Chemicals
- Construction
- Forest Industries

6.3.1 Definition of Sectors

The majority of the six key sectors and five other growth Sectors can be defined using Standard Industrial Classification (SIC) codes, which can then be used to gather relatively good, though not perfect, local information on their size and scale based on official data sources. However, some of these industries do not lend themselves well to this method of classification due to the nature of companies operating in their sectors, as well as issues around the characteristics of supply chain firms. For example, many people employed in *life sciences* work in universities and would therefore be classed in official figures as being employed in *education*.

The sectors that cannot be defined easily using SIC codes are *life sciences*, *digital media & enabling technologies* and *energy*. Scottish Enterprise are currently working with the Government to develop a bespoke dataset for *digital media & enabling technologies*, though this is not yet available.

The *energy* sector is made up of three sub-sectors: *oil and gas*, *power generation* and *renewable energy*. The *renewable energy* sector cannot be captured using SIC codes and, whilst the other sectors are partially covered by SIC codes, their respective supply chains are not included. The Scottish Government, Scottish Enterprise and other partners are currently undertaking research to identify the *renewable energy* and *power generation* sectors along with their associated supply chains with a view to extending the supply chain work to the *oil and gas* sector. This research should be completed in 2009. Similarly, aspects of the *aerospace, defence & marine* sector are not adequately covered because of the nature and characteristics of the industry.

Sections 6.3.2 and 6.3.3 look at employment and workplaces in the South of Scotland across the key and other growth sectors. For these, a proxy definition of *life sciences* based upon SIC codes has been used, though it is recognised that this does not cover the whole sector. Analysis of employment and workplaces within *creative industries* has been included to provide a proxy for *digital media & enabling technologies*, though again it should be noted that this is not a wholly accurate definition of the sector. A full list of the SIC codes used in Sections 6.3.2 and 6.3.3 can be found in Appendix 4.

Section 6.3.4 looks at the contribution of some of the key sectors to national economic output. This data is only available at a limited level of detail and so the coverage does not exactly match the definitions of the key sectors. A full list of the SIC codes included in the analysis in Section 6.3.5 can be found in Appendix 4.

6.3.2 Employment within Sectors

Table 6.4 shows total employment across the eleven key and other growth sectors in Scotland and the South of Scotland in 2007. For each industry, it also shows the share of total employment, employment change between 1999 and 2007 and specialisation scores in the region relative to Scotland⁹.

⁹ The term *specialisation* refers to the concentration of employment within an industry locally relative to the Scottish average. A score of greater than 100 indicates that an area has an above share of employment within a particular industry. A score of less than 100 indicates that the area has a below average share of employment in an industry.

Table 6.4

Source: Annual
Business Inquiry &
SLIMS Calculations

Employment within Sectors, 2007					
	No Jobs in Scotland	No Jobs in South of Scotland	% Share of all jobs in Region	% Change 1999-2007 in Region	Specialisation in Region (Scotland = 100)
Key Sectors					
Energy	40,700	900	0.9%	42%	54
Financial Services	91,600	1,200	1.1%	-15%	30
Food & Drink	46,000	3,700	3.6%	-24%	189
Life Sciences	18,400	400	0.4%	43%	46
Tourism	219,900	11,000	10.7%	3%	117
Creative Industries	62,200	1,000	1.0%	-18%	37
Other Growth Sectors					
Textiles	12,700	3,200	3.1%	-42%	587
Aerospace, Defence & Marine	30,300	400	0.4%	-22%	28
Chemicals	14,200	500	0.5%	47%	87
Construction*	215,800	8,300	8.1%	-14%	91
Forest Industries	19,200	1,900	1.8%	8%	227

* it should be noted that this other growth sector includes various elements of the industry supply chain as well as core construction activity, which is why the employment total is higher than that in Tables 6.2 and 6.3. See Appendix 4 for a full SIC definition of what is included in this analysis.

To summarise employment within the key sectors in the South of Scotland:

- Relative to Scotland as a whole, the region has a very high concentration of employment within **food & drink**, which accounts for 3.6% of total employment. However, employment in this sector declined by almost a quarter between 1999 and 2007 and may therefore offer limited opportunities for future growth.
- **Tourism** is the largest employer among the key sectors in the South of Scotland, accounting for 10.7% of total employment. It also has an above average level of specialisation relative to Scotland as a whole, and employment in this sector increased by 3% between 1999 and 2007.
- The South of Scotland has below average levels of specialisation across each of the other key sectors, with a particularly small **financial services** sector. This has been a strong growth sector across Scotland as a whole over the past decade, but actually contracted by 15% in the region between 1999 and 2007.

Looking at employment within the South of Scotland across the other growth sectors:

- Despite a rapid decline of 42% between 1999 and 2007, the South of Scotland retains a very high level of specialisation within **textiles**. Employment within the sector was around six times higher than the national average in 2007 and accounted for 3.1% of all jobs in the region.
- The proportion of **forestry** jobs within the South of Scotland is more than twice the national average and the sector accounts for 1.8% of all employment within the region. Employment within the industry grew strongly by 8% between 1999 and 2007.
- The **chemicals** sector in the South of Scotland grew by almost 50% between 1999 and 2007. Although the region has a slightly below average level of specialisation

within this industry, this recent growth may indicate that it is a potential source of future jobs growth.

- **Construction** is the largest of the other growth sectors in the South of Scotland, accounting for more than 8,000 jobs or 8.1% of total employment.

6.3.3 Workplaces by Sector

Total Workplaces

Table 6.5 shows the number of workplaces and percentage share of all workplaces within each of the key and other growth sectors in the South of Scotland in 2007¹⁰. It also shows change in the total number of workplaces within each between 1999 and 2007.

Table 6.5

Source: Annual Business Inquiry & SLIMS Calculations

Workplaces by Sectors, 2007			
	Total Workplaces 2007	% of All Workplaces	% Change 1999-2007
Key Sectors			
Energy	30	0.3%	-52%
Financial Services	170	1.6%	-1%
Food & Drink	80	0.8%	-33%
Life Sciences	20	0.2%	-5%
Tourism	1,300	12.7%	8%
Creative Industries	350	3.5%	26%
Other Growth Sectors			
Textiles	110	1.1%	-11%
Aerospace, Defence & Marine	20	0.2%	5%
Chemicals	10	0.1%	-35%
Construction	1,560	15.3%	16%
Forest Industries	250	2.5%	-12%

Tourism and **construction** are the largest of key and other growth sectors in the South of Scotland in terms of the volume of workplaces they account for. There are more than 2,800 workplaces in the South of Scotland operating within these industries, accounting for more than a quarter of all workplaces in the region. The total number of workplaces within each of these industries increased between 1999 and 2007.

Creative industries account for 3.5% of all workplaces in the South of Scotland, a total of 350 in 2007. This was 26% higher than the total in 1999, the fastest rate of increase of each of the sectors in the region. The **financial services** sector accounts for 170 workplaces in the region (1.6%) broadly in line with the total in 1999.

The other sectors are relatively small in that each accounts for little more than 1% of all workplaces in the region. Furthermore, they have all been shrinking, with particularly sharp falls in the numbers of **energy**, **food & drink** and **textiles** workplaces.

¹⁰ Workplaces refer to individual places of work, rather than companies. For example, a bank may have several branches and offices within a region, and each one of these would be counted as a separate workplace.

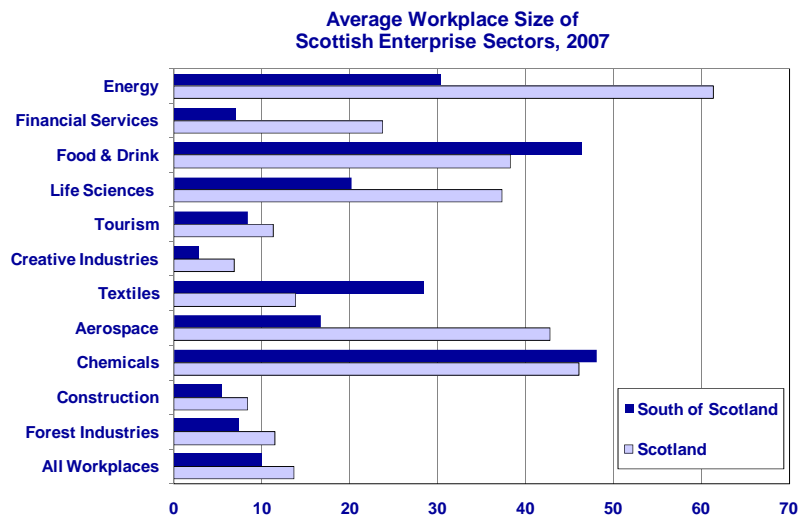
Workplace by Size

Chart 6.2 shows the average size of workplaces across each of the key sectors in the South of Scotland, relative to Scotland as a whole. Across all industries, the average workplace in the South of Scotland employs 10 people, below the average of 14 across Scotland as a whole.

The average size of workplaces in the region is below the Scottish average across the majority of the sectors. The difference is proportionately widest within *financial services*, where the average firm in the region employees 7 people, less than a third of the equivalent figure of 24 for the Scottish industry as a whole.

Chart 6.2

Source: Annual Business Inquiry & SLIMS Calculations



6.3.4 GVA from Key and Other Growth Sectors

Analysis of the levels of economic output (GVA) from the key and other growth sectors can be used to give a broad indication of their contribution to the Scottish economy. It should be noted that the GVA figures reported in this section refer to GVA at current prices that have not been adjusted to take account of taxes or inflation. That is why the figures appear much higher than those reported elsewhere in this report. The other key difference with these figures is that, in contrast to those contained within Sections 4.3 and 4.4, they **include** offshore oil & gas activity.

Table 6.6 shows GVA and productivity levels within the key and other growth sectors. The figures are taken from the Annual Business Inquiry (ABI) published by the Scottish Government and are the best available fit with the key and other growth sectors, though they are not an exact match¹¹. Despite this limitation, the data are useful to give a proxy indication of the contribution of the sectors to the national economy.

¹¹ A full list of the SIC codes used in this analysis can be found in Appendix 4.

Table 6.6

Source: Annual Business Inquiry for GVA and productivity figures; Total for all industries from ONS National Accounts

Economic Output from Scottish Enterprise Sectors, Scotland 2006			
	Total GVA 2006 (£m)	% Scottish GVA	Productivity (GVA per Employee)
Key Sectors			
Energy	15,400	*	£625,400
Food & Drink	3,000	3.2%	£65,200
Life Sciences	1,400	1.5%	£51,000
Tourism	4,000	4.3%	£19,600
Creative Industries	2,200	2.4%	£38,700
Other Growth Sectors			
Textiles	400	0.4%	£37,300
Aerospace, Defence & Marine	400	0.4%	£75,000
Chemicals	2,600	2.8%	£169,000
Construction	5,900	6.3%	£46,800
Forest Industries	700	0.8%	£38,600
All Industry Sectors**	93,361	100%	£47,200

* calculation not possible as the total for all industries excludes offshore oil & gas activities

** excluding offshore oil & gas activities

To summarise the contribution of the key sectors to the Scottish economy:

- **Energy** is a large and important part of the Scottish economy, accounting for £15.4bn of total economic output in 2006 and generating over £625,000 GVA per employee¹²;
- The **food & drink** industry is responsible for 3.2% of all Scottish economic output and productivity in the sector is above the national average;
- Productivity levels within **life sciences** are above the Scottish average for all industries, though the sector is relatively small, accounting for 1.5% of Scottish output in 2006. Section 6.3.5 looks in more detail at this key sector in Scotland;
- The **tourism** sector has among the lowest levels of productivity of all industry sectors, partly as a result of the prevalence of part-time working in the industry. The importance of the industry to the national economy is demonstrated by the fact that it accounted for 4.3% of all output in 2006; and
- Overall productivity levels within the **creative industries** sector are below the average for all industries, though the sector accounts for 2.4% of all Scottish output.

Looking at the economic contribution of the other growth sectors in Scotland:

- **Construction** is responsible for generating 6.3% of national economic output, making it the second largest of the key and other growth sectors in Scotland. Productivity levels in the industry are broadly in line with the average for all industry sectors;
- **Chemicals** accounts for 2.8% of the Scottish economy and, with levels of GVA per employee more than three times the national average, it is the second most productive sector shown;

¹² It should be noted that these figures include the off-shore oil & gas industry and refer to GVA at current prices, which have not been adjusted to take account of taxes or inflation.

- **Textiles** and **forestry industries** are relatively small parts of the Scottish economy, each accounting for less than 1% of national economic output in 2006 and with productivity levels around a fifth lower than the average for all industries.
- Productivity levels within the **aerospace, defence & marine** industry are above the average for all industries. The sector accounted for 0.4% of total national economic output in 2006.

6.4 Key Sectors

Three key industry sectors within the South of Scotland have been selected for detailed analysis. This detailed analysis will provide an overview of the component sections within each of the three key industries and enable a better understanding of changes within these sectors over recent years. This section will look in detail at:

- Food & Drink
- Tourism
- Forest Industries

6.4.1 Food & Drink

Employment within the food & drink sector in the South of Scotland is concentrated within processing and preserving of fish and fish products, operation of dairies and cheese making and production of meat and poultry meat products.

This section will provide analysis of the food and drink sector within the South of Scotland, covering:

- Sectoral Profile
- Recent Trends
- Exports

Sectoral Profile

In 2007, there were 3,700 people employed within the food & drink sector in the South of Scotland. This accounted for 4% of all jobs in the region, more than the equivalent share for Scotland and GB (1% and 2% respectively). Chart 6.3 shows how food & drink employment within the region is distributed across the various sub-sectors of the industry.

Fish processing accounted for more than half of all food & drink jobs within the South of Scotland in 2007. *Dairies & cheese making* and *meat products* are the two other largest sectors, accounting for 16% and 11% of all food & drink jobs respectively.

Chart 6.3

Source: Annual Business Inquiry

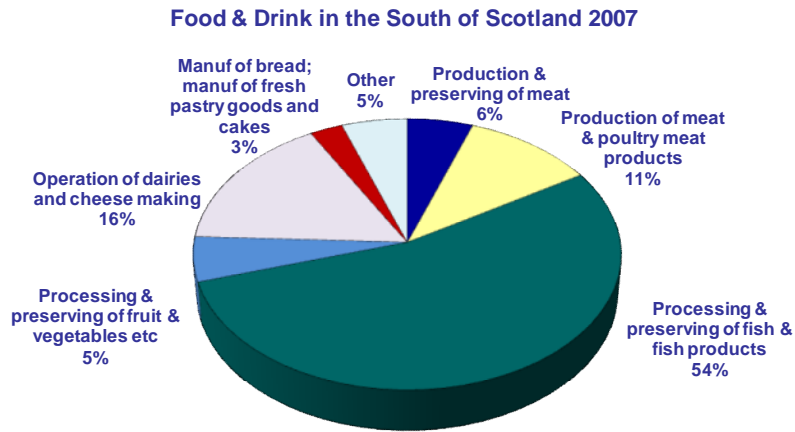
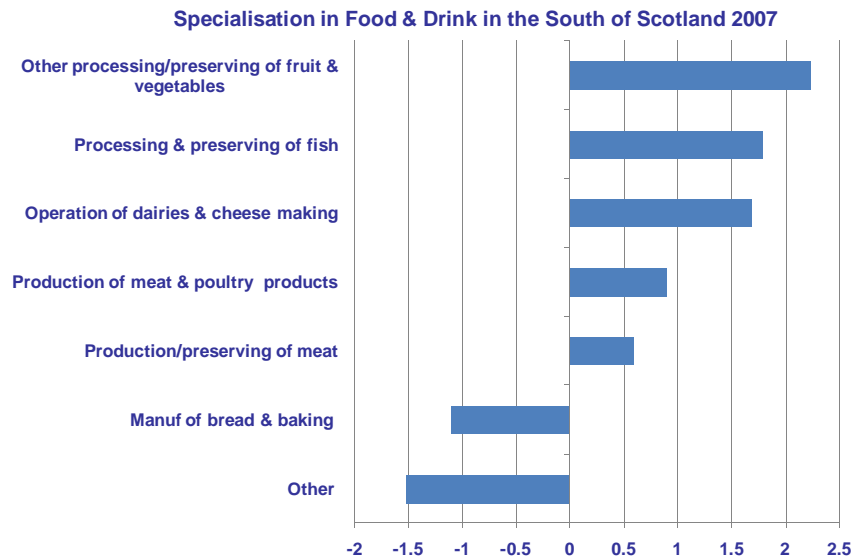


Chart 6.4 shows the level of specialisation in the South of Scotland within each of the sub-sectors of the food & drink industry relative to Scotland as a whole:

- The South of Scotland has particularly high levels of specialisation within *processing and preserving of fruit and vegetables*, although it should be noted that the actual numbers of jobs in this sector is very small.
- Within the South of Scotland, specialisation is also apparent in *processing and preserving of fish and fish products* and *operation of dairies and cheese making*. In each of these sectors, the share of jobs in the South of Scotland is considerably higher than the equivalent Scottish share.
- Specialisation is also apparent in the *production of meat and poultry meat products* – the share of jobs in this section is almost double that of the UK.

Chart 6.4

Source: Annual Business Inquiry & SLIMS Calculations



Recent Trends

Employment within the food & drink sector in the South of Scotland has fallen in recent years. This has largely been driven by jobs losses within the processing and preserving of fish.

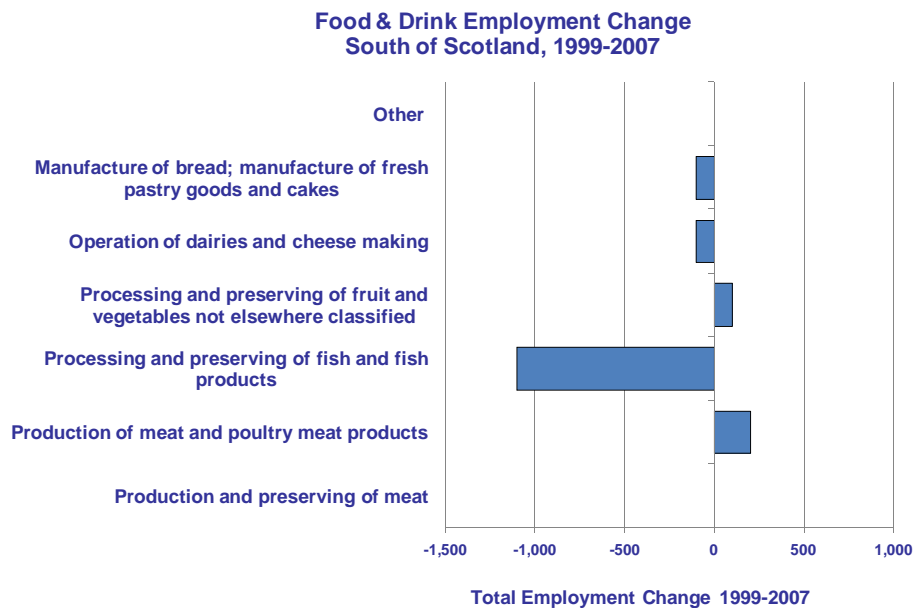
There were a total of 3,700 people working in the *food & drink* sector in the South of Scotland in 2007. This was 24% lower than the total in 1999, faster than the decline of 19% in the industry across Scotland as a whole.

Chart 6.5 shows employment change within each of the sub-sectors of *food & drink* since 1999:

- *Processing and preserving of fish and fish products* has experienced the largest fall in employment in recent years, with more than 1,000 jobs lost in the sector since 1999;
- There have also been jobs losses within *dairies* and *bread, pastry goods & cakes*, though the numbers involved were much smaller; and
- There has been some employment growth in *production of meat and poultry meat products* and *processing and preserving of fruit and vegetables*, though this has not been enough to offset the overall decline in the sector.

Chart 6.5

Source: Annual Business Inquiry



Exports

The value of exports from the manufacturing of food and drink within the South of Scotland has decreased over the period 2002-2006.

The value of export sales from the manufacturing of food and drink within the South of Scotland amounted to £40m in 2006¹³, representing 8% of total exports from the area. At a national level, the value of export sales from the manufacturing of food and drink was £3.6bn, accounting for 18% of total exports from Scotland.

Table 6.7 shows change in the value of exports from the manufacturing of food and drink over the period 2002-2006:

¹³ Refers to the value of exports in current prices.

- Total exports from the South of Scotland have grown by 2% over the period, keeping pace with the rate of growth across Scotland as a whole;
- The value of exports from the manufacture of food and drink within the region fell by 11% between 2002 and 2006, in contrast to growth of 38% in the value of exports from this sector across Scotland as a whole.

Table 6.7

Source: Global Connections Survey, Scottish Government

South of Scotland Food & Drink Exports (£m)				
	2002	2006	Change 2002-06	
			No.	%
South of Scotland				
Manufacture of Food & Drink	45	40	-5	-11%
Total Exports	515	525	10	2%
Scotland				
Manufacture of Food & Drink	2615	3615	1000	38%
Total Exports	19940	20550	610	3%

6.4.2 Tourism

Sectoral Profile

The majority of employment within the tourism industry in the South of Scotland is within hotels, restaurants, bars and sporting activities.

In 2007, 11,000 people were employed within the tourism sector in the South of Scotland. This accounted for 11% of all jobs within the area, above the equivalent share of 9% for Scotland and 8% for GB. Chart 6.6 shows how these jobs are distributed across the various sub-sectors of the industry.

Employment in *hotels* accounts for 30% of all jobs within the tourism sector, and a further 41% of employment is split between *bars* and *restaurants*. A further 11% of jobs within tourism were based in *sporting activities*.

Chart 6.6

Source: Annual Business Inquiry



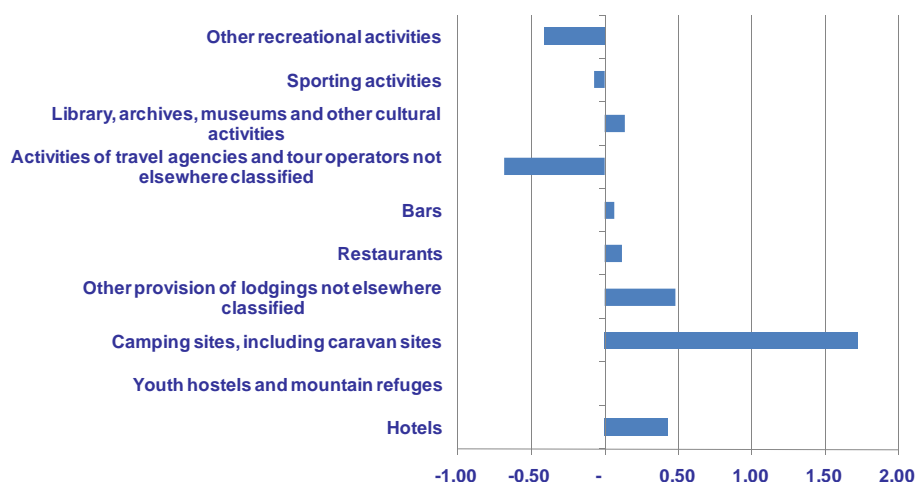
Analysis of the each sub-sectors share of total jobs shows whether or not specialisation exists within an industry, when compared against Scotland as a whole. Chart 6.7 looks at the overall share of jobs within tourism to show that:

- Concentration of employment within camping sites is more than double the Scottish average, while employment within hotels and other provision of lodgings is almost 50% greater than the Scottish average.
- The South of Scotland exhibits a higher concentration of employment in the accommodation sub-sectors of the tourism industry, which highlights the importance of this sector to the local area.
- Sectors which are less important within the South of Scotland include *activities of travel agencies and tour operators* and *other recreational activities*. The South of Scotland has a considerably lower concentration of employment within these sub-sectors, relevant to Scotland as a whole.
- Whilst it cannot be examined as a sub-sector of tourism, mountain biking is an important driver of tourism within the area. The 7stanes mountain biking centres are popular tourist attractions for visitors to the region. A recent report commissioned by the Forestry Commission estimated that the 7stanes scheme generated £9m annual visitor income in recent years.¹⁴

Chart 6.7

Specialisation in Tourism in the South of Scotland 2007

Source: Source: Annual Business Inquiry & SLIMS Calculations



Recent Trends

In the South of Scotland, the proportion of people with jobs in the tourism industry has increased in recent years, albeit at a slower rate of growth than the national average.

There were a total of 11,000 people employed within *tourism* in the South of Scotland in 2007, representing an increase of 3% since 1999. Over the same period, employment in tourism in Scotland has grown by 23%.

Chart 6.8 shows employment change within each of the sub-sectors of *tourism* over the period:

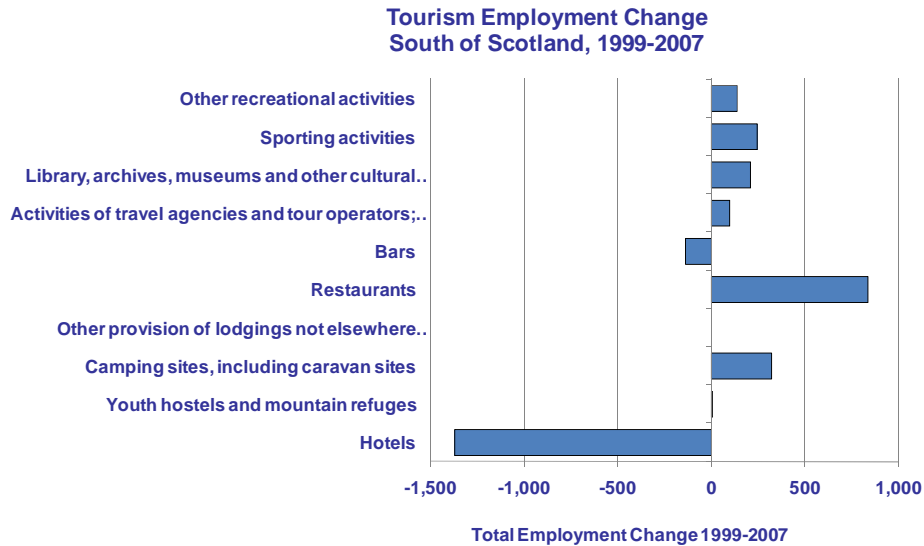
- The most notable growth has been in *restaurants*, where the number of jobs has grown by over 800.

¹⁴ *The 7 Stanes Phase 2 Evaluation; EKOS Ltd in Partnership with Tourism Resources Company (2007)*

- Employment within *camping sites* has also increased considerably over the period, along with *sporting activities* and *libraries, archives, museums and other cultural activities*.
- There has been a significant decline in the number of jobs in hotels, falling by 30% over the period 1999-2007. This decline, however, was not enough to disrupt the overall growth in employment within this sector.

Chart 6.8

Source: Annual Business Inquiry



The Tourism Market in the South of Scotland

There has been a decline in tourism expenditure within the South of Scotland in recent years, driven by a significant fall in domestic tourism expenditure in Dumfries and Galloway.

With the tourism sector in the South of Scotland providing 11,000 jobs and accounting for 11% of total employment, future growth of the industry will be important to the local economy. 2009 will be an important year for tourism in Scotland, with 'Homecoming Scotland 2009' set to roll out a programme of more than 200 events across the country to celebrate Scotland's contribution to the world.

Some events have already been held in the South of Scotland, such as Burns Light, and with more planned over the remainder of the year, it is likely that these Homecoming events will make a positive contribution to the tourism market in the South of Scotland.

Table 6.8 shows that, in 2007, total tourism expenditure in the South of Scotland was £200m, showing a decline of 33% since 2005. Over this period, the overall decline in expenditure was driven by a fall of almost 50% in domestic tourism expenditure and 37% in overseas tourism expenditure in Dumfries and Galloway.

On the other hand, tourism expenditure in the Scottish Borders grew by 16% over the same period – this was driven by an increase in domestic tourism expenditure. Total tourism expenditure in Scotland has remained broadly the same over this period.

Table 6.8

Source: Visit Scotland

Tourism in the South of Scotland 2005-07				
	2005	2007	Change 2005-07	
			No.	%
Tourism Expenditure (£m)	£296	£200	−£97	−33%
Bednights (m)	5.59	4.61	−0.98	−18%

The fall in the value of sterling means that the pound is at its weakest in many years against foreign currency, including the American dollar and the Euro. These conditions may make the UK a more attractive place for foreign travel and may represent an area for growth in times of recession.

In 2007, 86% of total tourism expenditure in the South of Scotland was attributable to domestic visitors – a total of £171m. The remaining 14% came from overseas visitors. Across Scotland as a whole, a third of all tourism expenditure comes from overseas visitors, more than double the proportion within the region.

Tourism expenditure by overseas visitors in the South of Scotland totalled £28.5m in 2007. Table 6.9 shows a breakdown of tourism expenditure by country of origin in the South of Scotland, relative to Scotland as a whole:

- Spending by Canadian tourists in the South of Scotland accounts for a considerably higher proportion of income from overseas tourists, relative to Scotland as a whole.
- In the South of Scotland, spending by American tourists accounts for a smaller share of total tourism expenditure relative to Scotland.

Table 6.9

Source: Visit Scotland

Tourism Expenditure by Overseas Visitors 2007				
	South of Scotland		Scotland	
	£m	%	£m	%
USA	£3.0	10%	£259.7	19%
Germany	£3.6	12%	£191.4	14%
Canada	£3.6	12%	£82.0	6%
Italy	£2.0	7%	£95.7	7%
Irish republic	£2.0	7%	£95.7	7%
Australia	£1.2	4%	£54.7	4%
France	£1.2	4%	£54.7	4%
Spain	£1.0	3%	£82.0	6%
Sweden	£0.5	3%	£41.0	3%
Other	£11.42	38%	£410.1	30%
Total	£29.5	100%	£1,367.00	100%

6.4.3 Forest Industries

Sectoral Profile

More than half of total employment within forest industries in the South of Scotland is based in either saw milling and planing of wood and forestry and logging related service activities.

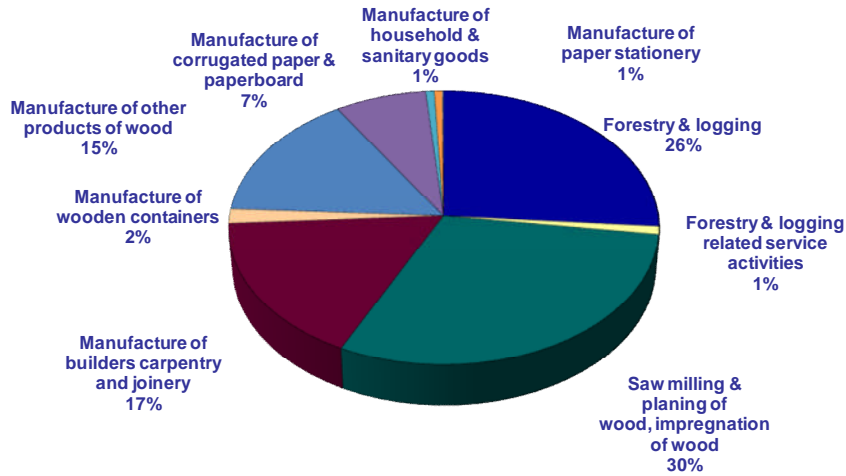
Employment within the South of Scotland's forest industries in 2007 accounted for a total of 1,900 people, representing 2% of all jobs within the area. This was slightly higher than the national averages, where jobs in forest industries account for just 1% of total employment in Scotland and GB.

Chart 6.9 shows how jobs within the forest industries in the South of Scotland are distributed across the various sub-sectors of the industry. 30% of total employment within forest industries is concentrated within *saw milling and planing of wood* and another 26% is based in *forestry and logging*. The remainder of employment within this sector is largely based within the *manufacture of builders carpentry and joinery* and *manufacture of other products of wood*.

Chart 6.9

Source: Annual Business Inquiry

Forest Industries in the South of Scotland 2007



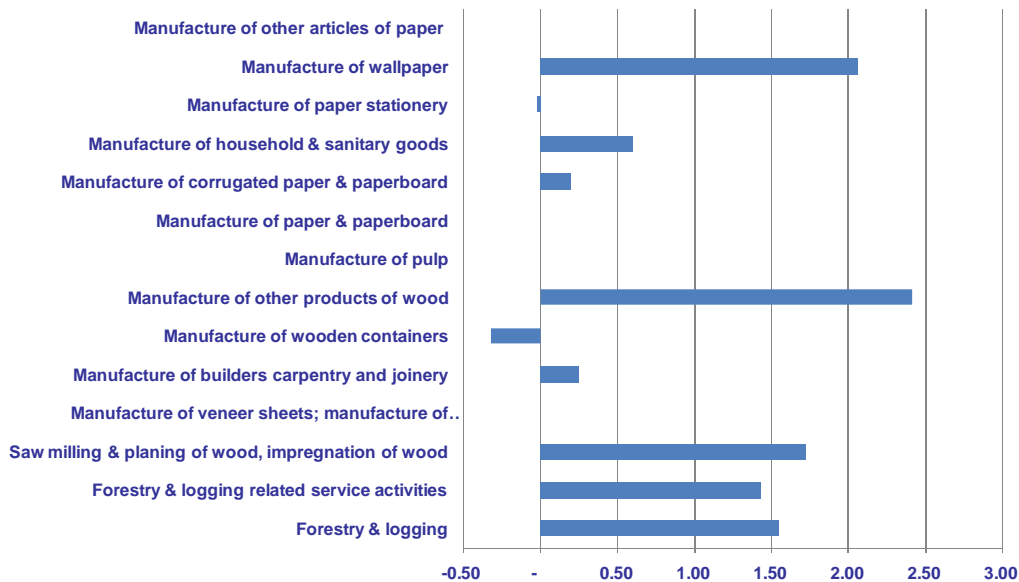
Analysis of the each sub-sectors share of total jobs shows whether or not specialisation exists within an industry. Chart 6.10 shows the level of specialisation within the region, relative to Scotland as a whole, across each of the sub-sectors of forestry:

- The region has a high level of specialisation within several sub-sectors of the forest industries. In particular, it has more than double the national average of employment within the *manufacture of wallpaper* (although this is a very small number) and *other wood products*.
- Within the forest industry in the South of Scotland, the manufacture of wooden containers is less important to the sector.

Chart 6.10

Source: Annual Business Inquiry & SLIMS Calculations

Specialisation in Forest Industries in the South of Scotland 2007



Recent Trends

In the South of Scotland, employment in the forest industry grew by 8% between 1999 and 2007. In Scotland, however, employment in this sector declined by 13% over the same period.

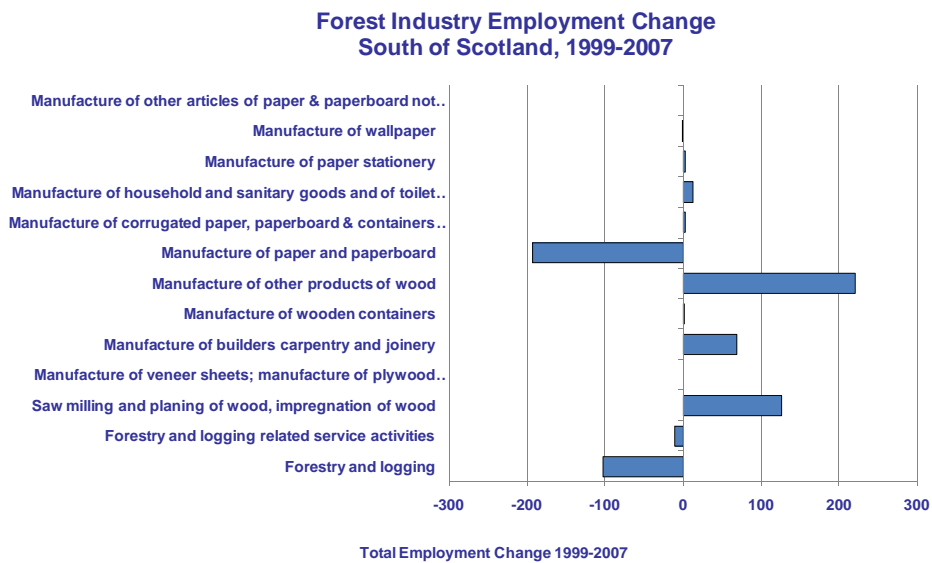
There were a total of 1,900 people employed within the *forest industry* in the South of Scotland in 2007. This represents an increase of 8% since 1999. Over the same period, employment in this industry decreased by 13% at a Scottish level.

Chart 6.11 shows how employment has changed within each of the forest industry sub-sectors:

- In the South of Scotland, employment growth in this sector has been driven by an increase in employment within both *manufacture of other products of wood* and *saw milling and planing of wood*, which have grown by 356% and 30% respectively.
- The most significant decline in the forest industry has been within the manufacture of paper and paperboard, where employment decreased between 1999 and 2007.

Chart 6.11

Source: Annual Business Inquiry



7 Infrastructure & Place

7.1 Vacant & Derelict Land

Introduction

The Scottish Government publishes annual estimates of the amount of urban, vacant, and derelict land located within each local authority in Scotland. This data can sometimes be used to give an indication of the scale and quality of the land available for development within an area. However, it is limited in that it does not take account of where the demand for development space is within a region. In the South of Scotland for example, it does not account for the fact that the majority of vacant and derelict land available is not in the key areas which experience demand for business development and expansion.

Urban vacant land can be defined as land located within settlements with a population of 2,000 or more, which is currently not being used for the purposes for which it is held and is therefore viewed as an appropriate site for development. This land must either have had prior development on it or preparatory work has taken place in anticipation of future development.

Derelict land is land which has been so damaged by development, that it is incapable of development for beneficial use without rehabilitation. In addition, the land must currently not be used for the purpose for which it is held. Land also qualifies as derelict if it has an unremedied previous use which could constrain future development. For both urban vacant and derelict land, site records must be at least 0.1 hectares in size to be included.

Land Availability

In 2008, there was a total of 358 hectares of urban vacant or derelict land within the South of Scotland, accounting for less than 3% of the Scottish total. Two thirds of all vacant and derelict land in the region is located in Dumfries & Galloway, with the Borders accounting for the remaining third.

Table 7.1 shows that the average size of vacant or derelict sites in the South of Scotland (2.3ha) is lower than the average for all vacant or derelict sites in Scotland (2.7ha). There are many more sites within the Borders, but they are typically small with an average size of just 1 hectare. There are fewer sites within Dumfries & Galloway, but they are much larger with an average site size of more than 6 hectares.

Table 7.1

Source: Vacant & Derelict Land Survey, Scottish Government

Vacant & Derelict Land 2008				
	Total Derelict or Urban Vacant Land (ha)	Number of Derelict or Urban Vacant Sites	Average Site Size (ha)	Derelict & Urban Vacant Land as % of all land
Borders	121	116	1.0	0.0%
Dumfries & Galloway	237	37	6.4	0.0%
South of Scotland Total	358	153	2.3	0.0%
Scotland	10,970	4,012	2.7	0.1%

Of the 358 hectares of available land in the South of Scotland, the majority (86%) is derelict – that is, it requires remedial work before it can be used for development. Across Scotland, 75% of all available land for development is designated as derelict. This means that, although there are many small sites available in the Borders and some larger sites available in Dumfries & Galloway, many may not represent attractive opportunities for investors in their current condition.

7.1.2 Employment Land

Recent analysis¹⁵ of available business space within the South of Scotland confirms that the region is afflicted by property market failures, but also has a number of areas offering economic development potential. Set against this potential is a shortage of serviced employment land of appropriate size in suitable locations, and this deficit will act as a constraint upon economic development if it is not addressed.

Table 7.2 shows that in Dumfries & Galloway and the Borders respectively, there were 127 and 71 hectares of allocated employment land in 2008. However, in Dumfries & Galloway, just 16% of this land was classed as immediately available, while the equivalent figure in the Borders was only 23%. It is important to note that in terms the immediately available classification, that this does not mean that there are fully serviced sites of appropriate size and quality available on the market.

Table 7.2

Source: Ryden
Property Consultants

Allocated employment land in the South of Scotland, 2008 (ha)				
	Dumfries & Galloway		Borders	
	No.	%	No.	%
Immediately Available	20.5	16%	16.2	23%
Available within 1-5 years	54.4	43%	42.8	61%
Available beyond 5 years	45.7	36%	11.6	16%
Total	126.7	100%	70.6	100%

Supply of available employment land within Dumfries and Galloway is largely focussed within two locations – Wigtownshire (41% of all employment land) and Nithsdale (36%). In the Borders around three-fifths of total employment land is concentrated in five locations, the largest of which is St Boswells, which alone accounts for nearly 30% of employment land within the area. While a shortage of small, serviced sites is identified as a particular issue within Dumfries & Galloway, the situation is slightly different in the Borders, in that the majority of available sites are generally small sized, with only three available sites of 3 hectares or more.

Declining levels of take-up for both industrial and office property in recent years, combined with a lack of new build accommodation is an evident issue across both Dumfries & Galloway and the Borders. In Dumfries & Galloway, three-quarters of current industrial space is identified as being more than 25 years old, while three-fifths of office stock is aged 40 years or more. A similar situation exists in the Borders, where nearly half of all industrial stock was constructed before 1960, while three-quarters of all office stock was built pre-1960.

Similar to the issue highlighted in relation to vacant and derelict land, the key issue in the South of Scotland in terms of employment land is that the supply is not located in the areas which experience demand and offer potential for significant economic development. As a result efforts are required in the short term to plan for new supply in these areas and this will require an element of spatial prioritisation of key development sites.

7.2 Transport & Connectivity

Effective transport infrastructure is a key contributor to economic performance and is critical in providing efficient access to and from local labour markets and goods and services. At the same time, strategic transport networks provide important connections both to and from the rest of the country, and internationally. The quality of a region's transport offer can also have a bearing on inward investment decisions, and the perceived attractiveness of a location for tourism.

¹⁵ Ryden Property Consultants – Scottish Borders Business Space Development Study 2008, & Dumfries & Galloway Business Space Development Study, December 2008

The *Eddington Transport Study (2006)*¹⁶ recently reviewed the long-term linkages between transport and UK economic performance. In order to avoid an adverse impact on the nation's productivity and competitiveness, the study set three strategic economic priorities for transport over the next 20 years:

- inter-regional transport connections
- strategic transport linkages between city regions
- international transport links

This section of the report looks at the transport infrastructure of the South of Scotland and provides commentary on the following:

- travel to work patterns
- external connectivity
- internal connectivity

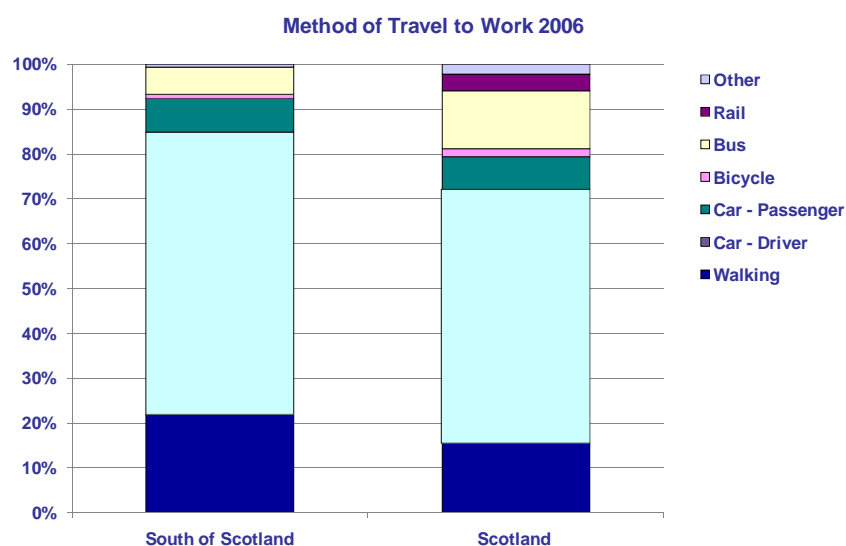
7.2.1 Travel to Work

The rural nature of the South of Scotland and limited public transport provision means that local residents are much more dependent on the car relative to residents across Scotland. In 2006, around three-quarters of South of Scotland households had access to at least one car (77% - Scottish Borders; 75% - Dumfries and Galloway). In contrast, the national average is just 68%.

Examination of the method of travel to work by South of Scotland residents largely mirrors this headline position. Chart 7.1 shows that the car is by far the most popular mode of transport to work in the South of Scotland, with 70% of all residents using this method of travel to get to work (most of whom are drivers). This is higher than the equivalent rate of 65% across Scotland as a whole. In contrast to the position nationally, the use of public transport services by residents is comparatively low.

Chart 7.1

Source: *Scottish Household Survey*



¹⁶ *The Eddington Transport Study - The Case for action: Sir Ron Eddington's advice to Government, December 2006*

7.2.2 External Connectivity

In an international context, Scotland as a whole is considered to have below average connectivity in relation to the rest of the EU¹⁷, particularly outside of Glasgow & Edinburgh. The South of Scotland's geographical position, with some parts of the region relatively remote from the rest of the country, underlines the importance of efficient connections to and from the area. This is a theme running through the region's *Competitiveness Strategy*¹⁸, which cites good connections with Scottish city regions, centres of economic activity in the north of England, and good connections with Ireland as a priority.

Air Connectivity

Clearly, the lack of an airport within the South of Scotland inhibits international transport links to and from the region. As a result, local passengers are reliant upon a number of airports located within neighbouring regions. For passengers in the Scottish Borders, the nearest in terms of distance and journey time are Edinburgh and Newcastle, while those in Dumfries & Galloway are in closer proximity to Prestwick and Glasgow airports.

The *Competitiveness Strategy* acknowledges that connectivity to and from the region is likely to be enhanced by future expansion of existing airport facilities at Prestwick, where passenger capacity is expected to increase significantly over the next decade¹⁹. At the same time, planning approval was recently granted in respect of proposals to upgrade facilities at Carlisle Airport, which will allow the airport to attract commercial passenger flights in the coming years.

Road & Rail Connectivity

The South of Scotland is strategically well placed along the main road and rail routes linking Scotland with England. Access to and from the South of Scotland largely depends upon the two main road routes linking Scotland and England. In the west of the region, improved access has been provided through the upgrading to motorway status of the A74 to the now M74. In the east of the region, the key external link to the south is the A1. While gradual upgrades have taken place, there remain large sections of single carriageway and there are currently no plans to fully upgrade the road dual carriageway standard. In addition, a significant issue for the South is that in reality these routes act more as by-pass roads rather than access roads.

In the longer-term, the outcome of proposals for high speed rail linking Scotland to England is yet to be resolved. The UK government is currently exploring options for a high speed rail link between London and the Midlands, and will consider the case for extending this link into Scotland. While the implementation of high speed rail links between Scotland and England would clearly enhance connectivity to and from the Central Scotland, it is likely to be some years before a decision is reached on this and access to the service from the South of Scotland is uncertain. The South also suffers from a lack of any cross region rail links.

The ferry ports on Loch Ryan operated by Stena Line and P&O European Ferries provide an important international gateway to Scotland both in terms of export markets and tourism. Ferry operator Stena Line has submitted an application for a harbour empowerment order which, if granted, would allow the relocation of ferry operations from its' existing site at Stranraer, to a new development at Cairnryan to the North of P&O's Cairnryan terminal. Providing expanded passenger and freight capacity, the new port should better position the region to exploit connections with Ireland. The final decision on granting of the order now lies with the Scottish Government.

¹⁷ *National Planning Framework 2 Discussion Draft, 2008*

¹⁸ *South of Scotland Competitiveness Strategy, South of Scotland Alliance, 2007*

¹⁹ *Prestwick Airport Draft Master Plan, 2008*

Electronic Connectivity

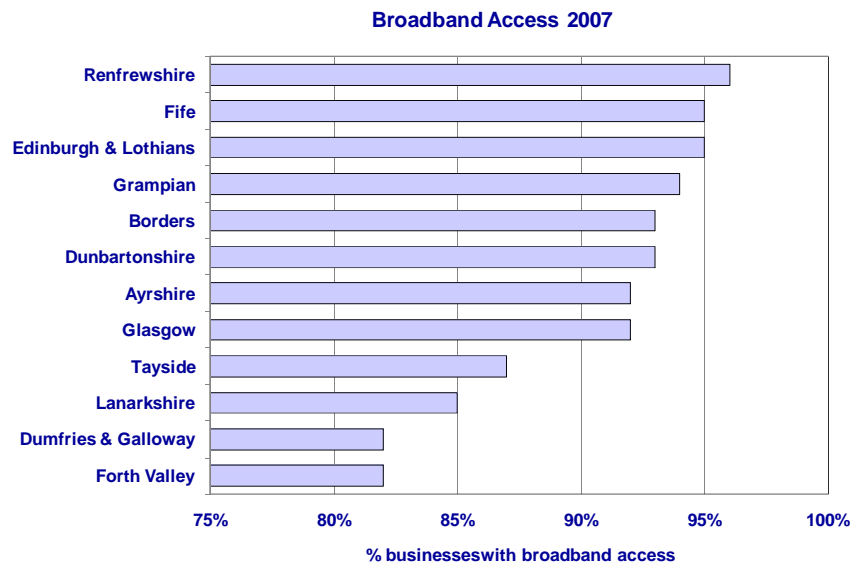
The influence of connectivity on competitiveness extends beyond transport infrastructure and encompasses issues of digital connectivity and communications. The provision of digital infrastructure within the South of Scotland has an important role to play in overcoming the peripheral geography of the area, while the quality of this infrastructure is an important determinant of the region's attractiveness as an investment location.

Recent evidence from the *Scottish Enterprise e-Business Survey* (2007) suggests that previously identified gaps in broadband coverage within the South of Scotland are now being addressed. Less positively, however, the *quality* of broadband infrastructure remains an issue in the South of Scotland, in particular the need to increase availability of *high-speed* broadband connections.

Chart 7.2 shows the proportion of businesses with broadband access across former Scottish Enterprise Local Enterprise Company (LEC) areas. The share of businesses with access in the Scottish Borders and Dumfries and Galloway were 93% and 82% respectively in 2007. These figures compare with an average of 90% across Scotland, and reflect a continued increase in business broadband coverage, particularly in the Borders.

Chart 7.2

Source: *Scottish Enterprise e-Business Survey*



As well as the extent of coverage, the speed of digital connection is equally important in maintaining a competitive business environment for existing businesses and in attracting new investment. This need is particularly acute for sectors such as software, the creative industries, and financial mediation, whose operations rely heavily upon the availability of efficient, high-speed digital connections. In addition, the need for comprehensive coverage and high speed digital connection is exacerbated in rural parts of Scotland where earlier studies suggest higher broadband uptake by businesses in rural areas compared to urban areas but for less sophisticated business uses. The implication of such evidence is that there is a greater dependence on digital connectivity in rural areas, but an inferior opportunity for advanced high tech businesses due to lower quality service provision.

7.2.3 Internal Connectivity

Good regional transport connections have an important influence on local labour markets, the distribution of goods and services, and in making a region an attractive location for companies to invest. The need to improve the quality of transport infrastructure within the South of Scotland has been identified as a priority both in terms of improved road infrastructure as well as addressing deficiencies in public transport provision.

Road Infrastructure

In terms of road infrastructure, long-term strategic priorities in the South of Scotland include securing upgrades of the A75 (the main route between Dumfries & Galloway and the north of England); securing dual carriageway status for the A76 (the main route connecting Dumfries & Galloway to Ayrshire), and improving linkages on the A77 (Northern Ireland / Stranraer / central belt). The quality of east – west road connections to the A1 have also been highlighted as in need of improvement.

Whilst no firm commitment yet exists to put any of these enhancements into action, the inclusion of upgrades to the A75 and A77 in the Strategic Transport Projects Review which sets out the future investment programme for Transport Scotland for 2012-2022 and beyond offers some encouragement. Any future implementation is therefore likely to be in the longer term, nevertheless, securing these upgrades is seen as critical to policymakers in the South of Scotland, to avoid constraining the future competitiveness of the region.

Public Transport

It is evident that there are gaps in the public transport infrastructure serving the South of Scotland. Dispersed rural geography means that bus services can be infrequent and of limited coverage, while hardly any settlements are served by rail infrastructure. The lack of provision is particularly acute in the Borders, which (at this time) has no railway stations located within it, while in the west of the region, Stranraer railway station is under the threat of closure, should Stena Line's relocation to Cairnryan proceed. The lack of any cross region rail link is also a constraint on business and labour market connections between the east and west of the region.

Indicative proposals in the region's *Competitiveness Strategy* to address some of these issues include the potential upgrade of railway stations on the Nithsdale Valley line and the reinstatement of railway stations such as Reston on the East Coast Main Line and at Beattock on the West Coast Main Line. The key transport infrastructure project within the region however is the planned reinstatement of the Waverley Rail Line between Tweedbank and Edinburgh. The project should significantly improve linkages between the Scottish Borders and the wider Edinburgh City Region and will see the creation of a number of new stations. This includes new stations at Galashiels, Stow, Gorebridge, Newtongrange, Eskbank and Shawfair, and will also link into existing rail services.

7.3 Physical Development Priorities

The South of Scotland experiences a continued shortage of serviced business space development land which presents a significant challenge to the future competitiveness of the region. As a result, the main physical development priorities for the region relate to addressing this issue in order to accommodate demand and to facilitate future business growth, employment expansion and economic development, with a particular emphasis on supporting the growth of the region's key sectors.

Across the South there are a number of areas which offer potential development opportunities, largely based on the concentration of population, strategic transport links and in many cases in relation to specific industry and market opportunities.

In Dumfries and Galloway for example, the main population centres of Dumfries, Stranraer and the Gretna – Lockerbie – Annan (GLA) corridor are the priority development areas. In the west of the region, the Loch Ryan Port development is critical in terms of further enhancing key transport links and allowing subsequent exploitation of Marine Tourism and Leisure opportunities through regeneration and development of the Stranraer Waterfront area. The town of Dumfries, as the largest population centre in the South, is a priority in order to establish it as the regional capital of Dumfries and Galloway and offers opportunities in terms of business services, retail development, civic administration and being home to one of the two main education centres in the South at the Crichton Campus. The GLA corridor is also a

development priority, largely relating to market opportunities in renewable energy and digital and electronic markets.

Similarly, in the Scottish Borders, a number of development priorities can be identified. The central hub around Galashiels is a major opportunity as the main population centre in the Borders and with the potential to further enhance leisure, business, employment and education links with the wider Edinburgh City Region as a result of the re-establishment of the Waverley Railway and with Galashiels being home to the joint Borders College/Heriot Watt University education campus. Opportunities in the central/western hub can also be identified around Peebles, again building on the proximity to Edinburgh and potentially attracting inward investment. The Borders also has some significant smaller outlying settlements which offer development opportunities, particularly in relation to physical investments to support the expansion of growth businesses and ultimately to assist further economic diversification.

8 Outlook for the South of Scotland

8.1 Introduction

The production of the economic review has been carried out against a backdrop of considerable economic turmoil at the global, UK and Scottish levels. The UK and Scottish economies are now officially in recession and there is emerging evidence that the South of Scotland is beginning to feel the effects of the global economic downturn.

In this final chapter of the report we present our understanding of the future prospects for the South of Scotland based on:

- Our understanding of the recent economic performance of the region;
- Oxford Economics recently published Economic Forecasts for the UK, Scotland and the Regions, published in March 2009;
- The insights we have gained from stakeholders during the consultation process to identify the emerging impacts of the recession; and
- Our own understanding of how the recession might impact on the South of Scotland.

This chapter of the report sets out:

- South of Scotland's recent performance in relation to the GES targets;
- Oxford's understanding of the drivers of the recession and the impacts thus far;
- Economic Forecasts for the South of Scotland, and the uncertainties and risks that surround those forecasts;
- The implications of the recession for the South of Scotland;
- The potential contribution the Region might make to the GES targets going forward; and
- A framework of potential policy responses.

8.2 What contribution has the South of Scotland made to the GES targets?

8.2.1 Contribution to the Scottish Economy

The South of Scotland is a relatively small part of the Scottish Economy. Looking across some key economic indicators, the Region:

- is home to 5% of Scotland's population and 4.3% of all Scottish jobs;
- generated 3.8% of total economic output from Scotland in 2006;
- is characterised by relatively low value added companies: GVA per head is below the national average across almost all industry sectors; and
- has significant specialisation in a number of key and other growth sectors and has:
 - More than 6 times the national average of jobs in textiles
 - More than twice the national average of jobs in forest industries

- Just under twice the national average of jobs in the food and drink sector
- A higher than average number of jobs in the tourism sector.

The South of Scotland has made a limited contribution to Scottish economic growth over the last 10 years. Since 1999:

- Only 1,300 additional jobs have been created – though this excludes self employment, which forms a significant element of the South economy;
- The region has not benefited from the rapid expansion of the financial & business services sector to the same extent as other areas in Scotland – employment in the sector actually fell in the region over the period;
- The regional economy contracted throughout much of the period resulting in an average GVA growth rate of 1.6%, some way below the equivalent rates of 2.8% for Scotland and 3.2% for the UK; and
- There has been some growth in export sales in recent years, but this has been slightly slower than across Scotland as a whole.

At the same time, the South of Scotland also has a number of people and place assets that provide a basis for a stronger economic performance going forward:

- The Region has, in comparison to the UK as a whole – a highly skilled workforce;
- The South has a very high labour market participation rate, though this could limit future growth as it leaves a relatively small pool of available labour;
- Business Density – given the rurality of the region – is very high at 49 businesses per 1,000 population, whilst business birth rates are also above the national average;
- The Region now has two multi-disciplinary joint Further and Higher Education establishments (at Galashiels and Dumfries) which provide a range of opportunities for study, as well as innovation and commercialisation through developing business linkages; and
- The overall population of the region has grown by 2% between 1999 and 2007 - in comparison to relative stagnation across Scotland. This growth has been concentrated in the Borders, whilst there has been little change in the total population of Dumfries & Galloway over the period.

8.2.2 Contribution to the achievement of the GES targets

The South of Scotland, on the basis of recent trends, needs a step change in performance if it is to make a meaningful and positive contribution to the Scottish Government's purpose targets, as set out in the government economic strategy. To summarise recent performance in relation to the purpose targets:

- GVA grew at an average rate of 1.6% between 1999 and 2006, below the equivalent rate of 2.8% for Scotland and just half the UK average of 3.2%;
- Productivity (as measured by GVA per employee) in the region amounted to £29,000 in 2006, below the Scottish average of £35,200 and just 79% of the UK average of £36,900;
- Labour market participation (as measured by the employment rate) was 80% in 2007, above the Scottish average of 76%;

- Population increased by 2% between 1999 and 2007, outpacing the limited growth experienced across Scotland as a whole; and
- The Region is characterised by below average wage and household income levels.

Table 8.1

Source: SLIMS Analysis

Relative performance against GES Purpose Targets

	East Region	West Region	Tayside Region	Aberdeen City & Shire	South of Scotland
Economic Growth	Green	Amber	Red	Amber	Red
Productivity	Green	Amber	Red	Green	Red
Participation	Green	Red	Amber	Green	Green
Population	Green	Amber	Amber	Amber	Amber
Solidarity + Cohesion	Green	Red	Amber	Green	Red
Sustainability	Red	Green	Green	Red	Green

Colour coding: **Green – above Scottish average**
Amber – in line with Scottish average
Red – below Scottish average

8.2.3 How does the South compare to other rural benchmark areas?

The review compared the performance of the South of Scotland against a number of other rural benchmark areas including the Highlands and Islands, Cornwall and the Isles of Scilly, Cumbria and Northumberland.

In terms of economic growth, the South performed reasonably well against other rural benchmarks: it ranked 3rd out of 5 in terms of GVA growth between 1999 and 2006 – and was outpaced only by Highlands and Islands and Cornwall and the Isles of Scilly; which both benefited from Objective 1 funding over part of the last 10 years.

The relative improvement in productivity performance was also impressive. While the South ranked 4th out of 5 in 1999 in terms of GVA per employee, in 2006 it ranked 2nd out of 5. Productivity rose faster in the South in comparison to any of the other rural benchmark areas.

Labour market participation was also strong in the South, and at 80%, beaten only by the Highlands and Islands. However, this could potentially act as a brake on future growth given the relatively small pool of available labour within the region.

Performance in terms of population growth was modest at only 2%, but comparable to the other rural benchmarks, with the exception of Cornwall and the Isles of Scilly, where population grew by 8% over the last 10 years.

Wage levels in the south remain relatively low, at a median level of only £330 per week. The South ranked 3rd out of 5 against the other rural benchmark areas.

8.2.4 Looking ahead – the impact of the recession

A key question for the study, however, is to understand the potential future contribution that the South of Scotland might make to the achievement of the GES targets. In the remainder of this chapter we set out our understanding of what is driving the recession, outline some uncertainties and scenarios relating to the base Oxford Forecast and the views of the SLIMS/Oxford team on the impact that the recession will have on the South. We conclude by highlighting some potential policy implications from the review findings.

8.3 What is driving the recession?

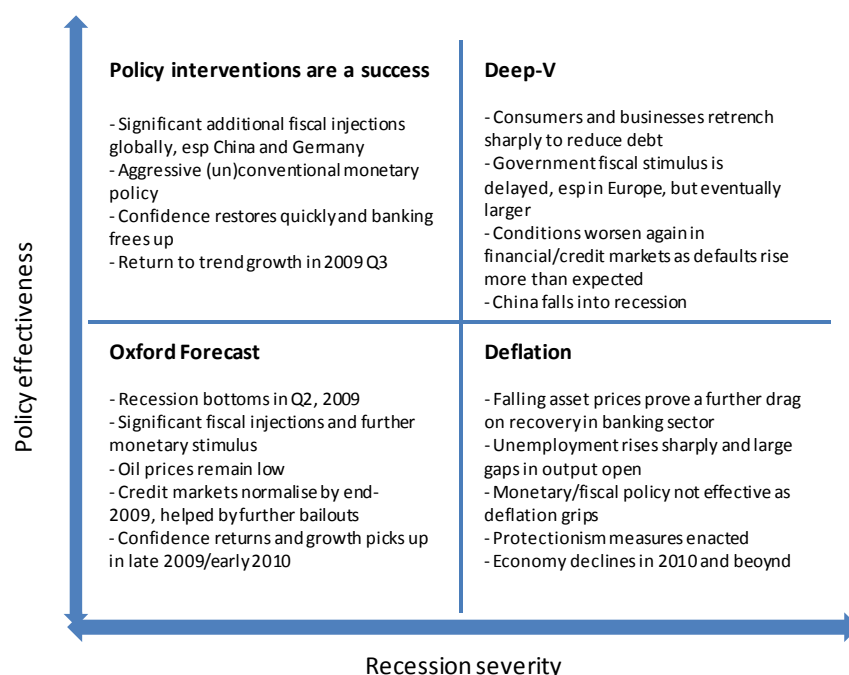
The roots of the financial crisis are complex, involving global savings imbalances, policy & regulatory failures, over-indebted consumers in a number of developed economies and the squeeze on household incomes from high commodity prices. However, the financial crisis that broke in the autumn of 2008 will be remembered as the event that destroyed consumer

and business confidence. Activity, which was already weakening, has fallen precipitously in the last 4 months, with investment spending cut back and unemployment rising sharply. Policy reactions saved the banking system from systemic collapse, with the central banks slashing official interest rates and implementing unorthodox measures to supply liquidity to both banks and the rest of the economy. However, credit remains much harder to get even for the best of borrowers, and government finances are deteriorating rapidly as economies weaken and stimulus programmes are enacted.

8.3.1 Evidence so far

The shock to the real economy is evident from the recent data releases which show a synchronised, sharp fall in activity. Some of the headline indicators are:

- The loss of nearly three million or one in fifty jobs in the US since September 2008 – the worst labour market experience in the post-war era
- German factory orders down 27% in the year to November 2008
- The transmission of the downturn to emerging nations reliant on trade – with Chinese exports in January 17.5% lower than a year earlier
- UK GDP down 2.1% in the second half of 2008
- The PMI employment measure for Scotland in January stood at a record low of 39.5
- Claimant unemployment in the South of Scotland has risen by 2,200 since February 2008, an increase of 71%.



Uncertainties and scenarios

The sharp falls in output over the last 4 months are now aggravating the financial aspects of the crisis by raising the prospect of corporate failures and further asset writedowns, nullifying the efforts to revive the banking system. These feedback loops from the severity of the downturn, combated by the unprecedented policy response, add considerable uncertainty to forecasts for 2009 and beyond.

Oxford Economics believes that the most likely outcome at this stage is for the recession to bottom in the second half of 2009. The recovery led by the US will be anaemic, with GDP not recovering its mid-2008 level in the US until mid 2010 and not until mid-2011 in the Eurozone and the UK. As illustrated in the Figure above, other outcomes are clearly possible, and only a little less likely than the base case, particularly if credit markets do not normalise or if the

fiscal and other stimulus measures are delayed. This includes a fall into outright deflation with output falls stretching into 2010 and beyond.

8.4 Economic Forecast for the South of Scotland

8.4.1 GVA growth

One of the Government targets set out within the GES is to improve economic growth, with GDP growth targeted to reach the UK level by 2011. Our forecasts for GVA growth are set out below.

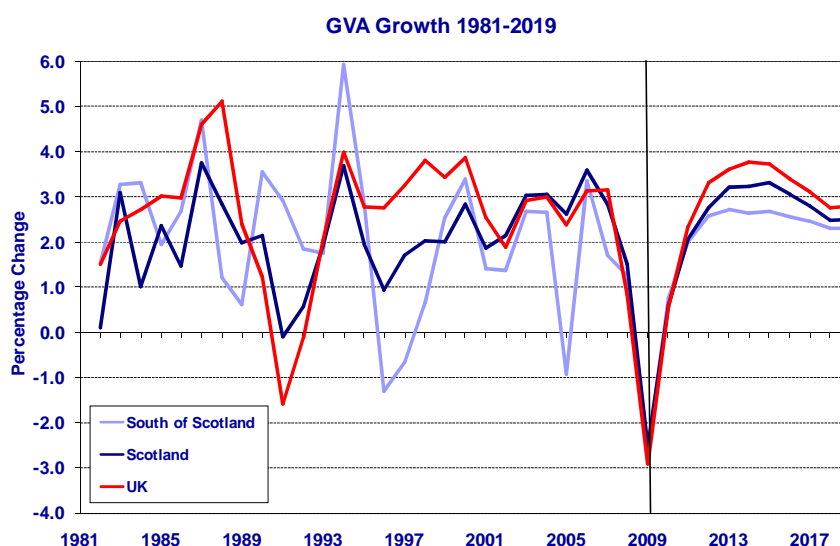
Chart 8.1 shows GVA growth in the South of Scotland, Scotland and the UK. GVA growth in the South of Scotland is a volatile series and has been negative in 3 out of the last 12 years, while Scotland and the UK have both enjoyed continuous growth since the early 1990s recession. Overall, the South of Scotland has under-performed in terms of GVA growth compared with Scotland and the UK between 2001 and 2006. The impact of the downturn will be slightly more severe in the region than across Scotland, but not as severe as across the UK. However, as the upturn will be largely service-sector led, the region will experience a slower rate of recovery than both Scotland and the UK.

Sectors in which the South of Scotland is strongest are manufacturing, education & health and distribution & hotels, accounting for 20%, 18% and 15% of total GVA respectively. These include sectors which are likely to be more resilient during the downturn, such as low and medium tech manufacturing, including food, drink & tobacco; tourism and the public sector. Although it represents 10% of total GVA, the region is much less dependent on financial & business services than Edinburgh and Glasgow. The region's structure therefore gives it some protection from the worst of the downturn.

GVA in the South of Scotland in 2009 is forecast to contract by 2.6% compared with a 2.5% fall in Scotland and a drop of 2.9% in the UK. However as the recovery will be service sector led, the sectoral mix of the South means that its recovery will be a little weaker than most other regions in Scotland and indeed the UK. Average annual GVA growth between 2011 and 2015 in the South is expected to be 2.5% compared with 2.9% for Scotland and the much stronger recovery in the UK of 3.4%.

Chart 8.1

Source: Oxford Economics



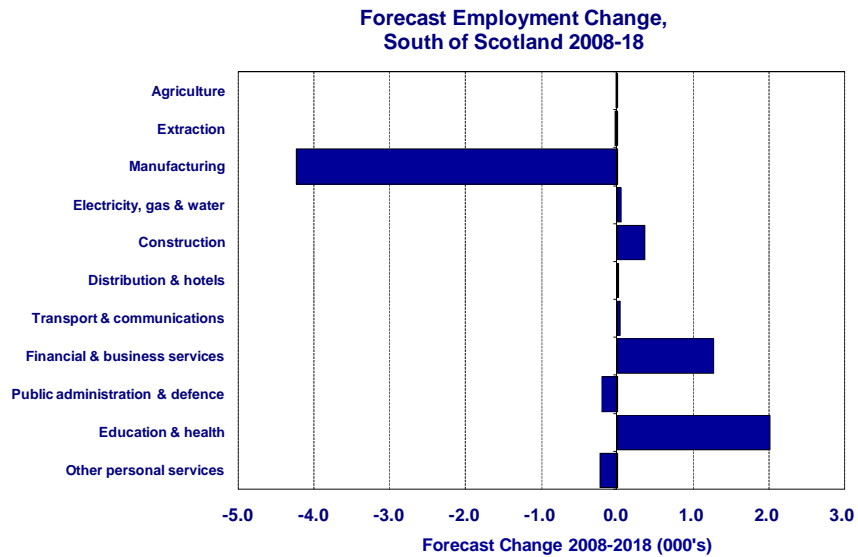
8.4.2 Employment

The base forecasts suggest that the level of jobs in the South of Scotland will contract over the decade ahead with a loss of around 1,000 jobs. An estimated 4,100 jobs will be lost during the recession, but recovery brings the creation of 3,000 jobs between 2011 and 2018.

As a result the region does not return to its 2008 employment level until after 2020. Sectorally, manufacturing will suffer the biggest job loss over the decade ahead with an estimated contraction of 4,200 jobs, the majority of which will be in food, drink & tobacco and textiles. This offsets significant increases in employment levels in education & health which is set to gain 2,000 jobs and financial & business services are expected to add 1,300 jobs between 2008 and 2018. Employment in the tourism sector is also forecast to contract marginally over the next decade. Sectors that are linked to tourism - distribution & hotels (-1,400) and other personal services (-400) - are forecast to lose 1,800 jobs in the 2008-11 period. By 2018 employment in distribution & hotels recovers its pre-recession levels, however only half the net loss of jobs in other personal services is recovered.

Chart 8.2

Source: Oxford Economics

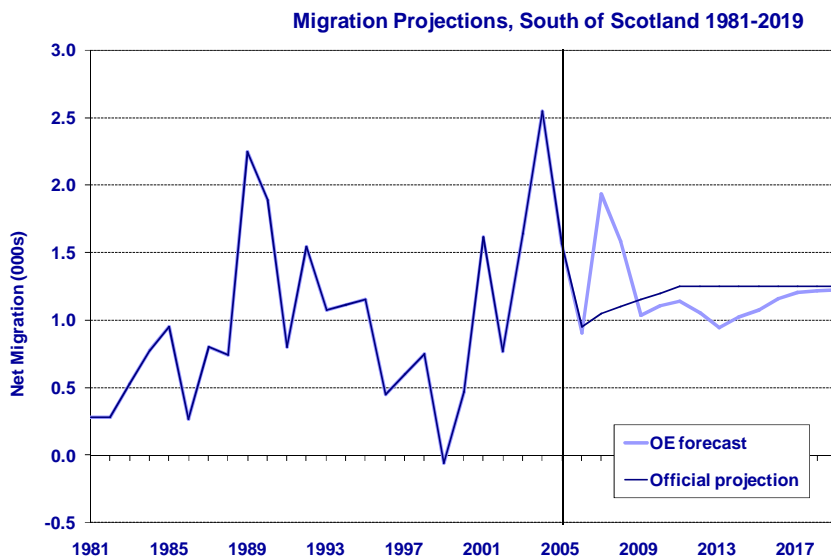


8.4.3 Population

The base migration forecast for the South of Scotland anticipates an average annual net inflow of 1,100 migrants over the decade ahead. This outlook factors in the economic growth profile over the period, and is considerably lower than the ONS official projections which are largely trend based and now somewhat dated (2006) given the publication of data for 2007. While the ONS official projection under-predicted the level of migration in the South of Scotland by some 900 migrants for 2007, our expectation is that the downturn will significantly reduce migration flows to the region in the short-term and it will only be towards the end of the forecast period that annual inflows recover to the level in the official projections.

Chart 8.3

Source: Oxford Economics



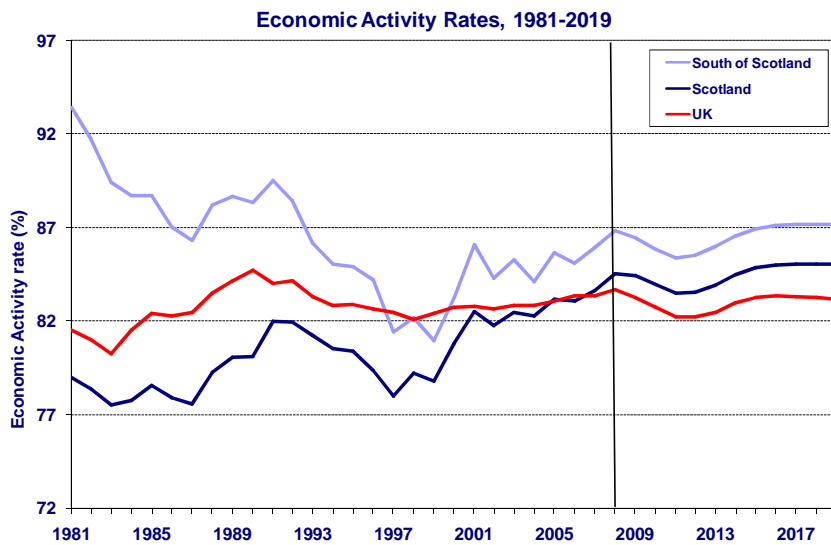
8.4.4 Economic Activity

The economically active population consists of those of working age who are either in work or available for and actively seeking work. In other words, it is a measure of the total employed + unemployed and is used to give an indication of the size of the potential labour force available within an area. The economic activity rate in the South of Scotland has been growing steadily since 2004 but is expected to have peaked in 2008. This is line with the Scottish and UK economic activity rates which also peaked in 2008.

Economic activity rates typically fall in downturns as some people of working age that are not in employment give up on actively looking for a job – the so-called discouraged worker effect. In line with past experience, we expect economic activity rates to decline until 2011. The fall is slightly more marked in the South of Scotland (1.4 percentage points) than in Scotland (1 percentage point), however is roughly equivalent to the UK (1.5 percentage points). The longer term outlook for the South of Scotland’s economic activity rate is for a moderate recovery by 2012 with the rate surpassing its 2008 high of 86.8% by 2015.

Chart 8.4

Source: Oxford Economics



8.4.5 Local outlook

The tables below summarise the outlook for employment and GVA by local authority within the region.

Tables

8.2 – 8.4

Source: Oxford Economics

Employment (000's)	2008	2009	2010	2011	2012
Scottish Borders	55	54	53	53	53
Dumfries & Galloway	72	70	69	69	69
South of Scotland	126	124	122	122	123

Employment Change (%/year)	2008	2009	2010	2011	2012
Scottish Borders	2.4	-2.0	-1.0	0.2	0.7
Dumfries & Galloway	2.5	-2.1	-1.3	-0.1	0.5
South of Scotland	2.5	-2.0	-1.2	0.0	0.6

GVA Growth (%/year)	2008	2009	2010	2011	2012
Scottish Borders	1.2	-2.6	0.9	2.1	2.6
Dumfries & Galloway	1.3	-2.7	0.7	2.0	2.6
South of Scotland	1.3	-2.6	0.8	2.0	2.6

Dumfries & Galloway forms the larger part of the South of Scotland region accounting for 57.1% of the region's labour market. The impact of the recession is broadly similar in both local authorities, reflecting a similar sectoral mix.

- The South of Scotland will lose an estimated 4,000 jobs between 2008 and 2010 with 2,400 (60%) of these jobs losses in Dumfries & Galloway and 1,600 (40%) in the Scottish Borders.
- A return to positive jobs growth is expected in 2012 with the Borders expected to have a faster recovery, returning to its 2008 level of jobs by 2016. For Dumfries & Galloway, the record employment peak of just below 71,500 jobs in 2008 will not be regained in the period to 2018, with employment levelling out at around 70,000.
- GVA is expected to fall by 2.7% in Dumfries & Galloway in 2009, recovering by 0.7% in 2010 with the recovery starting in 2010. The Borders is expected to suffer a GVA fall of 2.6% in 2009, with a recovery of 0.9% in 2010, and is likely to enjoy marginally stronger growth in the 2011-2018 period of 2.6% per annum compared with 2.4% for Dumfries & Galloway.
- Food, drink & tobacco employment in the South of Scotland is expected to decline by around 700 (-18%) over the decade ahead. This is a continuation of the trend seen over the last ten years when employment in the sector fell by 900. This experience is in line with the anticipated loss of jobs in the sector at the Scottish level. Total food & drink employment in Scotland is expected to fall by 8,100 jobs (-18%) over same period.
- The number of UK and overseas residents making overnight trips to the South of Scotland in 2007 was 1.28 million (8.1% of total trips to Scotland) according to Visit Scotland and accounted for £199.5m of spend (4.7% of total tourism spend in Scotland). Of these trips 860,000 were made to Dumfries & Galloway and 420,000 were made to Scottish Borders.
- Some of the most popular visitor attractions in the region include the World Famous Old Blacksmith's Shop Centre in Gretna Green and Teviot Watergardens in Kelso. In addition, the 7stanes mountain biking centres spread out across the region are popular tourist attractions for visitors. They consist of mountain biking trails through forests and countryside across seven locations within the region, ranging in difficulty to suit beginners through to more experienced mountain bikers.
- UK residents accounted for 91.4% of all overnight trips to the South of Scotland, compared with 82.5% of overnight trips to Scotland as a whole. As a lower cost destination for domestic tourists, the South of Scotland has the opportunity to benefit from the expected trend of UK residents holidaying at home.

8.4.6 Forecast summary

At the time of writing (late March 2009), the economy is heading into perhaps its sharpest setback period since the war, with the weakness in 2009 likely to be widespread. The South of Scotland region suffers less than other parts of Scotland, but GVA is still expected to drop by 2.6% in 2009. In comparison, Dundee City Region is expected to see its GVA fall by 2.9% in 2009.

In output terms the region is expected to begin to recover from the downturn in 2010, with growth averaging 1.8% per annum over the decade ahead. This is below the Scottish national average of 2.1% per annum and well below expected annual average growth in the UK of 2.4%.

Employment is set to decline in 2009 and 2010 by 2,600 and 1,500 jobs respectively, although three-quarters of these losses will be recovered by 2018. The fall in manufacturing more than accounts for the net loss of jobs over the next decade, with the regionally important

textiles and food, drinks & tobacco sectors accounting for over 50% of the loss of manufacturing jobs. The job losses in manufacturing will, however, be largely offset by growth in financial & business services (1,300), education & health (2,000), and construction sectors (400).

8.5 Potential Policy Implications

The review concludes by highlighting a number of potential policy implications from the research. These are categorised as both risks and opportunities which could impact upon the outlook for the South of Scotland. Most of these apply in equal measure to Scotland and indeed the UK. These are outlined briefly below:

8.5.1 Risks

Risk: Changed credit markets – individuals and companies will find credit hard to access and for many this will prevent spending or at worst lead to closures and insolvencies. Even if government interventions to free up credit markets are successful, lending criteria are likely to remain much tougher than in the recent past, with worries over the economic outlook underscoring a cautious approach by the banks. And on the demand side fears over the economic outlook may also hit demand for credit for investment, house purchases and consumer finance from more risk-averse businesses and households.

Risk: Stalling of strategic and regeneration work – many existing projects requiring private finance may grind to a halt further weakening the fragile economy. Private sector money is unlikely to be available for many construction schemes and thus housing schemes and regeneration projects could be left unfinished, or fail to start on schedule – if at all. This will be damaging in a direct sense, but also indirectly as it will reduce the attractiveness of many locations.

Risk: Adoption of 'survival' mode strategies – the growing expectation that the recession will be more prolonged than first thought, difficulty in accessing credit and the desire to conserve cash reserves will lead many firms to move into a survival mode that sees investment, R&D, marketing spend and jobs cut, with implications both for both short-term trends and long-term dynamism.

Risk: Labour market challenges – the labour market will be under considerable strain as unemployment rises sharply, with the numbers claiming benefit potentially doubling from the 2007 level. This is a sharp reversal of the strong labour market conditions over recent years and will be a new experience for many younger workers and a challenge for employment services organisation.

- **Skills related issues:**
 - unemployed workers face an erosion of their skills while they remain out of work
 - many workers, even if highly educated and trained, will face a need to retrain or to re-orient their skills in the face of reduced demand from previously fast growing sectors such as finance and business services
 - the flow of young workers into sectors under particular stress, such as construction, may aggravate skill-shortages when the economy recovers
 - postponement of graduate recruitment programmes, particularly in high value sectors, may act as a brake on future growth when economic recovery does come
 - Youth unemployment may rise significantly in the short-term – although there may be a switch from employment to further study in either further or higher education. The Education sector will play an important role in ensuring that young people have the skills to meet future employer requirements.
- **Participation issues**
 - Some older people of working age will drop out of the labour market in the short term. Stock market volatility and the erosion of the value of saving,

stocks and pensions may lead to some workers postponing retirement decisions. This may be a particular issue for the South given the population structure of the region.

- Supply-side approaches to dealing with non-participation may struggle to match previous levels of performance, given the lack of jobs available. This potentially adds to the existing challenge of bringing many long-standing benefit recipients back into gainful employment.

Risk: Public sector restraint – given the damage to the public finances from the downturn, growth in public expenditure is likely to be heavily constrained over the medium term, with implications for jobs growth in the sector and for businesses dependent on the public sector as a purchaser.

8.5.2 Opportunities

Opportunity: Trade – the weak pound should also provide a cost benefit to Scottish producers, both in competing against imports in the home market and in export markets. This is particularly the case for the service sector where imported inputs make up a smaller portion of total costs. For example, many firms with contracts in Dollars and Euros will already have seen a direct boost to profits over the last 3 months. Against this weak demand abroad will limit the scope for export growth and may encourage foreign suppliers to lower their margins in an attempt to hang on to market share.

Opportunity: Restructuring – weak demand and reduction in capacity in some sectors could become opportunities for local economies that hold specific attractions for businesses that decide to consolidate their operations into a single or fewer locations.

Opportunity: Slack to innovate – a period of weaker growth that creates slack within organisations may provide the room for some businesses to innovate in terms of products or processes, or to explore new markets.

Opportunity: Older skilled workers – older workers with specific skills whose retirement income plans have been disrupted by the financial crisis may decide to continue working for longer providing a pool of skilled workers that would not otherwise have been available to firms.

Opportunity: Necessity entrepreneurship – with employment opportunities limited by the recession there may be an increase in the number of people with a desire to start their own businesses.

Opportunity: Falling cost base – high quality resources may become available to businesses and organisations much more cheaply than when the economy was working much closer to full capacity. Space costs, which are high for good quality offices in Scotland, are likely to fall. This provides an opportunity for service based businesses to lock into a lower cost base without compromising on either location or quality of accommodation. Similar effects could also operate in the labour market as highly-skilled, experienced, staff become more readily available.

Opportunity: Tourism – a weak pound and cost conscious UK consumer should provide a boost to the tourist sector if prices can be kept competitive and service maintained. Though the boost may be temporary, promoting the South of Scotland as a location to travellers both within the UK and further afield should be an easier 'sell' than in the recent past.

Appendix 1 – Geographical Definitions

Functional Economic Geography	Local Authority Areas
Aberdeen City & Shire	Aberdeen City Aberdeenshire
Dundee City Region	Angus Dundee City Perth & Kinross North East Fife*
East Region	Borders Clackmannanshire East Lothian Edinburgh City Falkirk Fife (excluding NE Fife) Midlothian Stirling West Lothian
West Region	Argyll & Bute East Ayrshire East Dunbartonshire East Renfrewshire Glasgow City Inverclyde North Ayrshire North Lanarkshire Renfrewshire South Ayrshire South Lanarkshire West Dunbartonshire
South of Scotland	Scottish Borders Dumfries & Galloway

* *parliamentary constituency area*

Appendix 2 – GES Targets

Purpose Target	Description	Scale of the Gap	GES Measure	Measure used in Economic Review	Why different
Economic Growth	To raise Scotland's GDP growth rate to the UK level by 2011 To match the GDP growth rate of small independent EU countries by 2017	1995 – 2005: GDP Growth: Scotland: 2.2% UK: 2.8% Small EU: 3.1%:	Growth in Gross Domestic Product (GDP) (Scottish Government)	Gross Value Added (Oxford Economics)	GDP data is not available at the sub-national level.
Productivity	To rank in the top quartile for productivity amongst Scotland's key trading partners in the OECD	2006 data on productivity: - Scotland: bottom of second quartile in 2006 (14 th out of 20) - UK: top of second quartile (11 th out of 20) - Scottish GVA per hour 97.5% of UK level	GDP per employee per hour worked	GVA per employee	As above – plus data on average hours worked not available at sub-national level
Participation	Maintain Scotland's position as the top performing country in the UK and close the gap with top 5 OECD economies by 2017	Employment rates for UK countries, 2007 – Q2: Scotland – 77.2% England – 74.4% Wales – 72.3% N. Ireland – 70.5% New Zealand – n/a (5 th OECD)	Employment rate	Employment rate	-
Population Growth	To match average EU population growth over the period 2007 - 2017	Population change EU 15 and Scotland EU – 15: 4.0% (95-05); 2.6% (00-05) Scotland: -0.2% (95-05); 0.6% (00-05)	Population change	Population change	-
Solidarity	To increase overall income and the proportion of income earned by the lowest income deciles as a group by 2017.	Income earned by deciles 1-3 in 2005/06 was 14% (unchanged since 2001/01)	Equivalent net disposable income before housing costs	Gross Household Disposable Income	ENDI not available at sub-national level and data not regularly published
Cohesion	To narrow the gap in participation between Scotland's best and worse performing regions (Local Authority areas) by 2017	Gap in participation between best three and worst three LA areas: 1995: 22% - 2006: 16%	Employment rate	Employment Rate	-
Sustainability	To reduce greenhouse gas emission over the period to 2011 To reduce greenhouse gas emissions by 80% by 2050	Scottish greenhouse gas emissions (Mt Carbon Equivalent) 1990: 18.6Mt 1996: 17.9Mt 2005: 15.3Mt	Greenhouse gas emissions (Mt Carbon Equivalent)	CO2 emissions (KT equivalent)	Data on other greenhouse gases (CH4, N2O, HFC's etc) not available at sub-national level)

Appendix 3 – Sources of Key Performance Indicators

Indicator	Source
Economic Growth	
Total GVA 2006 (£bn)	Oxford Economics
Average Annual GVA Growth Rate 1999-2006*	Oxford Economics
Total Exports 2006 (£bn)	Global Connections Survey, Scottish Government
Change in Export Sales 2002 -2006	Global Connections Survey, Scottish Government
Productivity	
GVA per Employee 2006	Oxford Economics
Change in GVA per Employee 1999-2006	Oxford Economics
% school leavers entering positive destinations 2007	Scottish Government
% adults with degree level qualifications 2007	Annual Population Survey
% adults with no qualifications 2007	Annual Population Survey
Businesses per 1,000 adults 2007	Small Business Statistics, ONS
Business Birth Rate per 1,000 adults 2006	Small Business Statistics, ONS
Inward Investment 2007/08 (£m)	Scottish Enterprise
Change in Inward Investment 2004/05 - 2007/08	Scottish Enterprise
Labour Market Participation	
Employment Rate 2007	Annual Population Survey
Unemployment Rate 2007	Annual Population Survey
Economic Inactivity Rate 2007	Annual Population Survey
Self Employment Rate 2007	Annual Population Survey
Jobseekers Allowance Claimant Rate 2008	DWP
Incapacity Benefit Claimant Rate 2008	DWP
Population	
Total Population 2007 (m)	General Register Office for Scotland (GROS)
Population Change 1999-07	General Register Office for Scotland (GROS)
% Population Change 1999-07	General Register Office for Scotland (GROS)
% working Age Population Change 1999-07	General Register Office for Scotland (GROS)
Projected Population 2018 (m)	General Register Office for Scotland (GROS)
% Change Projected Population 2018	General Register Office for Scotland (GROS)
Solidarity & Cohesion	
Median Weekly Wages 2008	Annual Survey of Hours & Earnings, ONS
% Change in Weekly Wages, 1999-2008	Annual Survey of Hours & Earnings, ONS
% residents living in 15% most deprived data zones	Scottish Index of Multiple Deprivation
Sustainability	
CO ² emissions per head of population 2005	Dept for Environment, Food & Rural Affairs (DEFRA)
% CO ² emissions domestic 2005	Dept for Environment, Food & Rural Affairs (DEFRA)
% CO ² emissions industrial 2005	Dept for Environment, Food & Rural Affairs (DEFRA)
% MSW recycled or composted 2007/08	Scottish Environment Protection Agency (SEPA)

*calculated by averaging growth rates over the period from 1998/99 to 2005/06

Appendix 4 – SIC Definitions of Key and Other Growth Sectors

Key Sector: Energy	
SIC	Description
10	Mining of coal & lignite, extraction of peat
11	Extraction of crude petroleum & natural gas: Related service activities
23	Manuf of coke, refined petroleum products & nuclear fuel
40	Electricity, gas, steam & hot water supply
41	Collection, purification & distribution of water

Key Sector: Financial Services	
SIC	Description
65	Financial intermediation, except insurance & pension funding
66	Insurance & pension funding, except compulsory social security
67	Activities auxiliary to financial intermediation

Key Sector: Food & Drink	
SIC	Description
15	Manuf of food & beverages

Key Sector: Life Sciences	
SIC	Description
244	Manuf of pharmaceuticals, medicinal chemicals & botanical products
331	Manuf of medical & surgical equipment & orthopaedic appliances
731	Research & experimental development on natural sciences & engineering

Key Sector: Tourism	
SIC	Description
5510	Hotels
5521	Youth hostels and mountain refuges
5522	Camping sites, including caravan sites
5523	Other provision of lodgings not elsewhere classified
5530	Restaurants
5540	Bars
633	Activities of travel agencies and tour operators; tourist assistance activities not elsewhere classified
925	Library, archives, museums and other cultural activities
926	Sporting activities
927	Other recreational activities

Key Sector: Creative Industries	
SIC	Description
2211	Publishing of books
2212	Publishing of newspapers
2213	Publishing of journals & periodicals
2214	Publishing of sound recordings
2215	Other publishing (50%)
2231	Reproduction of sound recording (25%)
2232	Reproduction of video recording (25%)
2233	Reproduction of computer media (25%)
5248	Other retail sale in specialised stores (5%)
7221	Publishing of software
7222	Other software consultancy & supply
7481	Photographic activities (25%)
7487	Other business activities not elsewhere classified (2.5%)
9211	Motion picture & video production
9212	Motion picture & video distribution

9213	Motion picture projection
9231	Artistic & literary creation & interpretation
9232	Operation of arts facilities
9234	Other entertainment activities not elsewhere classified (50%)
9272	Other recreational activities not elsewhere classified (25%)
525	Retail sale of second-h& goods in stores (5%)
742	Architectural & engineering activities & related technical consultancy (25%)
744	Advertising
922	Radio & television activities
924	News agency activities
<i>Also includes 0.5% of 9 subsectors of clothing manufacturing -</i>	
<i>SIC Codes 1771, 1772, 1810, 1821, 1822, 1823, 1824, 1830, 1930</i>	

Other Growth Sector: Textiles

SIC	Description
17	Manuf of textiles
18	Manuf of wearing apparel; dressing & dyeing of fur
19	Manuf of leather & leather products
2954	Manuf of machinery for textile, apparel & leather production
5141	Wholesale of textiles
5142	Wholesale of clothing & footwear

Other Growth Sector: Aerospace, Defence & Marine

SIC	Description
1752	Manuf of cordage, rope, twine & netting
2830	Manuf of steam generators, except central heating hot water boilers
2911	Manuf of engines & turbines, except aircraft, vehicle & cycle engines
2960	Manuf of weapons & ammunition
3110	Manuf of electric motors, generators & transformers
3320	Manuf of instruments & appliances for measuring, checking, testing, etc.
3340	Manuf of optical instruments & photographic equipment
3511	Building & repairing of ships
3512	Building & repairing of pleasure & sporting boats
3530	Manuf of aircraft & spacecraft
7122	Renting of water transport equipment
7123	Renting of air transport equipment
7522	Defence activities

Other Growth Sector: Chemicals

SIC	Description
23	Manuf of coke, refined petroleum products & nuclear fuel
24	Manuf of chemicals & chemical products

Other Growth Sector: Construction

SIC	Description
1411	Quarrying of stone for construction
2030	Manuf of builders carpentry & joinery
2523	Manuf of builders ware of plastic
2640	Manuf of bricks, tiles & construction products, in baked clay
2651	Manuf of cement
2652	Manuf of lime
2653	Manuf of plaster
2661	Manuf of concrete products for construction purposes
2662	Manuf of plaster products for construction purposes
2663	Manuf of ready-mixed concrete
2664	Manuf of mortars
2665	Manuf of fibre cement

2666	Manuf of other articles of concrete, plaster & cement
2812	Manuf of builders' carpentry & joinery of metal
2952	Manuf of machinery for mining, quarrying & construction
4511	Demolition & wrecking of buildings; earth moving
4512	Test drilling & boring
4521	General construction of buildings & civil engineering works
4522	Erection of roof covering & frames
4523	Construction of highways, roads, airfields & sports facilities
4524	Construction of water projects
4525	Other construction work involving special trades
4531	Installation of electrical wiring & fittings
4532	Insulation work activities
4533	Plumbing
4534	Other building installation
4541	Plastering
4542	Joinery installation
4543	Floor or wall covering
4544	Painting & glazing
4545	Other building completion
4550	Renting of construction or demolition equipment with operator
5113	Agents involved in the sale of timber & building materials
5153	Wholesale of wood, construction materials & sanitary equipment
5154	Wholesale of hardware, plumbing & heating equipment & supplies
5182	Wholesale of mining, construction & civil engineering machinery
7132	Renting of construction & civil engineering machinery & equipment
7420	Architectural & engineering activities & related technical consultancy

Other Growth Sector: Forest Industries

SIC	Description
201	Forestry & logging
202	Forestry & logging related service activities
2010	Saw milling & planing of wood, impregnation of wood
2020	Manuf of veneer sheets; Manuf of plywood, laminboard, particle board, fibre board & other panels & boards
2030	Manuf of builders carpentry & joinery
2040	Manuf of wooden containers
2051	Manuf of other products of wood
2111	Manuf of pulp
2112	Manuf of paper & paperboard
2121	Manuf of corrugated paper & paperboard & of containers of paper & paperboard
2122	Manuf of household & sanitary goods & of toilet requisites
2123	Manuf of paper stationery
2124	Manuf of wallpaper
2125	Manuf of other articles of paper & paperboard not elsewhere classified

Appendix 5 – SIC Definitions used in Table 6.6

Industry	SIC	Description
Energy	10	Mining of coal & lignite, extraction of peat
	11	Extraction of crude petroleum & natural gas: Related service activities
Food & Drink	15	Manuf of food & beverages
Life Sciences	-	Scottish Government source book data used - no SIC definition
Tourism	551	Hotels
	552	Camping sites & other provision of short-stay accommodation
	553	Restaurants
	554	Bars
	633	Activities of travel agencies & tour operators; other tourist assistance activities
	925	Library, archives, museums and other cultural activities
	926	Sporting activities
	927	Other recreational activities
Creative Industries	-	Same definition used in Sections 6.3.2 and 6.3.3 - See Appendix 4, Page 91-92
Textiles	17	Manuf of textiles
	18	Manuf of wearing apparel; dressing & dyeing of fur
	19	Manuf of leather & leather products
Aerospace	34	Manufacture of motor vehicles, trailers and semi-trailers
	3511	Building and repairing of ships
	3512	Building and repairing of pleasure and sporting boats
	352	Manufacture of railway and tramway locomotives and rolling stock
	353	Manufacture of aircraft and spacecraft
	354	Manufacture of motorcycles and bicycles
	355	Manufacture of other transport equipment nec
Chemicals	23	Manuf of coke, refined petroleum products & nuclear fuel
	24	Manuf of chemicals & chemical products
Construction	45	Construction
Forest Industries	2	Forestry, logging & related service activities
	20	Manuf of wood & wood products
	21	Manuf of pulp, paper & paper products