



Scottish Enterprise

East Region 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 **East Region**, which comprises the local authority areas of: Borders, Clackmannanshire, East Lothian, Edinburgh City, Falkirk, Fife (excluding North East Fife), Midlothian, Stirling and West Lothian.

Where possible, we have benchmarked the performance of the area against Scotland and the UK. However for some indicators, UK figures are not available. In these cases Great Britain (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 Scottish Enterprise 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 East Region.
- **Chapter 5** benchmarks the performance of the region against the other regions in Scotland.
- **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 by Scottish Enterprise.
- **Chapter 7** looks at infrastructure and place issues.
- **Chapter 8** looks at the performance of the local authority areas within the region.
- **Chapter 9** 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

An important part of the Scottish economy

The scale of the East Region in relation to the rest of Scotland means that its performance against the GES purpose targets will be a major determinant on whether those are met. The East Region:

- generated 32% of Scotland's GVA in 2006;
- accounts for 29% of all Scottish jobs; and
- has 29% of Scotland's population.

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

In terms of economic growth, the East Region outperformed both Scotland and the UK between 1999 and 2006. The East is the only Scottish region to have achieved a growth rate above the UK average over the period and is therefore well placed to make a positive contribution to the national growth target.

Oxford Economics' forecast suggests that economic output from the East Region will fall by 2.5% in 2009, in line with the expected contraction across the Scottish economy as a whole, but better than the UK where output is expected to fall by 2.9%.

- GVA in the East Region grew at an average annual rate of 4.0% between 1999 and 2006, outpacing both Scotland (2.8%) and the UK (3.2%). The region is therefore already exceeding the national growth target.
- Growth has been largely driven by the rapid expansion of *financial & business services*, which now accounts for a third of all output from the region. However, there was growth across almost all industry sectors over the period, with particularly high GVA increases within *retail & catering* and *public services*.
- Oxford's forecasts anticipate modest GVA growth in the region of 0.7% in 2010, with the recovery gathering pace in 2011. For the period from 2011 to 2018 the East Region's GVA growth rate of 3.1% is again expected to exceed that of Scotland (2.9%), but remain slightly below that of the UK (3.3%).

Other growth measures confirm that the East Region economy has performed strongly in recent years...

- The total number of jobs located in the region increased by 13% between 1999 and 2007, outpacing the growth of 11% across Scotland and 7% across GB.
- This growth amounted to an additional 80,400 jobs in the region, 49,700 of which were full-time, whilst 30,700 were part-time.
- The value of exports sales from the East Region increased by 7% between 2002 and 2006, more than double the increase of 3% across Scotland. This was driven by strong growth in exports from food & drink, chemicals and retail & catering, which was more than enough to offset continued declines in electronics.

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 figure.

Following a strong period of growth, productivity levels within the East Region were above both the Scottish and UK averages in 2006. If the region can continue to increase productivity at a rate faster than the other highly performing OECD countries, it will be in a position to make a positive contribution to the GES target.

- GVA per employee in the East Region amounted to £38,400 in 2006. This was higher than the equivalent figures for both Scotland (£35,200) and the UK (£36,900).
- The level of GVA generated per employee in the East Region increased by 20% between 1999 and 2006. This was double the equivalent growth rate of 10% for Scotland and faster than the UK growth of 15%.
- Productivity is above the Scottish average across almost all industry sectors. The region has particularly high levels of GVA per employee within financial & business services, reflecting the concentration of head office functions within the region.

The East Region also performs well across some of the wider drivers of productivity identified in the GES...

- One of the region's key economic assets is its highly skilled workforce. Relative to Scotland as a whole, it is home to a higher proportion of graduates and fewer residents with no qualifications at all.
- Over two thirds of graduates originally from the East find their first job in the region immediately following graduation. This high retention rate is indicative of a buoyant graduate labour market, particularly within Edinburgh.
- The growth in the number of VAT registered businesses in the East Region has outpaced both Scotland and the UK in recent years. However, business density levels and new business birth rates still lag some way behind the UK.
- The region has strong representation in several key and other growth sectors including financial services, life sciences, tourism, chemicals and textiles. Of these, financial services is the only sector to have experienced substantial growth between 1999 and 2007, with employment growth of around a fifth over the period.
- Inward investment represents an important source of high value jobs and the East Region has performed well on this measure in recent years, attracting 29% of the Scottish total in 2007.

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 East Region has been above both the Scottish and GB averages since 1999. The region is therefore in a strong position to contribute to the national participation target.

- In 2007, the employment rate in the East Region was 77%, compared to a Scottish average of 76% and a GB figure of 75%.

- Oxford Economics' forecasts suggest that, whilst economic activity rates will fall in the region over the next couple of years as a result of the economic downturn, they will remain above the national averages.

The region also performs well across a range of other key labour market indicators, including unemployment, inactivity and benefit dependency rates...

- The unemployment rate in the East Region was 5% in 2007, in line with Scotland and GB. Similarly, the economic inactivity rate in the region was 19% in 2007, broadly in line with the rates of 20% for Scotland and 21% for GB.
- The proportion of the working age population that claim workless benefits in the East Region (14%) was lower than across Scotland (16%) and in line with GB (14%) in 2008. However, the fall in the total number of benefit claimants in the region has been slower than across Scotland as a whole between 2000 and 2008.
- The East Region has a relatively self-contained labour market, with just 5% of residents working outside the area in 2001 and 5% of the workforce commuting in from elsewhere.
- Commuting flows within the region are considerable with many residents benefiting from the job opportunities available in Edinburgh, and the city benefiting from the supply of labour from the surrounding areas.

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

The East Region experienced strong population growth of 5% between 1999 and 2007 and has been the only Scottish region to outperform the EU15 in terms of population growth in recent years. Scottish Population increased 1% over the same period, and over the last ten years for which data is available (1995 – 2005) the EU15 population increased by 4%.

Looking to the future, official projections forecast continued population growth in the region over the decade ahead. The East therefore appears well placed to make a positive contribution to the GES target.

- There were 1.5m people living in the East Region in 2007, an increase of 5% from the total in 1999. This was faster than the equivalent growth rates of 1% for Scotland and 4% for the UK.
- Growth has been driven by net in-migration to the region, which has been predominantly people of working age (though there are some sub-regional differences). The working age population increased by 12% between 1999 and 2007 - more than twice the rate of overall population growth.
- The East Region's population is characterised by above average numbers of young adults in their 20s and 30s and fewer residents over the age of 50, relative to Scotland as a whole.
- The recent strong population growth experienced within the East Region is expected to continue over the coming decade according to official population projections.

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, the median earnings of those working in the East Region are higher than across Scotland as a whole, though there is evidence of wide disparities within the region...

- The median weekly earnings of all those working in the East Region (full-time and part-time workers combined) were £382 in 2008, above the equivalent figure of £375 but below the UK average of £388.
- There are wide disparities in earnings levels within the region. For example, median earnings for those working in Edinburgh are 11% higher than the regional figure, whilst in Clackmannanshire they are around 20% lower.
- Overall household income levels in Edinburgh are among the highest in Scotland, whilst there are other areas within the region, such as Clackmannanshire, West Lothian and Falkirk, where average income levels fall well below the national average.

Purpose Target 6: To narrow the gap in participation between Scotland's best and worst Local Authority (LA) Areas by 2017.

The employment rate of the East Region as a whole is slightly above the Scottish and GB averages, but there are disparities within the region on this measure. The East was home to one of the three local authority areas with the lowest employment rates in the country in 2007 and will therefore have a key role to play to help achieve the target.

- Between 1995 and 2006 the gap in the employment rate between the best and worst local authority areas in Scotland fell from 22% to 17%.
- Clackmannanshire had the second lowest employment rate of all local authority areas in Scotland in 2007. A further two local authority areas in the region – Edinburgh and Fife – fall within the worst ten performing areas.
- Deprivation, although an important issue, is not as widespread in the East as in some other parts of Scotland. In 2006, 2% of the population lived in the 5% most deprived neighbourhoods in Scotland, whilst 9% live 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 East region accounts for a third of all Scottish CO² emissions and has an above average level of emissions per head relative to the Scottish and UK averages.

- The East Region generated 10.4 tonnes of CO² emissions per head of population in 2006, above both the Scottish and UK averages (8.5 and 8.8 respectively). This high level of emissions is largely due to the large oil refinery based at Grangemouth.
- There was an increase of 1% in the total volume of CO² emissions from the region between 2005 and 2006. However, care should be taken in interpreting any trend from such a limited data set.
- Around a third of all waste from the East Region and Scotland was recycled or composted in 2008 – a six fold increase from the level in 2002.

Looking to the future...

The review of performance of the East Region economy covers a period (1999–2007) of unbroken economic 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 in line with Scotland as a whole, but less severe compared to the UK. While it will outperform Scotland during the recovery, the East region's GVA growth rate is expected to be lower than that of the UK as a whole from 2011 – 2018.

- The concentration of financial and business services within Edinburgh leaves the East Region vulnerable to the recession, and the economy is forecast to contract by 2.5% during 2009, in line with the fall expected for Scotland as a whole, but slower than the drop of 2.9% in the UK.
- The longer term outlook for the region is more favourable. In output terms, the region is expected to begin to recover from the downturn in 2010, with growth averaging 3.1% per annum over the period 2011-18. This is above the average of 2.9% expected for Scotland, but below the growth rate of 3.3% expected for the UK.
- Employment in the East Region is set to fall in both 2009 and 2010 by 20,600 and 10,600 jobs respectively, with a return to jobs growth not expected until 2012. This will not be confined to the financial services sector but spread across all sectors, with only the public sector escaping from job losses. The recovery process is likely to be slow, with the region expected to underperform until 2011.
- The fall in labour market participation levels in Edinburgh is expected to be more protracted than across Scotland and the UK, with only a muted recovery thereafter. The more pessimistic forecast for the region is based on the expectation that continued growth in the working age population will outpace jobs growth.

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 East Region.

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.

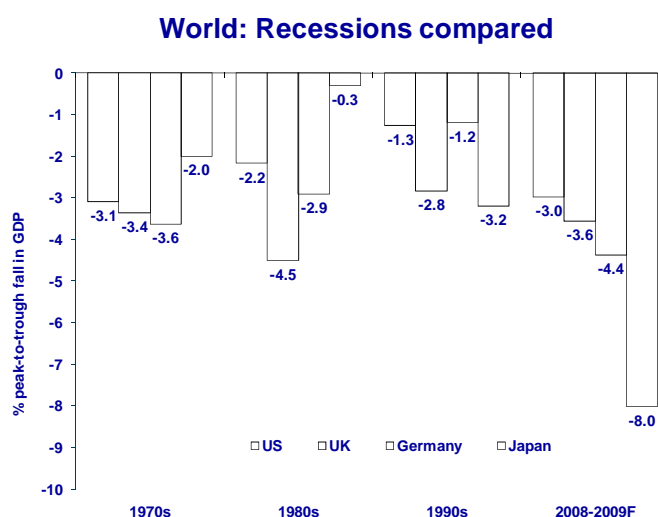
3.2 The global recession

No major economy is bucking the sharp downturn that began last autumn. Output is falling in all the major developed economies, while growth rates have fallen back sharply in China and India. The data releases so far in 2009 underline the extent of the shock to the real economy following the banking crisis in September. In the US, more than three million (one in every fifty) jobs have been lost since September 2008 – the worst employment performance 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 weakened 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 a fall of 17% in January 2009, underlining the global nature of the downturn.

Chart 3.1 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.

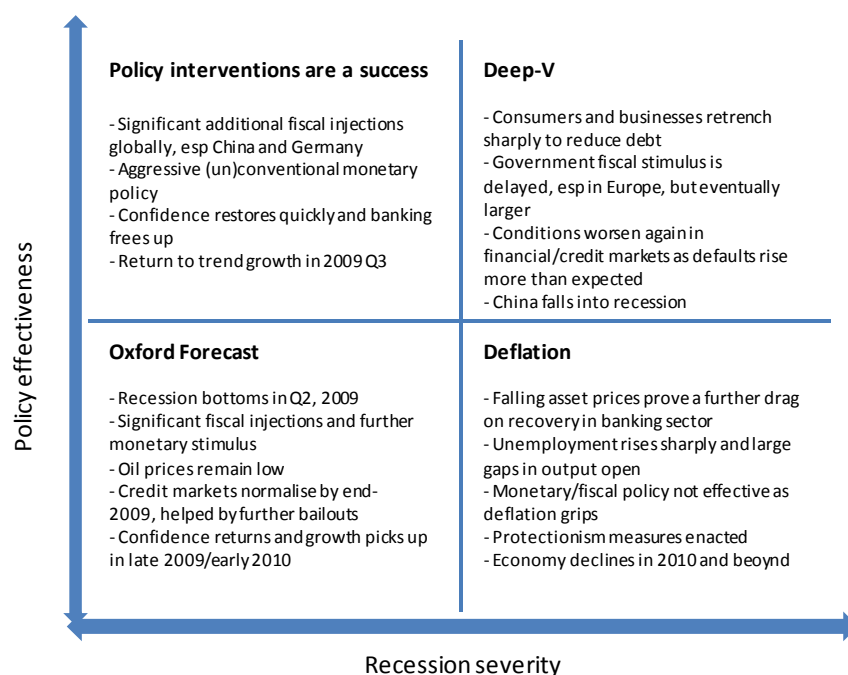
Chart 3.1

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.



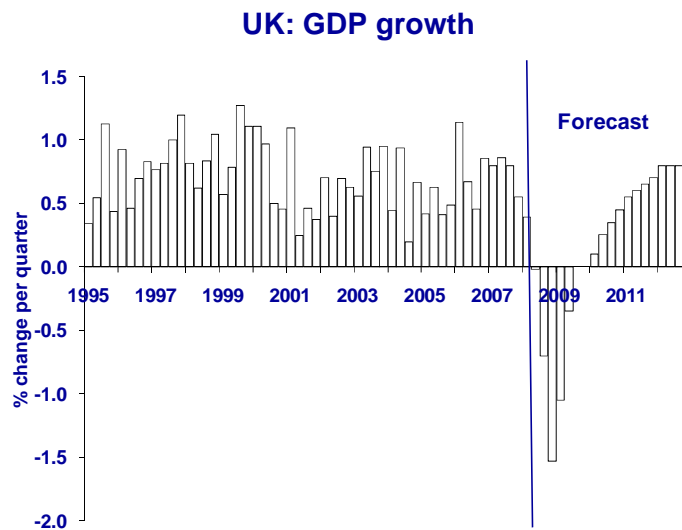
Other outcomes are clearly possible, particularly if credit markets do not normalise or if the fiscal and other stimulus measures are delayed. Indeed a fall into outright deflation, with output continuing to fall through 2010 is a possibility. As a result of its banking / credit market origins we rate 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

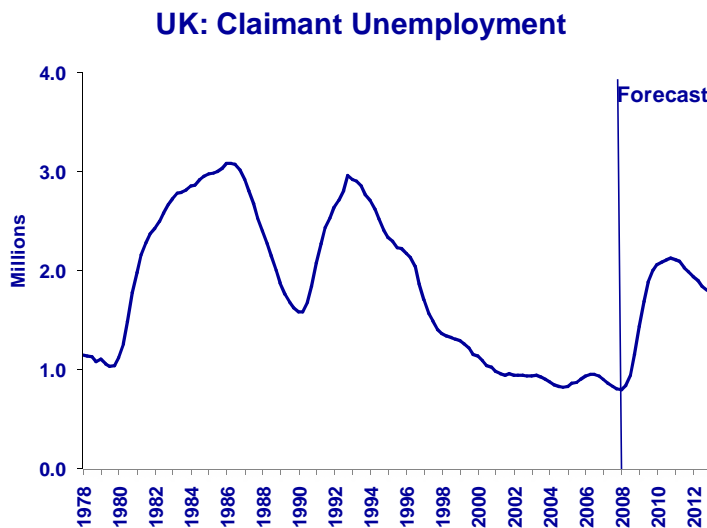


3.5 Rising unemployment

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

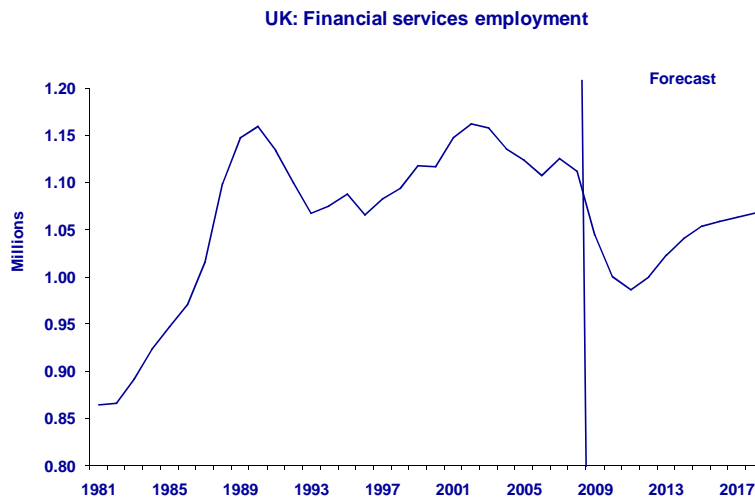


3.6 Financial services – eye of the storm

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.

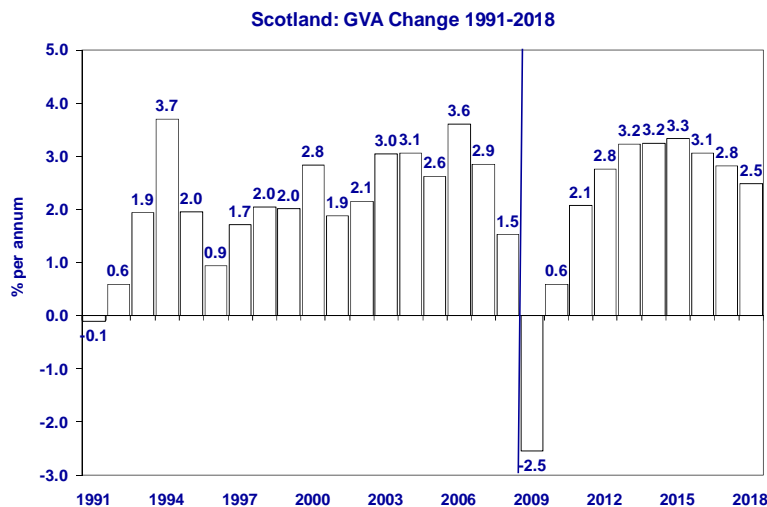
Scotland's professional and financial services bases around Glasgow and Edinburgh will be adversely affected in 2009 and further increases vulnerability. Elsewhere, the slowing global economy will bring Scotland's manufacturing base under more pressure, and though tourism (as result of the weak pound)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

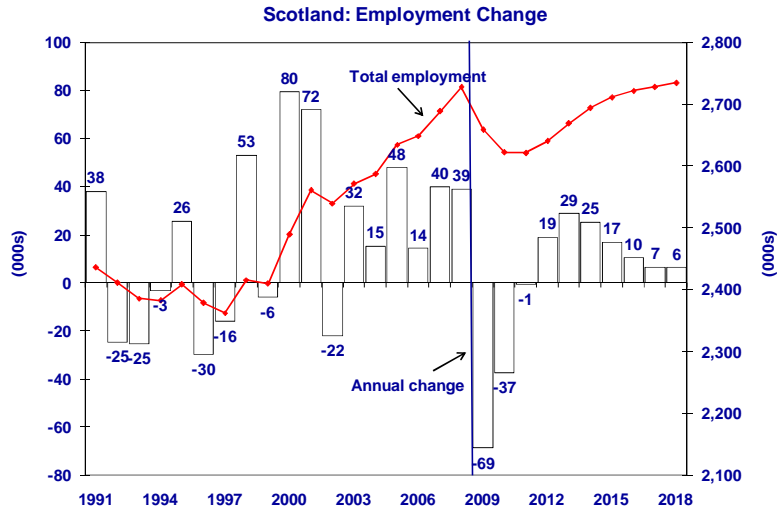


Employment

- 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

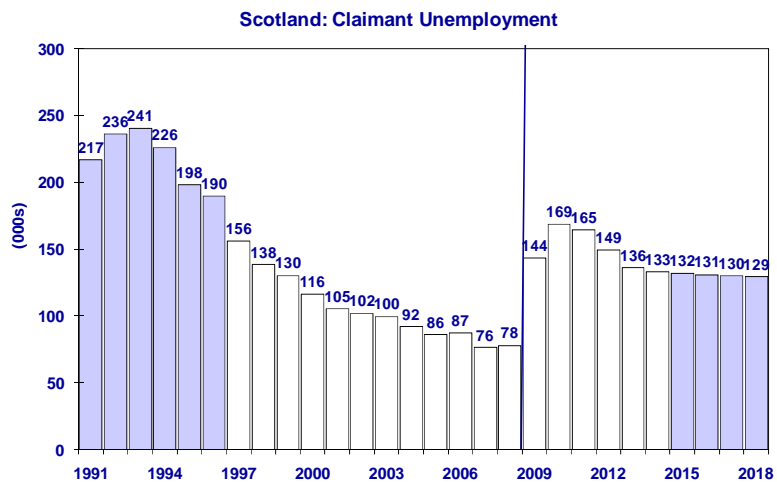


Unemployment

- 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. There is a chance that 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, there 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 East Region 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 9 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

	East Region	Scotland
Economic Growth		
Total GVA 2006 (£bn)	£30.1	£93.4
Average Annual GVA Growth Rate 1999-2006	4.0%	2.8%
Total Exports 2006 (£bn)	£5.9	£20.6
Change in Export Sales 2002 -2006	7%	3%
Productivity		
GVA per Employee 2006	£38,400	£35,200
Change in GVA per Employee 1999-2006	20%	10%
% school leavers entering positive destinations 2007	85%	86%
% adults with degree level qualifications 2007	36%	33%
% adults with no qualifications 2007	11%	14%
Businesses per 1,000 adults 2007	32	33
Business Birth Rate per 1,000 adults 2006	3.0	2.8
Inward Investment 2007/08 (£m)	£77.5	£263.8
% Change in Inward Investment 04/05 - 07/08	103%	87%
Labour Market Participation		
Employment Rate 2007	77%	76%
Unemployment Rate 2007	5%	5%
Economic Inactivity Rate 2007	19%	20%
Self Employment Rate 2007	8%	8%
Jobseekers Allowance Claimant Rate 2008	2.1%	2.4%
Incapacity Benefit Claimant Rate 2008	7.2%	8.4%
Population		
Total Population 2007	1,498,400	5,144,200
Population Change 1999-07	65,000	72,300
% Population Change 1999-07	4.5%	1.4%
% working Age Population Change 1999-07	12.0%	2.6%
Projected Population 2018	1,599,900	5,294,300
% Change Projected Population 2008-18	6%	3%
Solidarity & Cohesion		
Median Weekly Wages 2008	£382	£375
% Change in Weekly Wages, 1999-2008	38%	36%
% residents living in 15% most deprived data zones	9%	15%
Sustainability		
CO ² emissions per head of population 2006	10.4	8.5
% waste recycled or composted 2007/08	34%	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 East Region 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 East Region amounted to £30.1bn in 2006¹. This represented almost a third (32%) of Scotland's total GVA, higher than the region's share of national jobs (29%).

4.3.2 GVA by Sector

Table 4.1 shows economic output by broad industry sector in the East Region, relative to Scotland as a whole. It shows that:

- In terms of wealth generation, *financial & business services* is by far the largest industry within the East Region accounting for a third of all output in 2006;
- The region is responsible for generating around 40% of all Scottish output from *financial & business services*;
- In line with the national trend, *public admin & defence* and *education & health* combined account for over a fifth (21%) of all GVA from the region;
- The contribution of *retail & catering* is also substantial at 12% of the total, though this is slightly lower than across Scotland where the sector accounted for 14% of all output in 2006;
- The East Region is slightly less dependent on *manufacturing* to generate GVA than Scotland as a whole. The sector accounted for 13% of GVA in 2006, relative to 14% nationally.

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

Table 4.1

Source: Oxford Economics

GVA by Sector 2006				
	East Region		Scotland	
	Total (£m)	%	Total (£m)	%
Agriculture	280	1%	1,270	1%
Extraction	90	0%	1,630	2%
Manufacturing	3,880	13%	12,990	14%
Utilities	710	2%	2,230	2%
Construction	1,960	7%	6,700	7%
Retail & catering	3,720	12%	12,640	14%
Transport & communications	1,650	5%	6,020	6%
Financial & business services	9,870	33%	24,870	27%
Public admin & defence	1,860	6%	5,920	6%
Education & health	4,400	15%	14,330	15%
Other services	1,670	6%	4,750	5%
Total	30,080	100%	93,360	100%

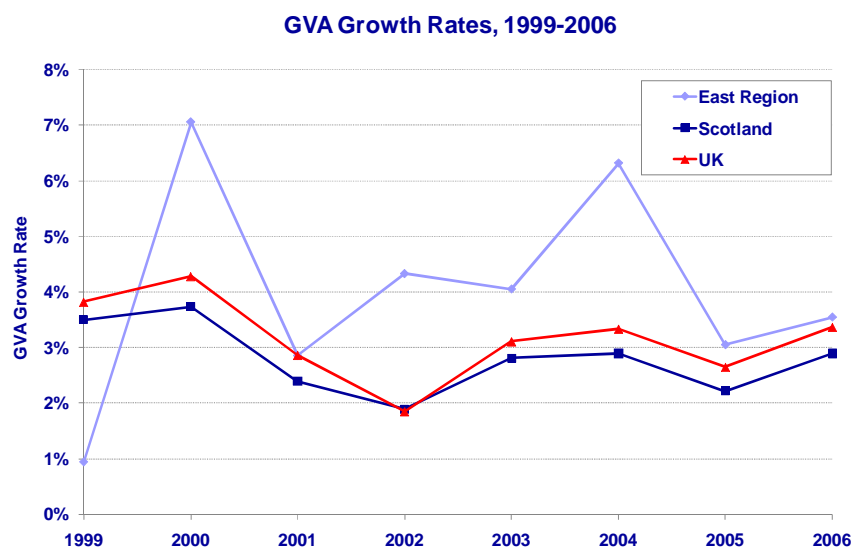
4.3.3 GVA Growth

Chart 4.1 shows that **GVA growth in the East Region outperformed relative to both Scotland and the UK between 2000 and 2006**. The region is therefore currently exceeding the national target of raising the economic growth rate to the UK level by 2011.

The average annual growth rate for the East Region between 1999 and 2006 was 4.0%, higher than the equivalent growth rates of 2.8% for Scotland and 3.2% for the UK.

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 East Region between 1999 and 2006.

- *Financial & business services* was the fastest growing industry in the region both in absolute and percentage terms. Total GVA from the industry increased by £4.3bn over the period, a growth rate of 77%.
- There was also a substantial increase in the level of output from *retail & catering*, which added £1.1bn more to the GVA total in 2006 than in 1999;

- In line with most parts of Scotland, public services also expanded over the period with total output from *public admin & defence* and *education & health* combined increasing by almost £1bn; and
- The level of output from the *manufacturing* sector in the region increased slightly over the period (+1%) against a backdrop of falling employment (See Section 6.2.2, Table 6.3). This suggests 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 East Region (£m)				
	1999	2006	Change 1999-2006	
			No.	%
Agriculture	240	280	40	18%
Extraction	150	90	-60	-42%
Manufacturing	3,850	3,880	30	1%
Electricity, gas & water	590	710	130	21%
Construction	1,440	1,960	520	36%
Retail & catering	2,660	3,720	1,060	40%
Transport & communications	950	1,650	690	73%
Financial & business services	5,580	9,870	4,290	77%
Public administration & defence	1,480	1,860	370	25%
Education & health	3,800	4,400	600	16%
Other personal services	1,450	1,670	230	16%
Total	22,180	30,080	7,900	36%

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 East Region amounted to £5.9bn. This represented 29% of Scotland's total export sales of £20.6bn, in line with the region's share of national jobs.

Table 4.3 shows change in the level of exports by industry from the region between 2002 and 2006. It shows a good performance with total export sales increasing by 7%, more than double the Scottish growth rate of 3% over the period.

There was particularly strong growth in export sales from *food & drink*, *chemicals*, *metals* and *retail & catering*, which was more than enough to offset the rapid decline in exports from the *electronics* sector. *Primary & construction industries* was the only other sector to experience a fall in export sales from the region.

Table 4.3

Scottish Global Connections Survey, Scottish Government

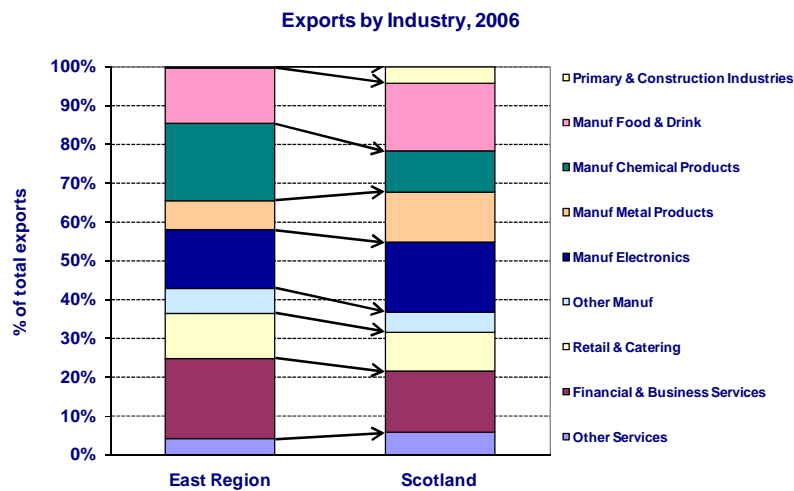
East Region Exports by Industry (£m)*				
	2002	2006	Change 2002-06	
			No.	%
Primary & Construction Industries	29	24	-5	-17%
Manufacture of Food & Drink	567	847	280	49%
Manufacture of Chemical Products	964	1,163	199	21%
Manufacture of Metals Products	369	448	79	21%
Manufacturing of Electronics	1,208	884	-324	-27%
Other Manufacturing	325	371	46	14%
Retail & Catering	570	685	115	20%
Financial & Business Services	1,215	1,227	12	1%
Other Services	219	231	12	5%
Total Exports	5,477	5,880	403	7%

* Figures refer to value of exports in current prices

Chart 4.2 shows 2006 exports by industry from the East Region, relative to Scotland. The two largest exporting industries from the region are *financial & business services* and *chemicals*, each accounting for around a fifth of all exports in 2006. Following the sharp decline in recent years, the region is now less dependent on *electronics* to generate export sales than across Scotland as a whole.

Chart 4.2

Source: Scottish Global Connections Survey, Scottish Government



4.3.6 Conclusions – Economic Growth

Economic growth in the East Region consistently outperformed both Scotland and the UK between 2000 and 2006. The region is therefore currently well placed to make a positive contribution to the national growth target.

- GVA in the East Region grew at an average annual rate of 4.0% between 1999 and 2006, outpacing both Scotland (2.8%) and the UK (3.2%). The region is therefore already exceeding the national growth target.
- Growth has been largely driven by the rapid expansion of *financial & business services*, which now accounts for a third of all output from the region. However, there was growth across almost all industry sectors over the period, with particularly high GVA increases within *retail & catering* and *public services*.
- There was little change in total output from the *manufacturing* sector between 1999 and 2006, against a backdrop of falling employment. This suggests a move within the industry towards higher value added activities and increasing levels of productivity.
- The level of foreign exports from the East Region is in line with than the area's share of national jobs. Strong growth in exports from *food & drink* and *chemicals* has been more than enough to offset the rapid decline in *electronics* in recent years.
- The region is currently on course to make a positive contribution to the national target of increasing export sales at a rate faster than GDP.

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 East Region's performance in terms of productivity and competitiveness and covers:

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

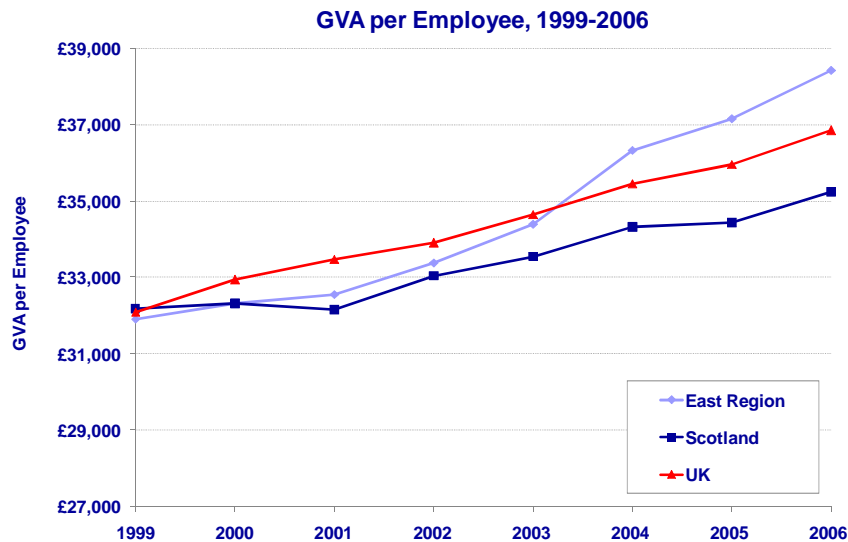
4.4.1 Productivity

Productivity levels within the East Region have increased rapidly in recent years and were above both the Scottish and UK averages in 2006.

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 employees.² Chart 4.3 shows trends in productivity levels within the East Region, Scotland and the UK between 1999 and 2006.

Chart 4.3

Source: ONS and SLIMS/Oxford Economics Calculations



- GVA per employee in the East Region amounted to £38,400 in 2006. This was higher than the equivalent figures for both Scotland (£35,200) and the UK (£36,900).
- Productivity levels in the region increased by 20% between 1999 and 2006, twice the rate of increase across Scotland as a whole and faster than the 15% increase across the UK.
- The region has consistently outperformed the Scottish average on this measure since the turn of the century and overtook the UK in 2004.

4.4.2 Productivity by Industry

Productivity levels in the East Region are above the Scottish average across almost all industry sectors.

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

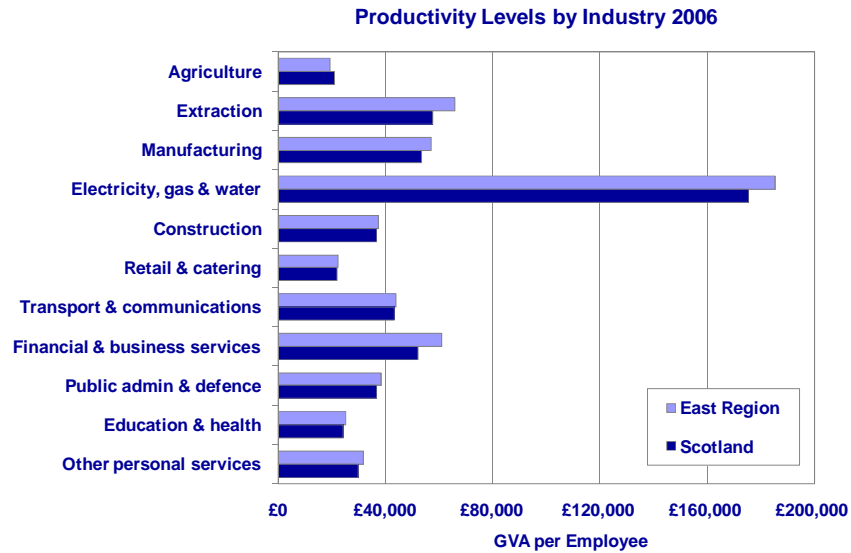
- Average GVA per employee in the region is higher than the Scottish average across all industry sectors with the exception of *agriculture*;
- *Electricity, gas & water* is the most productive sector in terms of the level of GVA generated per employee, both within the East Region and Scotland as a whole. However, in employment terms the sector is very small accounting for less than 1% of all jobs within the region;

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

- Productivity levels within *financial & business services* in the East Region are 17% higher than across Scotland as a whole. The sector accounts for almost a quarter of all jobs in the region and is therefore a key driver of overall productivity levels; and
- *Retail & catering* and *education & health* generate the lowest levels of GVA per employee of all industry sectors within both the East Region and Scotland as a whole.

Chart 4.4

Source: ONS and SLIMS/Oxford Economics Calculations



4.4.3 Qualifications of the workforce

Relative to Scotland as a whole, a higher proportion of East Region residents are educated to degree level and fewer 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 East Region. Over a third of all working age residents in the region were qualified to degree level (NVQ Level 4) or above in 2007 – higher than the equivalent rates for both Scotland and UK.

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. The share of residents within the East Region with no qualifications is lower than both the Scottish and UK averages.

Table 4.4

Source: Annual Population Survey

Qualifications of the Workforce, 2007*			
Highest Level Qualification:	East Region	Scotland	UK
NVQ Level 4+	36%	33%	29%
NVQ Level 3	16%	15%	16%
Trade Apprenticeships	6%	6%	5%
NVQ Level 2	15%	14%	16%
NVQ Level 1	10%	10%	14%
Other Qualifications	8%	7%	9%
No Qualifications	11%	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 East Region relative to Scotland in 2007. The proportion of school leavers continuing their education within HE or FE is broadly in line with the national average. However, a slightly higher proportion immediately enters unemployment upon leaving school than across Scotland as a whole.

Table 4.5

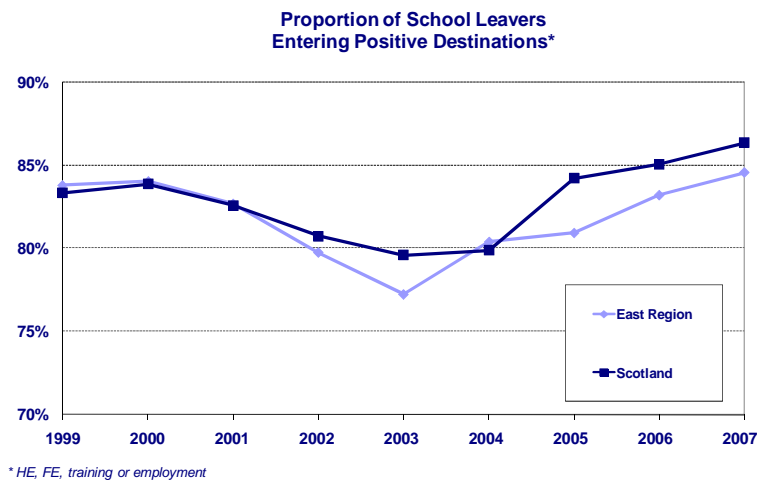
Source: Scottish Government

Destination of School Leavers, 2007		
	East Region	Scotland
Higher Education	29%	30%
Further Education	24%	23%
Training	4%	5%
Employment	28%	28%
Unemployment	15%	12%
Unknown	1%	1%

Chart 4.5 shows change in the proportion of school leavers entering positive destinations in the East Region and Scotland since 1999. The proportion of leavers going into positive destinations has been growing in recent years, following a period of decline between 2000 and 2003, both in the East Region and Scotland as a whole. If this trend can be maintained, the region will be on course to make a positive contribution to 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 East Region has a slightly lower proportion of young people in this category than across Scotland as a whole.**

Table 4.6 shows that there were 6,570 16-19 year olds in the East Region not in employment, education or training in 2006. This amounted to 8.6% of all young people in this age group, slightly below the Scottish average of 8.9%.

The total number of young people in the East Region in this category fell by 13% between 2003 and 2006, though this was slightly slower than the rate of decline across Scotland as a whole (-15%).

Table 4.6

Source: Scottish Government

16-19 Year Olds not in Employment, Education or Training					
	2003	2006	Change 2003-2006		Rate 2006
			No.	%	
East Region	7,550	6,570	-980	-13%	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.

As shown in Table 4.7, a total of 12,000 East Region residents graduated from universities across the UK in 2007. This was 42% higher than the total in 1996, slightly faster than the growth rate of 39% across Scotland as a whole. Despite this rapid increase, the rate of new graduates within the East Region (8 per 1,000 working age residents) remained slightly below the Scottish average (9 per 1,000) in 2007.

Table 4.7

Source: Scottish Government

Total Graduates				
	1996	2007	Change 1996-07	
			No.	%
East Region	8,500	12,000	3,500	42%
Scotland	374,900	519,800	144,900	39%

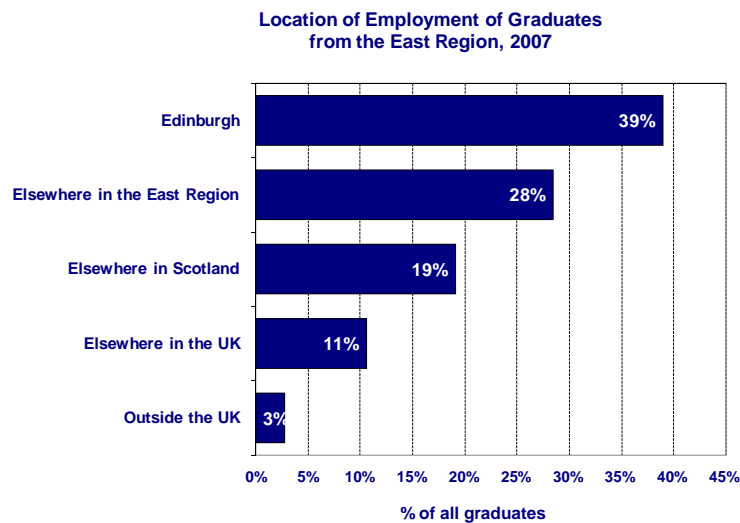
Graduate Destinations

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

- Over two thirds (67%) remained within the region, with Edinburgh attracting the highest share
- Around a fifth went elsewhere in Scotland
- 14% of East Region graduates left the country, which is higher than the Scottish average of 11%.

Chart 4.6

Source: HESA



The high retention rate within the East Region is indicative of buoyant graduate labour market. This is likely to be a key driver of the region's high productivity and wage levels.

Graduate Employment

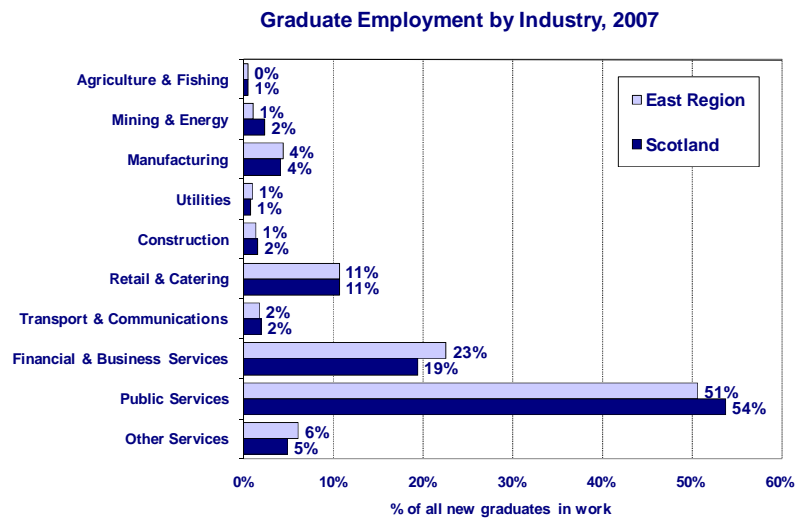
In line with the trend across Scotland as a whole, the vast majority (80%) of new graduates from the East Region enter the 'traditional' graduate roles of *managerial, professional or associate professional jobs*.

Chart 4.7 shows graduate employment by industry in the East Region and Scotland in 2007. It shows that more than half of all new graduates from the region find their first job in the public sector, though this is slightly below the Scottish average.

The second most popular industry of employment for new graduates from the East Region is *financial & business services*, accounting for 23% of the total in 2007. This was higher than across Scotland as a whole, where 19% of new graduates enter *financial & business services*.

Chart 4.7

Source: HESA



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 38,500 VAT registered businesses in the East Region in 2007, an increase of 15% from the total in 1999. This was faster than the equivalent growth rates for both Scotland and the UK as a whole.

Table 4.8

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

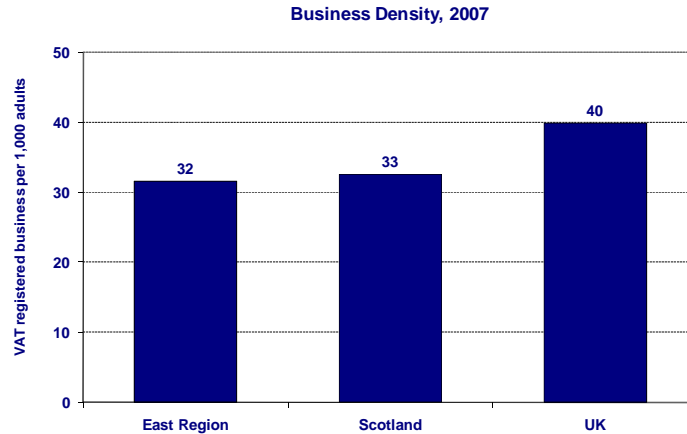
Business Stocks, 1999-2007				
			Change 1999-2007	
	1999	2007	No.	%
East Region	33,400	38,500	5,200	15%
Scotland	125,000	136,900	11,900	9%
UK	1,710,600	1,956,800	246,100	14%

Business Density

Chart 4.8 shows business density levels, in terms of the number of businesses per head in the East Region, Scotland, and the UK. The chart shows that there were 32 VAT registered businesses per 1,000 adults in the region in 2007. This was broadly in line with the Scottish rate of 33 per 1,000 but some way short of the UK figure of 40 per 1,000.

Chart 4.8

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

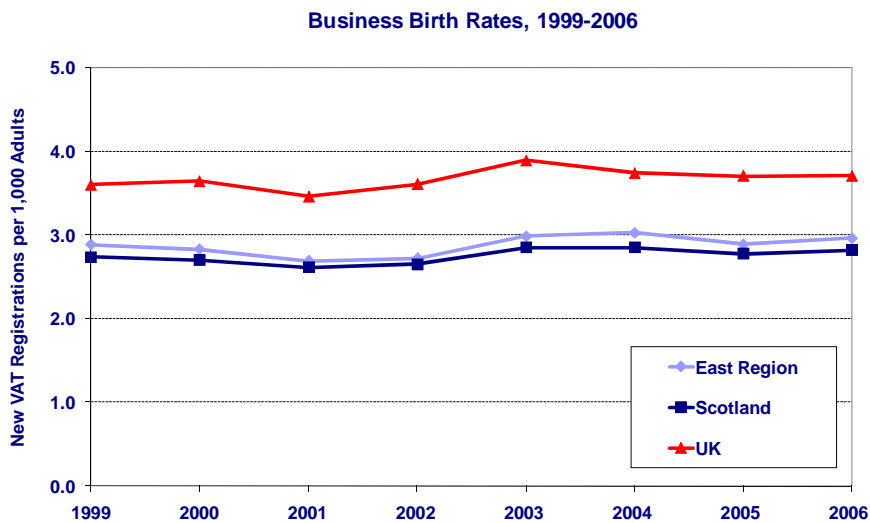


Business Birth Rate

Chart 4.9 shows that the East Region's business birth rate has been slightly above the Scottish average since 1999, but has lagged significantly behind UK throughout the period. The company birth rate stood at 3 per 1,000 adults in 2006, the same as the rate in 1999. This will need to improve if the region is to make a positive 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. The East Region has been the best performing in Scotland on this measure in recent years.

A study into the Risk Capital Market in Scotland³ found that East Region based companies had attracted 54% (£60.3m) of the estimated £114m invested in Scottish businesses in 2007. This included the three largest investments made in 2007 of £11.5m, £9.7m and £6.3m respectively.

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.

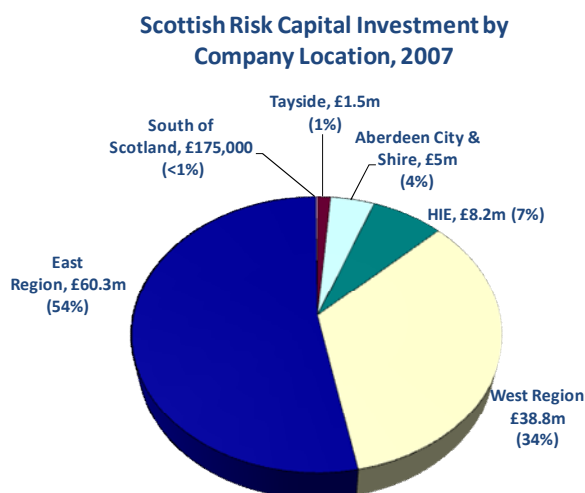
The investment level in the East appears to be aided by the number of investors based in the region. The report examined the geographic origins of investments and found that of the 400 or so 'deals' made on an annual basis, 124 investments, or 31% of the total, were made by investors in the East. Further analysis also shows that investors based in the East have a preference for investing in their home region, accounting for 77 (68%) of the 113 investments between 2005 and 2007 in the East Region.

The University of Edinburgh plays a prominent role in the attraction of private equity to the region and is widely regarded as one of the most entrepreneurial in the country. The University has 'spun-out' 81 companies over the past five years⁴. Between 2005 and 2007, the University's spin-outs attracted £42.4m of investment which was nearly double that of its nearest competitor, the University of Glasgow with £21.5m⁵.

Information on private equity investment in key sectors at a regional level is limited.⁶ However information on the key sector preferences of geographically based investors is available. Investors based in the East Region concentrated their investments in Enabling Technologies making 63% of their 112 investments between 2005 and 2007 in this sector. This follows a similar pattern to the national picture with investment in Enabling Technologies dominating.

Chart 4.10

Source: Small Business Statistics



Public Equity Investment in Partnership with the 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). Analysis

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.

⁴ www.research-innovation.ed.ac.uk

⁵ Scottish Enterprise *op cit*

⁶ See Section 6.3 for a detailed discussion of Scottish Enterprise Key Sectors

of investment activity shows that SE was involved in 29 deals in the East Region in 2007. At a Scottish level they were involved in a total of 59 deals. These represented 43% of the total investments made in the region in that year. In terms of value, SE investments totalled just over £5m in East Region based companies in 2007, accounting for 8% of the total investment made in the region in that year.

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 East Region, based on data gathered by Scottish Enterprise, and covers:

- Total Investment
- Investment by Sector
- Employment Impacts of Investment
- Origin of Investment.

Total Investment

In 2007/08, the total value of known inward investment within the East Region amounted to £77.5m, accounting for 29% of the Scottish total of £263.8m. The proportion of Scottish inward investment attracted by the East Region is therefore in line with the area's share of national jobs.

The value of inward investment within the region in 2007/08 was more than double the total in 2004/05, as shown in Table 4.9. This was faster than the growth of 87% across Scotland as a whole.

Table 4.9

Source: Scottish Enterprise

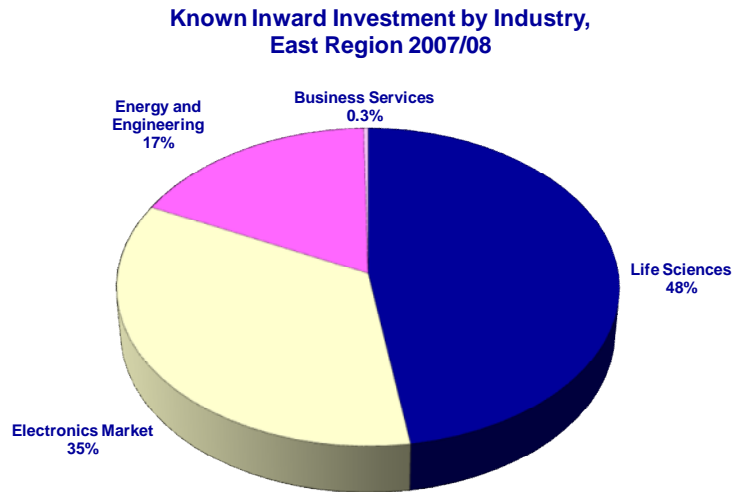
	Inward Investment (£m)		Change 2004/05 - 2007/08	
	2004/05	2007/08	No.	%
East Region	£38.1	£77.5	£39.4	103%
Scotland	£140.8	£263.8	£123.0	87%

Investment by Sector

Chart 4.11 shows how the value of inward investment within the East Region was distributed by industry sector in 2007/08. It shows that investment in the region is concentrated within only a couple of key industries. *Life sciences* accounted for almost half of all investment, whilst a further 35% was in *electronic markets*. The only other sector to attract substantial investment was *energy & engineering* (17%).

Chart 4.11

Source: Scottish Enterprise



Employment Impacts of Investment

The £77.5m of inward investment in the East Region in 2007/08 generated a total of 730 new jobs. In addition, the investment was responsible for safeguarding a further 650 jobs. This means that, in total, the monies were responsible for retaining 1,400 jobs in the region.

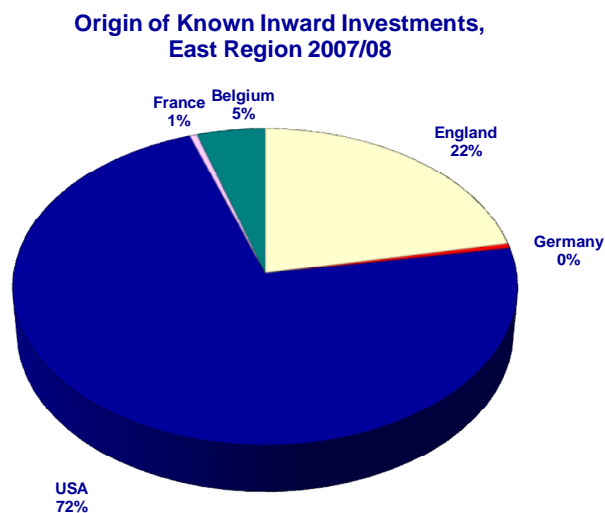
Of the 1,400 jobs created or safeguarded through the investment, the majority (59%) were 'high value' and more than a third (36%) were salaried at £30k or more. This analysis of the employment impacts of inward investments demonstrates its importance in terms of generating high value / high productivity jobs for the region.

Origins of Investment

Chart 4.12 shows the country of origin of known investors in the East Region in 2007/08. The majority (72%) of the investment came from the US – a total of £56.1m. A further 22% came from England, with a relatively small proportion from elsewhere within the EU.

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 paper⁷ 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 East Region level is incomplete and the Community Innovation Survey only provides information at the national level. For these reasons, this section focuses on the research quality of Higher Education Institutions (HEIs) in the East.

Research Quality of Higher Education Institutions (HEIs)

Universities are key drivers of innovation through the research they undertake and disseminate into the wider economy. The Research Assessment Exercise (2008) assessed the quality of research in HEIs in the UK, enabling the main funding bodies to make informed decisions about where to allocate research grants. Based on the findings of the RAE (2008), the Times Higher Education (THE) Supplement produced a 'Table of Excellence' which ranked all the 132 HEIs in the UK⁸. Table 4.10 shows that 2 of the East Region's 6 HEIs were ranked in the top 50. These were:

- University of Edinburgh (12th)
- Heriot-Watt University (45th).

The region's universities also perform well in terms of research income. Together they attracted £150.1m or 36% of the research grants and contracts awarded in Scotland in 2006/07. The University of Edinburgh was the best performing HEI in Scotland in terms of research funding securing £120.4m, just under £24m more than its nearest competitor the University of Glasgow.

⁷ NESTA Policy Briefing – Measuring Innovation – July 2008

⁸ Times Higher Education Supplement (2008) – Table of Excellence

Table 4.10

Source: Times Higher Education Supplement, HESA

HEI Rankings and Research Income 2006/07			
University	RAE 2008 - THE Rank	Total Research Grants and Contracts 2006/2007 (£000's)	% of Total
The University of Edinburgh	12	120,430	29%
The University of St Andrews	14	27,830	7%
The University of Glasgow	33	96,520	23%
The University of Aberdeen	38	46,160	11%
The University of Dundee	40	45,750	11%
Heriot-Watt University	45	15,490	4%
The University of Strathclyde	50	31,080	7%
The University of Stirling	56	8,910	2%
Edinburgh College of Art	66	550	0%
The Robert Gordon University	87	2,910	1%
Glasgow Caledonian University	93	4,180	1%
UHI Millennium Institute	96	11,810	3%
The University of the West of Scotland	107	1,830*	0%
University of Abertay Dundee	109	1,190	0%
Napier University	109	1,920	0%
Queen Margaret University, Edinburgh	129	2,800	1%
Glasgow School of Art	12**	980	0%
The Royal Scottish Academy of Music and Drama	13**	260	0%
Total		420,590	100%

*Includes Bell College research income

**Ranked only in single subject category

4.4.7 Conclusions – Increasing Productivity & Competitiveness

Following a strong period of growth, productivity levels within the East Region were above both the Scottish and UK averages in 2006. If the region can continue to increase productivity at a rate faster than the other highly performing OECD countries, it will be in a position to make a positive contribution to the GES target.

- GVA per employee in the East Region amounted to £38,400 in 2006. This was higher than the equivalent figures for both Scotland (£35,200) and the UK (£36,900).
- The level of GVA generated per employee in the East Region increased by 20% between 1999 and 2006. This was double the equivalent growth rate of 10% for Scotland and faster than the UK growth of 15%.
- Productivity is above the Scottish average across almost all industry sectors. The region has particularly high levels of GVA per employee within financial & business services, reflecting the concentration of head office functions within the region.

The East Region also performs well across some of the wider drivers of productivity identified in the GES...

- One of the region's key economic assets is its highly skilled workforce. Relative to Scotland as a whole, it is home to a higher proportion of graduates and fewer residents with no qualifications at all.
- Over two thirds of graduates originally from the East find their first job in the region immediately following graduation. This high retention rate is indicative of a buoyant graduate labour market, particularly within Edinburgh.
- The growth in the number of VAT registered businesses in the East Region has outpaced both Scotland and the UK in recent years. However, business density levels and new business birth rates still lag some way behind the UK.
- Inward investment represents an important source of high value jobs and the East Region has performed well on this measure in recent years, attracting 29% of the Scottish total in 2007.

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 East Region 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 DWP do not hold benefit claimant data for Northern Ireland.

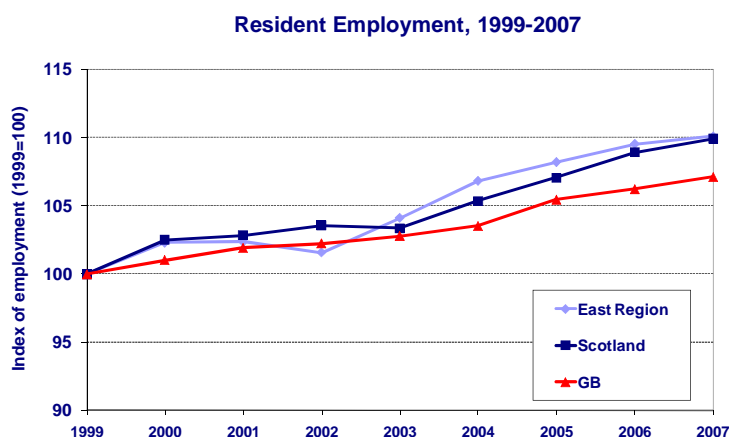
4.5.1 Resident Employment

The total number of East Region residents in work has been growing at a rate in line with Scotland as a whole in recent years.

Chart 4.13 shows change in the total number of residents in work in the East Region, Scotland and GB since 1999. In 2007, there were 730,700 East Region residents in work, 10% higher than the total in 1999. This growth rate was in line with Scotland as a whole and faster than the rate of 7% across GB over the period.

Chart 4.13

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



It should be noted that the figures for resident employment above include 71,100 residents who are self-employed. In total, these account for 8% of all resident employment within the East Region – broadly in line with the equivalent rates for both Scotland (8%) and GB (9%).

Employment Rates

The East Region's employment rate has been consistently higher than the national averages since 1999.

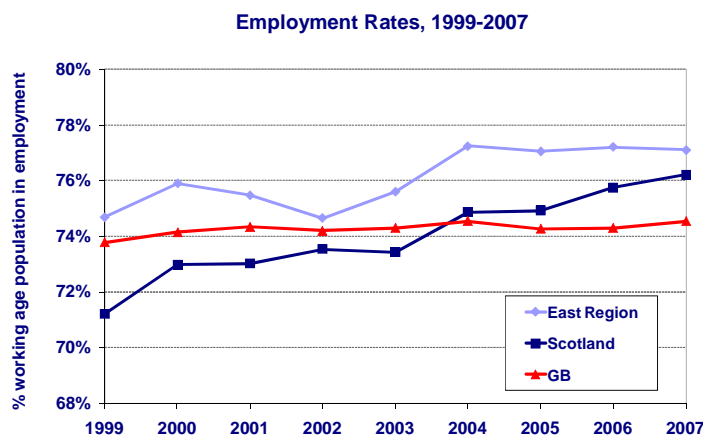
The 'employment rate' of an area is simply the proportion of the resident working age population that are in work. This is a key labour market participation measure and one of the

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 East Region has consistently outperformed the national averages since 1999. In 2007, the employment rate the region was 77% - up two percentage points from the position in 1999, and higher than the equivalent rates for both Scotland (76%), and GB (75%).

Chart 4.14

Source: Annual Population Survey (APS), 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

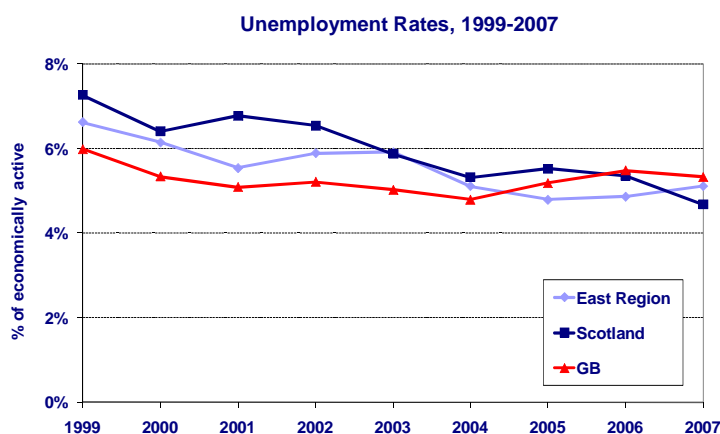
The unemployment rate in the East Region has been broadly in line with the national averages in recent years.

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 35,400 East Region residents were unemployed, representing 5% of the total working age population. Chart 4.15 shows that the unemployment rate has been broadly in line with Scotland and GB since 1999.

Chart 4.15

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



Economic Inactivity

Economic inactivity rates in the East Region 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 4.11 shows that the economically inactive total in the East Region amounted to 182,100 in 2007. This was 1% lower than the total in 1999, a much slower decline than across Scotland as a whole, but in contrast to growth in this group across GB.

Table 4.11

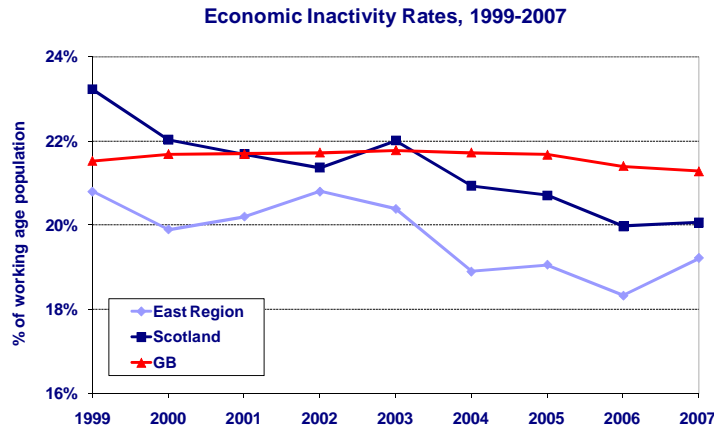
Source: Annual Population Survey (APS), 2007; Labour Force Survey 1999

Economically Inactive, 1999 & 2007				
	1999	2007	Change 1999-2007	
			No.	%
East Region	184,800	182,100	-2,700	-1%
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 East Region, Scotland and GB since 1999. In 2007, 19% of the working age population in the region were economically inactive. This was below the equivalent rates of 20% for Scotland and 21% for GB. In fact, inactivity levels within the East Region have been consistently lower than the national averages throughout the period.

Chart 4.16

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



4.5.3 Workless Benefit Claimants

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

Table 4.12 shows change in the total number and rate of workless benefit claimants in the East Region, 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 133,700 East Region residents in receipt of workless benefits in 2008, accounting for 14% of the working age population. This was lower than the equivalent rate for Scotland and in line with the GB average.

The total number of workless benefit claimants in the region has fallen by 8% since 2000. This was slower than the rate of decline across Scotland (-15%), but the claimant rate in the region has remained below the national average throughout the period.

Table 4.12

Source: DWP

Workless Benefit Claimants, 2000-08						
	2000		2008		Change 2000-08	
	Total	Rate	Total	Rate	No.	%
East Region	145,900	16%	133,700	14%	-12,200	-8%
Scotland	614,500	19%	525,300	16%	-89,100	-15%
GB	5,468,500	16%	5,156,000	14%	-312,500	-6%

Incapacity Benefit

The proportion of East Region residents in receipt of Incapacity Benefit (IB) is below the Scottish average, though the total number has been increasing in recent years.

Table 4.13 shows change in the total number and rate of IB claimants in the East Region, relative to Scotland and GB, since 2000. There were 68,700 residents in receipt of IB in the region in 2008, accounting for 7.2% of the working age population. This was below the Scottish average, though higher than the equivalent rate for GB.

There was an increase of 2,800 in the total number of IB claimants in the region between 2000 and 2008. However, as the working age population of the region was growing at a faster rate over the period, the claimant rate actually fell. 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 reducing the numbers within this client group.

Table 4.13

Source: DWP

Incapacity Benefit Claimants, 2000-2008						
	Claimants 2000		Claimants 2008		Change 2000-08	
	Total	Rate	Total	Rate	No.	%
East Region	65,800	7.7%	68,700	7.2%	2,800	4.3%
Scotland	290,800	9.3%	271,400	8.4%	-19,400	-6.7%
GB	2,331,100	6.6%	2,389,600	6.5%	58,400	2.5%

Jobseekers Allowance

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

Jobseekers Allowance (JSA) is a benefit available to those of working age that are unemployed and seeking work. There were 19,400 JSA claimants in the East Region in 2008.

Table 4.14 shows change in the total number and rate of JSA claimants in the East Region, relative to Scotland and GB, since 2000. There was a rapid decline of more than 12,000 in the total number of JSA claimants in the region over the period, a fall of 39%. There were also substantial falls in the JSA totals across Scotland and GB over the period.

As a result of this decline, the JSA claimant rate in the East Region fell from 3.4% in 2000 to 2.1% in 2008. The claimant rate in the region has been below the equivalent rates for both Scotland and GB throughout the period.

Table 4.14

Source: DWP

JSA Claimants, 2000-08						
	2000		2008		Change 2000-08	
	Total	Rate	Total	Rate	No.	%
East Region	31,500	3.4%	19,400	2.1%	-12,200	-39%
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. Just 5% of East Region residents worked outside the region in 2001, whilst only 5% of the workforce commuted in from elsewhere. It is clear that the area as a whole is a relatively self-contained labour market.

The flows **within** the region are much greater, and demonstrate the dynamic nature of the regional economy very clearly. For example, over a quarter (27%) of all those who worked in Edinburgh – around 10,000 people – were commuters from elsewhere in the region in 2001.

Table 4.15 shows commuting flows for local authorities within the East Region in 2001. A large share of employed residents within each of the three Lothian council areas travel out of the area for work, the vast majority of which go to Edinburgh. There are also considerable flows between the Forth Valley council areas of Clackmannanshire, Falkirk and Stirling. Stirling has the highest out-flow of commuters to areas outside the region, mainly as a result of the large number of residents working in Glasgow.

Table 4.15

Source: Census 2001, General Register Office for Scotland

Commuting Flows in the East Region, 2001		
	% residents who work outside the area	% workforce who live outside the area
Borders	16%	5%
Clackmannanshire	45%	24%
East Lothian	48%	17%
Edinburgh	10%	31%
Falkirk	31%	23%
Fife	18%	9%
Midlothian	54%	31%
Stirling	31%	35%
West Lothian	35%	31%
East Region	5%	5%

The distribution of economic activity across the region is mutually beneficial to the city and its surrounding localities. Areas outwith the city can provide a more cost effective location for activities that can no longer be profitably based in a city location, while the city is home to a range of services that could not be sustainably based anywhere else. Edinburgh benefits from the supply of labour available from the rest of the region to fill many of these posts, while the surrounding areas gain from the pool of high wage jobs, particularly in the service sector, that would not otherwise be open to their residents.

4.5.5 Conclusions - Increasing labour market participation

The employment rate in the East Region has been above both the Scottish and GB averages since 1999. The region is therefore in a strong position to contribute to the national participation target.

- In 2007, the employment rate in the East Region was 77%, compared to a Scottish average of 76% and a GB figure of 75%.
- Oxford Economics' forecasts suggest that, whilst economic activity rates will fall in the region over the next couple of years as a result of the economic downturn, they will remain above the national averages.

The region also performs well across a range of other key labour market indicators, including unemployment, inactivity and benefit dependency rates...

- The unemployment rate in the East Region was 5% in 2007, in line with Scotland and GB. Similarly, the economic inactivity rate in the region was 19% in 2007, broadly in line with the rates of 20% for Scotland and 21% for GB.
- The proportion of the working age population that claim workless benefits in the East Region (14%) was lower than across Scotland (16%) and in line with GB (14%) in 2008. However, the fall in the total number of benefit claimants in the region has been slower than across Scotland as a whole between 2000 and 2008.
- The East Region has a relatively self-contained labour market, with just 5% of residents working outside the area in 2001 and 5% of the workforce commuting in from elsewhere.
- Commuting flows within the region are considerable with many residents benefiting from the job opportunities available in Edinburgh, and the city benefiting from the supply of labour from the surrounding areas.

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. 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.

In this section looks at population trends within the East Region and covers:

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

Total Population

The East Region has experienced strong population growth in recent years, outpacing both Scotland and the UK.

The total population of the East Region was almost 1.5m in 2007. This was 5% higher than the total in 1999, as shown in Table 4.16. This was much faster than the increase of just 1% across Scotland as a whole over the period and also faster than the growth of 4% across the UK. The region is therefore well placed to make a positive contribution to the national target.

Table 4.16

Source: GRO (Scotland) and ONS

Total Population, 1999-2007				
			Change 1999-2007	
	1999	2007	No.	%
East Region	1,433,400	1,498,400	65,000	5%
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

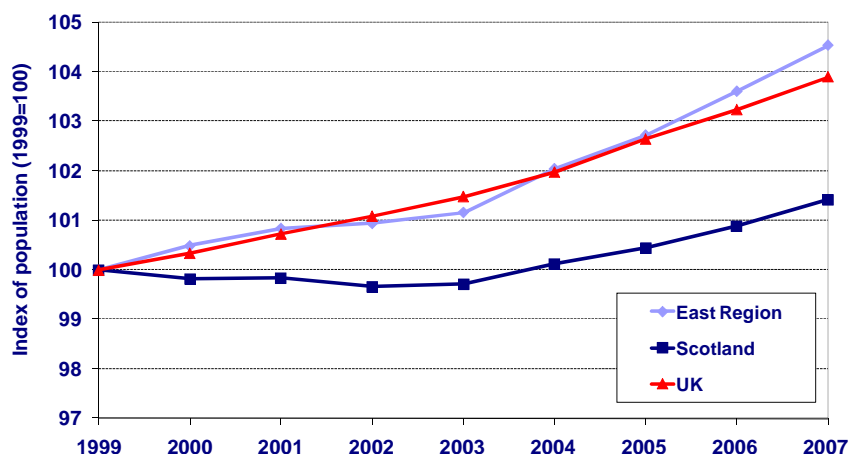
Chart 4.17 shows trends in total population levels in the East Region, Scotland and the UK since 1999. It shows that:

- The region has experienced strong, consistent population growth throughout 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 since 1999.

Total Population Change, 1999-2007

Chart 4.17

Source: GRO (Scotland) and ONS



The strong population growth experienced in the East Region in recent years can be attributed to net in-migration. Natural change, that is the difference between births and deaths, has been relatively neutral throughout the period having little effect on total population levels. Since 2004, net migration to the region has increased to around 12,000 each year, resulting in an acceleration in population growth.

Working Age Population

Much of the in-migration to the East Region in recent years has been people of working age.

Table 4.17 shows change in the working age population in the East Region, Scotland and the UK since 1999. The working age population in the East Region grew by 12% over the period, four times the rate of increase across Scotland and more than double the growth in total population. This suggests that recent in-migration to the region has been predominantly people of working age.

Table 4.17

Source: GRO (Scotland) and ONS

Working Age Population, 1999-2007				
	1999	2007	Change 1999-2007	
			No.	%
East Region	851,400	953,600	102,300	12%
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

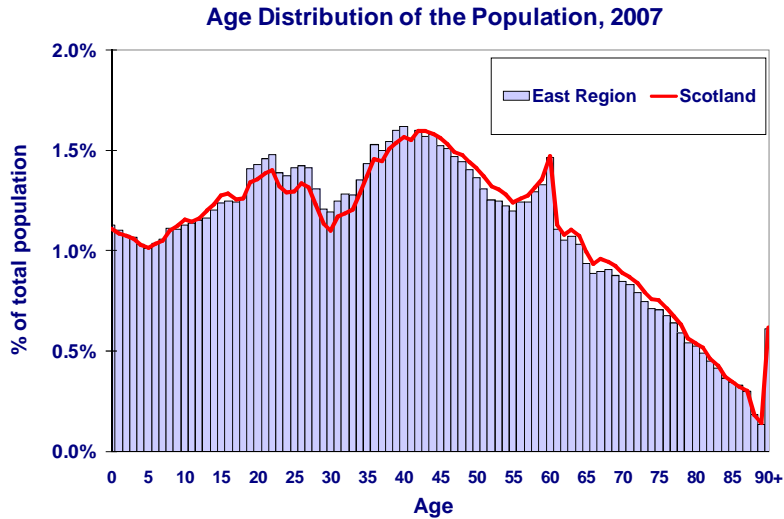
Age Distribution

The East Region population is characterised by above average numbers of young adults in their 20s and 30s and fewer residents over the age of 50, relative to Scotland as a whole.

Chart 4.18 shows the current age distribution of the population in the East Region, relative to Scotland as a whole.

Chart 4.18

Source: GRO (Scotland)



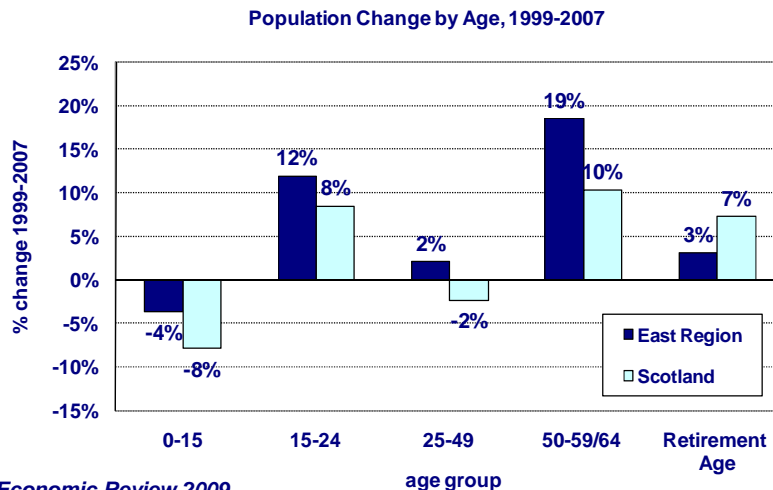
The East Region has a higher share of residents in their 20s and 30s (the 'prime' working age group) when compared to Scotland as a whole. The region also has a below average proportion of working age residents over the age of 50 and retired residents, relative to Scotland.

Population Change by Age

There have been important changes in the age structure of the population in both the East Region and Scotland over the past decade, as shown in Chart 4.19.

Chart 4.19

Source: GRO (Scotland)



This analysis shows:

- greatest population increases among those aged between 50 and retirement in both the East Region and Scotland as a whole – this has been particularly marked in the East;
- slower growth in the number of retired residents within the East Region than across Scotland;
- a rapid decline in the number of young people in Scotland under the age of 16, a trend which has not occurred on the same scale within the East Region; and
- the East Region has experienced an ageing of the population, but not on the same scale witnessed elsewhere in Scotland.

Population Projections

The population of the East Region is expected to continue to grow strongly over the coming decade according to the most recent official population projections.

Total population is expected to reach almost 1.6m by 2018, 6% higher than the total in 2008. This rate of growth is twice as fast as that expected for Scotland as a whole over the period, though slightly slower than that forecast for the UK. The chart and table below show population projections for the East Region between 2008 and 2018.

Chart 4.20

Source: GRO
Scotland

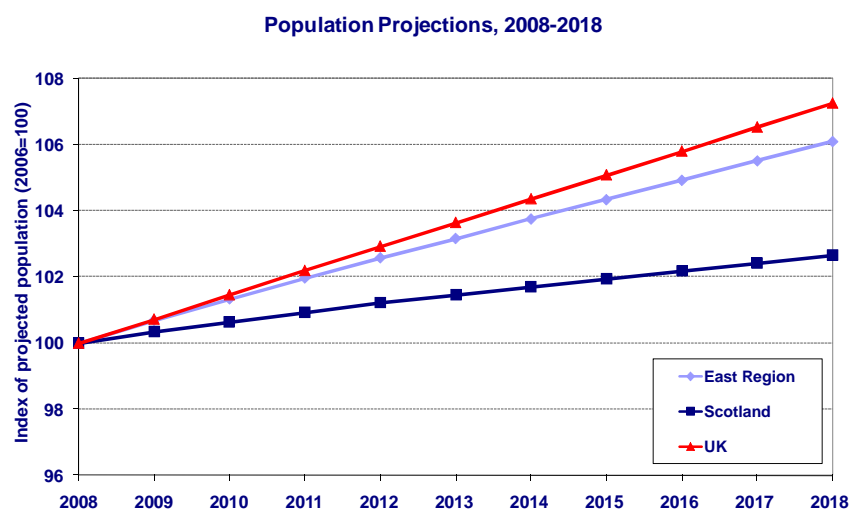


Table 4.18

Source: GRO
Scotland

Population Projections, 2008-18				
			Change 2008-18	
	2008	2018	No.	%
East Region	1,507,900	1,599,900	92,000	6%
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

The East Region experienced strong population growth of 5% between 1999 and 2006 and was the only Scottish region to match the EU15 on this measure. Across Scotland, population increased by just 1% and, over the last ten years for which data is available (1995 – 2005), the EU 15 population increased by 4%.

- There were almost 1.5m people living in the East Region in 2007, an increase of 5% from the total in 1999. This was faster than the equivalent growth rates of 1% for Scotland and 4% for the UK.
- Growth has been driven by net in-migration to the region, and predominantly people of working age (through there are some sub-regional differences). The working age population increased by 12% between 1999 and 2007 - more than twice the rate of overall population growth.
- The East Region's population is characterised by above average numbers of young adults in their 20s and 30s and fewer residents over the age of 50, relative to Scotland as a whole.
- The recent strong population growth experienced within the East Region is expected to continue over the coming decade according to official population projections.

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 East Region in relation to each of 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 East Region's performance in relation to levels of solidarity across a number of other measures including:

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

Median Weekly Earnings – All People

The median weekly earnings of those working in the East Region are higher than across Scotland as a whole, though there are wide disparities within the region on this measure.

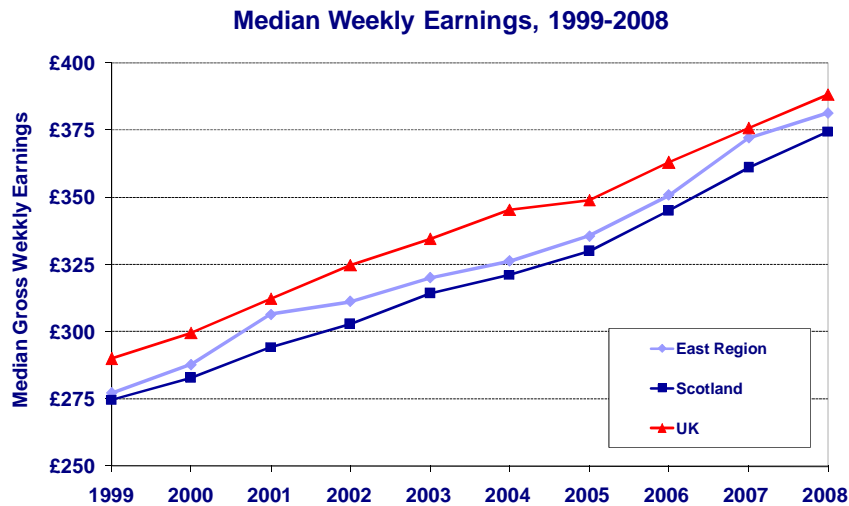
All of the figures in this section refer to the **median** weekly earnings of all those in employment, including both full-time and part-time workers. Median is the preferred measure (over mean) for earnings data as it is influenced less by extreme values and because of the skewed distribution of earnings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

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

- Median weekly earnings in the region amounted to £382 in 2008;
- This was above the equivalent figure of £375 for Scotland, but below the UK figure of £388; and
- Median weekly earnings in the region have grown at a rate slightly faster than both Scotland and the UK since 1999.

Chart 4.21

Source: Annual Survey of Hours and Earnings, ONS



The figures above are *workplace-based*, that is, they refer to the median earnings of all those employed in the East Region rather than the median earnings of residents. The median weekly earnings of residents of the region were £384 in 2008. This was 1% higher than the workplace median suggesting that residents commuting out of the region for work are concentrated in higher paying jobs.

Table 4.19

Source: Annual Survey of Hours and Earnings, ONS

Median Weekly Earnings, 1999-2008			Change 1999-2008	
	1999	2008	No.	%
East Region	£277	£382	£104	38%
Scotland	£275	£375	£100	36%
UK	£290	£388	£98	34%

It should be noted that the median for the East Region as a whole masks significant variations within the region on this measure. For example, median earnings for those working in

Edinburgh are 11% higher than the regional figure, whilst in Clackmannanshire they are around 20% lower. If the region is to help contribute to the national solidarity target, an increased focus on reducing regional disparities in earnings levels is likely to be required.

Median Weekly Earnings – Full-Time Workers

The earnings of full-time workers in the East Region are slightly higher than across Scotland as a whole, but lower than the UK.

The previous section looked at the median earnings of all those employed in the East Region. 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 4.20 shows change in the median earnings of full-time workers in the East Region between 2002 and 2008, relative to Scotland and the UK. The earnings of those working full-time are slightly higher than across Scotland as a whole, but lower than the UK figure. The increase in median earnings of full-time workers in the region kept pace with both Scotland and the UK between 2002 and 2008.

Table 4.20

Source: Annual Survey of Hours and Earnings, ONS

	Median Weekly Earnings of Full-Time Workers		Change 2002-2008	
	2002	2008	No.	%
East Region	£375	£465	£90	24%
Scotland	£369	£462	£93	25%
UK	£391	£479	£88	22%

Household Income

Average household income in Edinburgh is the highest of all local authorities in Scotland, but there are some areas within the region where household income falls well below the national average.

Average weekly workplace earnings cover 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 East Region as a whole, but are available separately for areas within region. Table 4.21 shows average household income levels for areas across the East Region, relative to Scotland and the UK.

In 2006, average household income in Edinburgh amounted to £15,600 per person. This was around a fifth higher than the national average and the highest of all areas in Scotland. Average income levels within Perth & Kinross & Stirling, East Lothian & Midlothian and the Scottish Borders were all at or above the Scottish average in 2006. By contrast, average income levels in Fife were just 90% of the Scottish average.

Table 4.21

Source: ONS

Gross Disposable Household Income, 1999-2006			
	1999	2006	% of Scotland's GDHI
Edinburgh	£11,600	£15,600	119%
Perth & Kinross & Stirling	£10,700	£14,300	109%
East Lothian & Midlothian	£9,800	£14,100	108%
Scottish Borders	£9,400	£13,300	102%
Clackmannanshire & Fife	£9,200	£12,400	95%
West Lothian	£8,700	£12,200	93%
Falkirk	£8,900	£11,800	90%
Scotland	£9,700	£13,100	100%
UK	£10,400	£13,800	-

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. Median earnings for those working in the East Region are higher than across Scotland as a whole, though there is evidence of wide disparities within the region on this measure.

- Median wage levels of those working in the East Region have been consistently higher than across Scotland as a whole, but lower than the UK, since 1999.
- However, there are wide disparities in earnings levels within the region. For example, median earnings for those working in Edinburgh are 11% higher than the regional figure, whilst in Clackmannanshire they are around 20% lower.
- Overall household income levels in Edinburgh are the highest of all local authorities in Scotland, but there are other areas within the region, such as Clackmannanshire, West Lothian and Falkirk, where average income levels fall well below the national average.

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 East Region 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 4.22 compares the employment rates for areas within the East Region with the three Scottish local authority areas with the highest rates, and the three with the lowest. Employment rates within the Scottish Borders and Midlothian are among the highest in the country. By contrast, Clackmannanshire currently has the second lowest employment rate of all local authorities in Scotland behind Glasgow. It will therefore have a key contribution to make towards achieving the national target.

Table 4.22

Source: Scottish Index of Multiple Deprivation (SIMD)

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
	Midlothian	81.6	6
	West Lothian	78.8	14
	East Lothian	78.6	15
	Falkirk	78.0	17
	Stirling	76.4	22
	City of Edinburgh	76.0	23
	Fife (excluding NE Fife)	75.6	24
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 4.23 shows that the East Region was home to 165 of the 15% most deprived neighbourhoods in Scotland in 2006. To look at this information in another way, 9% of the region's population live in these areas. In other words, the East Region has below average levels of deprivation.

Table 4.23

Source: Scottish Index of Multiple Deprivation (SIMD)

Concentration of Deprivation, 2006				
	Most deprived 5% of data zones		Most deprived 15% of data zones	
	No. of zones	% population living in these zones	No. of zones	% population living in these zones
East Region	41	2%	165	9%
Scotland	325	5%	976	15%

4.7.4 Conclusions – Cohesion

The employment rate of the East Region as a whole is slightly above the Scottish and GB averages, but there are disparities within the region on this measure. The East was home to one of the three local authority areas with the lowest employment rates in the country in 2007 and will therefore have a key role to play to help achieve the target.

- Between 1995 and 2007 the gap in the employment rate between the best and worst local authority areas in Scotland fell from 22% to 15%.
- Clackmannanshire had the second lowest employment rate of all local authority areas in Scotland in 2007. A further two local authority areas in the region – Edinburgh and Fife – fall within the worst ten performing areas.
- Deprivation, although an important issue, is not as widespread in the East as in some other parts of Scotland. In 2006, 2% of the population in lived in the 5% most deprived neighbourhoods in Scotland, whilst 9% live in the 15% most deprived.

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 East Region's performance in relation to sustainable growth and covers:

- CO² Emissions
- Waste Recycling

CO² Emissions

The East Region as a whole generates an above average level of CO² emissions, mainly due to the oil refinery based at Grangemouth in Falkirk.

A third of all CO² emissions from Scotland come from the East Region, a total of 15,500kt in 2006. This amounted to 10.4 tonnes per head of population, above both the Scottish and UK averages (8.5 and 8.8 respectively).

The above average CO² emission rate in the region can be mainly attributed to Falkirk, which has the highest level of emissions of all local authorities in Scotland and accounts for 26% of all emissions from the region. This is the result of the area being home to the UK's largest oil refinery in Grangemouth. A further contributing factor to the region's relatively high emission levels is the power plant in East Lothian, which generates the highest level of CO² emissions of all power plants in the UK.

Table 4.24 shows how CO² emissions are disaggregated by sector within the East Region relative to Scotland and the UK. It shows that emissions from industrial and commercial activities account for a higher share of emissions from the region than across Scotland and the UK – again this is likely to be due to the oil refinery.

There was an increase of 1% in the total level of emissions from the region between 2005 and 2006. This upward trend will have to be reversed if the region is to make a positive contribution to the national target.

Table 4.24
Source: DEFRA

CO ² Emissions 2006					
	Total Emissions (kt)	% Industry & Commercial	% Domestic	% Road Transport	% Change since 2005
East Region	15,500	57%	26%	18%	1.0%
Scotland	43,500	51%	33%	26%	0.8%
UK	531,700	46%	29%	25%	-0.1%

Waste Recycling

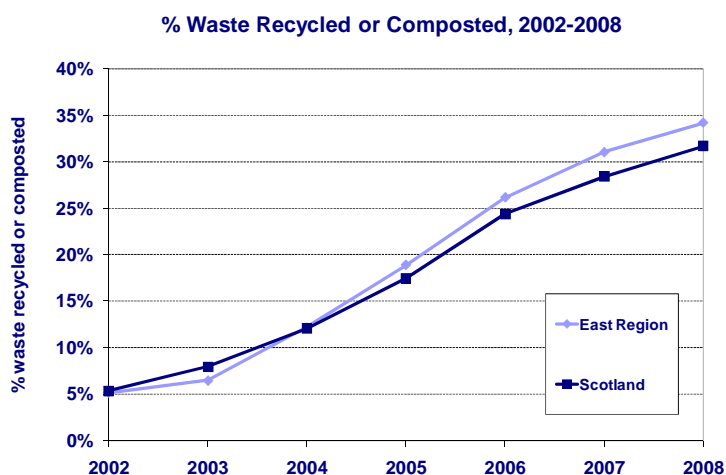
The proportion of waste that is recycled or composted has increased rapidly in recent years, both in the East Region and across Scotland as a whole.

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, 34% of all waste from the East Region was recycled or composted – slightly above the national average of 32%. Chart 4.22 shows how this has increased rapidly in recent years from a rate of just 5% in 2002. Both the East Region 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 4.22

Source: Scottish Environment Protection Agency (SEPA)



4.7.6 Conclusions – Sustainability

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 East region accounts for a third of all Scottish CO² emissions and has an above average level of emissions per head relative to the Scottish and UK averages.

- The East Region generated 10.4 tonnes of CO² emissions per head of population in 2006, above both the Scottish and UK averages (8.5 and 8.8 respectively). This high level of emissions is largely due to the large oil refinery based at Grangemouth in Falkirk.
- There was an increase of 1% in the total volume of CO² emissions from the region between 2005 and 2006. However, care should be taken in interpreting any trend from such a limited data set.
- Around a third of all waste from the East Region and Scotland was recycled or composted in 2008 – a six fold increase from the level in 2002.

5. Benchmarking

5.1 Introduction

In this section, the economic performance of the East Region is compared to that of the other three SE operating regions that contain cities across the key indicators of:

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

This analysis will provide an overview of the relative economic strengths and weaknesses of the regional economy. Across each indicator, the East Region will be benchmarked against:

- Aberdeen City & Shire
- Tayside Region
- West Region
- Scotland and UK/GB

5.2 GVA Growth

The East Region was the only region in Scotland to outperform the UK in terms of GVA growth between 1999 and 2006.

Table 5.1 shows the total level of economic output (as measured by GVA) from each of Scotland's largest regions in 2006 and the share of national GVA accounted for by each. It also shows average annual GVA growth rates between 1999 and 2006.

In 2006, GVA from the East Region amounted to £30.1bn, accounting for almost a third (32%) of all output from Scotland. The region is therefore a key driver of the national economy. The average annual GVA growth rate for the East Region was 4.0% between 1999 and 2006, outperforming each of the other regions as well as Scotland and the UK. The East was the only region in Scotland to achieve a growth rate above the UK average over the period.

Table 5.1

Source: ONS & SLIMS calculations

Gross Value Added (GVA)			
	Total GVA 2006 (£m)	% Share of Scottish GVA 2006	Average Annual GVA Growth 1999-2006
East Region	30,100	32%	4.0%
Dundee City Region	6,400	7%	2.1%
Aberdeen City & Shire	10,900	12%	1.8%
West Region	38,100	41%	2.5%
Scotland	93,400	100%	2.8%
UK	1,147,800	-	3.2%

5.3 Productivity

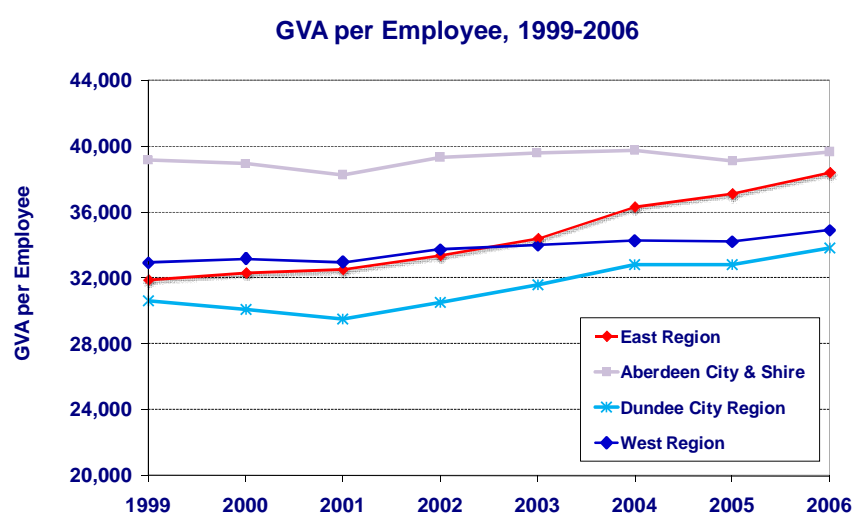
Following a substantial increase in recent years, productivity levels in the East Region are higher than in the West and Dundee City Region and only slightly behind the average for Aberdeen City & Shire.

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 East Region was £38,400. This was higher than in both the West and Dundee City Region, but slightly lower than the average of £39,700 for Aberdeen City & Shire.

Productivity levels in the East Region increased by 20% between 1999 and 2006. This was much faster than the growth rates achieved by each of the other regions. This analysis suggests that the region is home to a relatively high value jobs market and that jobs growth in recent years has been concentrated in high value added activities.

Chart 5.1

Source: ONS and SLIMS Calculations



5.4 Labour Market Participation

The East Region performs well in terms of labour market participation, with a relatively high employment rate, as well as low levels of unemployment and inactivity, compared to the other regions.

Table 5.2 compares the labour market performance of the regions across the key indicators of employment, unemployment, inactivity and benefit claimant rates. The East Region performs well across each of these measures, though lags behind Aberdeen City & Shire which has the highest employment rate of all the regions.

The East Region has the lowest level of benefit dependency of each of the city regions, with workless residents accounting for just 14% of the working age population. However, this suggests that the potential labour supply within the region is smaller than the other regions, which could pose problems for future growth.

Table 5.2

Source: Annual
Population Survey
05-07 & DWP

Labour Market Participation 2007				
	Employment Rate	Unemploy- ment Rate	Economic Inactivity Rate	Workless Benefit Claimant Rate
East Region	77%	5.1%	19%	14%
Aberdeen City & Shire	81%	3.5%	17%	11%
Tayside Region	77%	5.4%	19%	16%
West Region	73%	6.0%	22%	20%
Scotland	76%	4.7%	20%	16%
GB	75%	5.3%	21%	14%

5.5 Population

The East Region has experienced strong, consistent population growth in recent years, outpacing the limited growth witnessed across the other Scottish regions.

Table 5.3 shows total population and population change across the regions. There were almost 1.5m people living in the East Region in 2007, accounting for 29% of Scotland's total population. The region's population was 5% higher in 2007 than in 1999, a faster rate of growth than any of the other city regions and Scotland as a whole, and even faster than the UK.

Table 5.3

Source: GRO
(Scotland) & ONS

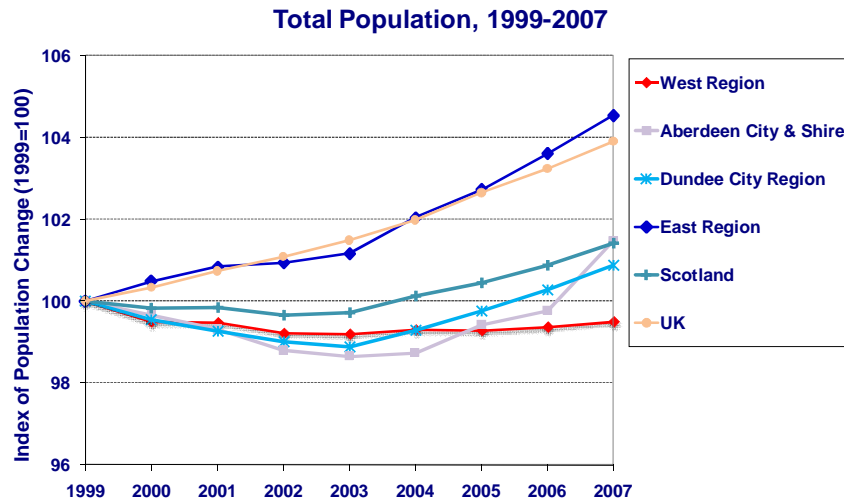
Total Population			
	Total Population 2007	% Share of Scottish Population	Change 1999-2007
East Region	1,498,400	29%	5%
Aberdeen City & Shire	448,400	9%	1%
Tayside Region	466,300	9%	1%
West Region	2,210,400	43%	0%
Scotland	5,144,200	100%	1%
UK	60,975,400	-	4%

Chart 5.2 shows population change across each of the regions between 1999 and 2007, relative to Scotland and the UK. The East Region has experienced strong consistent population growth throughout the period and this appears to have accelerated in recent years.

Until 2003, the population of each of the other regions was in decline. This downward trend has since halted and Aberdeen City & Shire and Tayside Region have each experienced some population growth in recent years. The trend in the East Region follows a pattern more in line with the UK as a whole, which has also experienced strong growth in recent years.

Chart 5.2

Source: GRO (Scotland) & ONS



5.6 Wage Levels

Average wage levels in the East Region are among the highest in the country, but there are wide disparities in earnings levels between areas within the region.

Table 5.4 compares the median earnings of all those working in the East Region (including both full-time and part-time workers) with each of the benchmark regions, as well as Scotland and the UK. Median weekly earnings for those working in the East Region amounted to £382 in 2008, second only to Aberdeen City & Shire. Despite this good performance, there are wide variations in wage levels across the region.

For example, the median earnings of those working in Edinburgh City were £424 per week in 2008. This was £114 higher than the equivalent figure of £310 for the Borders, which had the lowest earnings in the region. This analysis suggests that the East Region has more to do in terms of reducing regional disparities in wage levels.

Table 5.4

Source: ASHE

Workplace Earnings 2008		
	Median Gross Weekly Earnings	Disparities Within Regions*
East Region	£382	£114
Aberdeen City & Shire	£402	£74
Tayside Region	£367	£46
West Region	£372	£110
Scotland	£375	-
UK	£388	-

*difference in median earnings between local authorities with highest and lowest wage levels within regions

5.7 Deprivation

The East Region is home to several neighbourhoods ranked among the most deprived in Scotland. However, the proportion of residents living within these areas is low relative to the other regions.

Table 5.5 shows the number of neighbourhoods ranked among the 5% and 15% most deprived in Scotland within each of the regions, as well as the proportion of the population living in these areas.

Over three quarters of Scotland's most highly deprived neighbourhoods are in the West Region. To look at this information in another way, almost one in every ten residents in the West Region live in areas that are among the 5% most deprived in Scotland. None of the other regions have anything like the same concentration of the worst deprivation.

With regard to those neighbourhoods ranked among the 15% most deprived, the West Region again accounts for more than half of these. Deprivation levels in the East Region are lower than in the West, Tayside and across Scotland as a whole. Aberdeen City & Shire had the lowest levels of multiple deprivation of all the regions in 2006.

Table 5.5

Source: Scottish Index of Multiple Deprivation, 2006

Concentration of Deprivation 2006				
	Most deprived 5% of data zones		Most deprived 15% of data zones	
	No. of zones in each area	% population in these zones	No. of zones in each area	% population in these zones
East Region	40	2%	165	9%
West Region	252	9%	671	24%
Aberdeen City & Shire	11	2%	33	5%
Tayside Region	16	3%	79	13%
Scotland	325	5%	976	15%

5.8 CO² Emissions

The level of industrial CO² generated in the East Region is much higher than the other regions, mainly as a result of the large oil refinery at Grangemouth in Falkirk.

Table 5.6 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 East Region generated 15,500kt of CO², accounting for over a third (36%) of total emissions in Scotland. This was the highest of all of the city regions and 1% higher than the total in 2005.

The level of total CO² generated per head of population in the region is slightly higher than the national averages, though lower than Aberdeen City & Shire. However, the region generates higher levels of CO² from industrial activities than any of the other city regions and much higher than the Scottish and UK averages. This is largely the result of very high levels of emissions from Falkirk due to the presence of the largest oil refinery in the country.

Table 5.6

Source: DEFRA

CO² Emissions				
	Total CO² Emissions 2006 (kt)	% Change in CO² Emissions 2005-06	Total CO² per Person	Industrial CO² per £1,000 GVA
East Region	15,500	1%	10	340
Aberdeen City & Shire	5,200	-2%	12	300
Tayside Region	4,100	-1%	9	280
West Region	15,200	2%	7	190
Scotland	43,500	1%	8	260
UK	531,700	0%	9	230

6. Industrial Structure

6.1 Introduction

This section looks at the industrial structure of the East Region in terms of the number and types of jobs available and the region's performance across the key sectors outlined in the Government Economic Strategy and other growth sectors supported by Scottish Enterprise. It covers:

- Total Employment
- Industrial Structure
- Key and Other Growth sectors
- Financial Services
- Food & Drink

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.

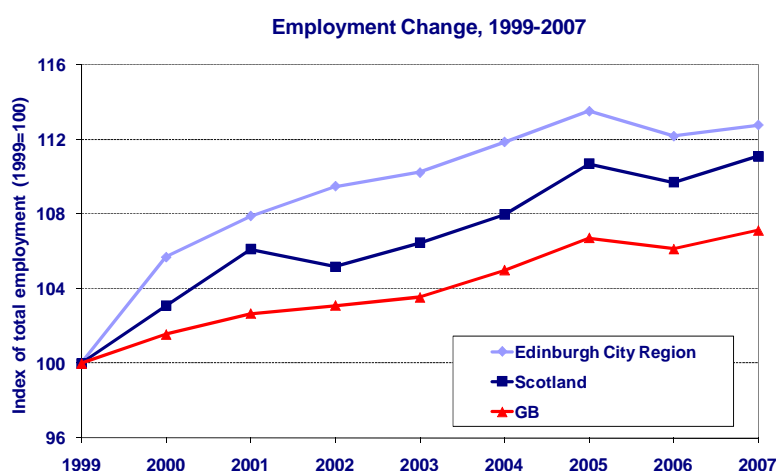
6.2 Total Employment

Since 1999, the rate of jobs growth within the East Region has outpaced both Scotland and GB.

Chart 6.1 shows the change in the total number of jobs located within the East Region, relative to Scotland and GB, since 1999. In 2007, there were 709,100 jobs in the region representing an increase of 13% from the total in 1999. This rate of growth was faster than across both Scotland (+11%) and GB (+7%).

Chart 6.1

Source: Annual Business Inquiry



6.2.1 Employment by Gender and Type

The growth in workplace jobs in the region has been faster among women than men, as shown in Table 6.1. There were 48,300 more women working in the region in 2007 than in 1999, an increase of 15%. This compares with an increase of 32,100 in the number of men in work, growth of 10%.

The expansion of the region's economy has not just been the result of ever greater numbers of part time jobs. The number of part time jobs did grow substantially over the period (+30,700), but there was an even greater increase in the number of full time posts (+49,700).

The differences in the types of employment taken by men and women do remain. Almost half (46%) of women employees in the region worked part-time in 2007, three times the proportion among men (15%). The proportion of men working part-time increased from 13% in 1999 to 15% in 2007, whilst the proportion of women working part-time fell by 1%.

Table 6.1

Source: Annual Business Inquiry

Employment Change by Gender & Type in East Region				
	1999	2007	Change 1999-2007	
			No.	%
Male full-time	271,100	292,100	21,000	8%
Male part-time	40,100	51,200	11,100	28%
All males	311,200	343,400	32,100	10%
Female full-time	171,000	199,700	28,700	17%
Female part-time	146,500	166,100	19,600	13%
All Females	317,500	365,800	48,300	15%
All full-time	442,100	491,800	49,700	11%
All part-time	186,700	217,300	30,700	16%
All Employees	628,800	709,100	80,400	13%

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 East Region are *public services* (30% of all jobs), *financial & business services* (21%) and *retail & catering* (21%). Table 6.2 shows that this industrial structure is broadly similar to Scotland as a whole, though the region has a higher share of jobs in *financial & business services*.

Table 6.2

Source: Annual Business Inquiry

Employment by Industry, 2007				
	East Region		Scotland	
	Total	%	Total	%
Agriculture	8,700	1%	39,200	2%
Utilities	5,500	1%	42,500	2%
Manufacturing	60,600	9%	220,900	9%
Construction	39,200	6%	137,600	6%
Retail & catering	151,400	21%	528,700	22%
Transport & communications	34,400	5%	130,300	5%
Financial & business services	152,100	21%	451,500	19%
Public services	214,300	30%	729,600	30%
Other services	42,800	6%	127,300	5%
Total	709,100	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:

- In percentage terms, *financial & business services* was the fastest growing sector over the period with employment growth of 40%;
- *Public services* also grew rapidly, providing an additional 50,000 new jobs in the region since 1999;

- *Retail & catering* and *transport & communications* also grew strongly, though the numbers involved were much smaller; and
- *Manufacturing* employment continued its long-term trend decline, losing over a third of its 1999 total.

Table 6.3

Source: Annual Business Inquiry

Employment Change in East Region, 1999-2007				
	1999	2007	Change 1999-2007	
			No.	%
Agriculture	8,400	8,700	400	5%
Utilities	6,200	5,500	-700	-11%
Manufacturing	94,500	60,600	-33,900	-36%
Construction	35,800	39,200	3,400	10%
Retail & catering	140,800	151,400	10,500	7%
Transport & communications	27,500	34,400	7,000	25%
Financial & business services	108,800	152,100	43,400	40%
Public services	163,800	214,300	50,500	31%
Other services	43,100	42,800	-300	-1%
Total	628,800	709,100	80,300	13%

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 is 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 East Region across the 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 5.

6.3.2 Employment within Sectors

Table 6.4 shows total employment across the eleven key and other growth sectors in Scotland and the East Region 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 East Region	% Share of all jobs in Region	% Change since 1999 in Region	Specialisation in Region (Scotland = 100)
Key Sectors					
Energy	40,700	4,900	1%	-23%	41
Financial Services	91,600	43,300	6%	19%	160
Food & Drink	46,000	10,200	1%	-29%	75
Life Sciences	18,400	8,600	1%	53%	159
Tourism	219,900	66,000	9%	22%	102
Creative Industries	62,200	21,400	3%	9%	117
Other Growth Sectors					
Textiles	12,700	4,200	1%	-60%	113
Aerospace, Defence & Marine	30,300	8,300	1%	-38%	93
Chemicals	14,200	5,200	1%	-25%	125
Construction*	215,800	58,000	8%	12%	91
Forest Industries	19,200	6,100	1%	n/a	108

* it should be noted that this SE 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 3 for a full SIC definition of what is included in this analysis.

To summarise employment within the key sectors in the East Region:

- Relative to Scotland as a whole, the region has a very high concentration of employment within **financial services**, which accounts for 6% of all jobs and grew by almost a fifth between 1999 and 2007.
- **Tourism** is the largest employer among the key sectors in the East Region, accounting for 9% of total employment. Employment in the industry increased by 22% between 1999 and 2007.
- The region was home to almost half (47%) of all Scottish jobs in **life sciences** in 2007. This has been the fastest growing of the key sectors in the region, with employment growth of 53% between 1999 and 2007.
- The East Region has an above average level of specialisation within **creative industries**, which accounts for 3% of total employment. Although this is not one of the key sectors, it does contain elements of **digital media & enabling technologies** and is therefore useful for providing a proxy estimate of representation within that sector.
- **Food & drink** and **energy** are relatively small sectors within the region, each accounting for less than 1% of total employment. Employment in each of these sectors has fallen sharply since 1999 and they are therefore unlikely to offer potential for future employment growth.

Looking at employment within the East Region across the other growth sectors:

- Despite a decline in employment since 1999, the region retains an above average concentration of employment in **chemicals**, with the sector accounting for more than 5,000 jobs in the area.

- Employment within the **textiles** industry in the East Region more than halved between 1999 and 2007. However, the region retains an above average concentration of employment in the sector.
- **Forestry** accounts for more than 6,000 jobs in the region, a concentration that is slightly above the Scottish average. The local sector has experienced some growth in recent years.
- **Construction** is the largest of the other growth sectors in the East Region, despite having a below average specialisation score. There were more than 58,000 people working in the sector in 2007, accounting for 8% of all jobs in the region.

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 sectors and other growth sectors in the East Region 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 since 1999
Key Sectors			
Energy	100	0.2%	-42%
Financial Services	1,460	2.9%	33%
Food & Drink	270	0.5%	-46%
Life Sciences	180	0.4%	34%
Tourism	5,650	11.3%	7%
Creative Industries	2,970	5.9%	25%
Other Growth Sectors			
Textiles	280	0.6%	-21%
Aerospace, Defence & Marine	160	0.3%	-10%
Chemicals	80	0.2%	-10%
Construction	6,750	13.5%	16%
Forest Industries	450	0.9%	-11%

Tourism and **construction** are the largest of sectors in the East Region in terms of the volume of workplaces they account for. There are more than 12,000 workplaces in the East operating within these industries, accounting for almost a quarter of all workplaces. The total number of workplaces within each of these industries increased between 1999 and 2007.

Financial services accounts for 2.9% of all workplaces in the East Region, a total of almost 1,500 in 2007. This was a third higher than the total in 1999, one of the fastest rates of growth of all of the sectors in the region. Although **life sciences** accounted for less than 1%

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.

of all workplaces in the region in 2007 (a total of 180), this was 34% higher than the total in 1999, making it the fastest growing key sector in terms of workplaces.

There were almost 3,000 workplaces operating within the **creative industries** sector in the East Region in 2007, accounting for 5.9% of all workplaces. The sector has experienced strong growth of 25% between 1999 and 2007.

The other sectors are relatively small in that each accounts for no less than 1% of all workplaces in the region. Furthermore, they have all been shrinking, with particularly sharp falls in the numbers of **textiles**, **food & drink** and **energy** workplaces.

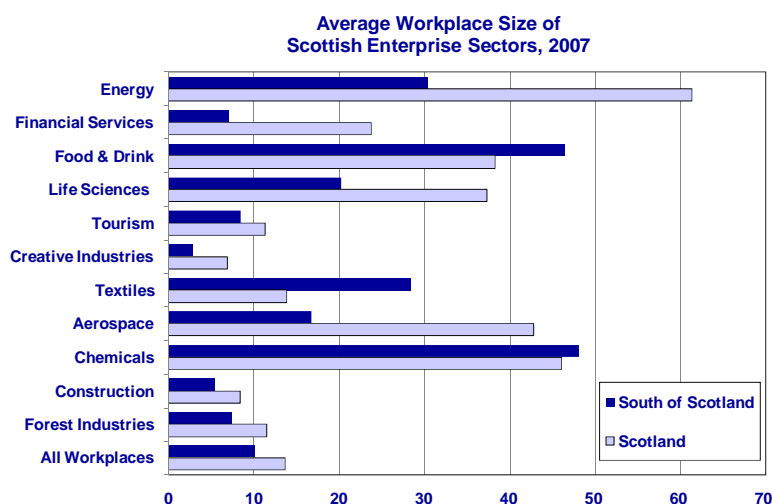
Workplace by Size

Chart 6.2 shows the average size of workplaces across each of the key sectors in the East Region, relative to Scotland as a whole. Across all industries, the average workplace in the region employs 14 people, in the line with the Scottish average.

The average size of workplaces in the region is above the Scottish average across all of the sectors apart from **energy** and **food & drink**. The difference is proportionately widest within **chemicals**, where the average firm in the region employs 68 people, much higher than the equivalent figure of 48 for the Scottish industry as a whole. Average workplace sizes within **financial services** and **life sciences** in the region are also substantially higher than the national average.

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 Financial Services

The East Region is home to the largest concentration of **financial services** employment within Scotland. The industry is concentrated within Edinburgh, which is home to the headquarters of two of the world's largest banks and ranked as the fourth largest financial centre in Europe, when measured in terms of equity assets.

This section looks in detail at the **financial services** sector within the East Region and covers:

- Sectoral Profile
- Recent Trends
- Exports

Sectoral Profile

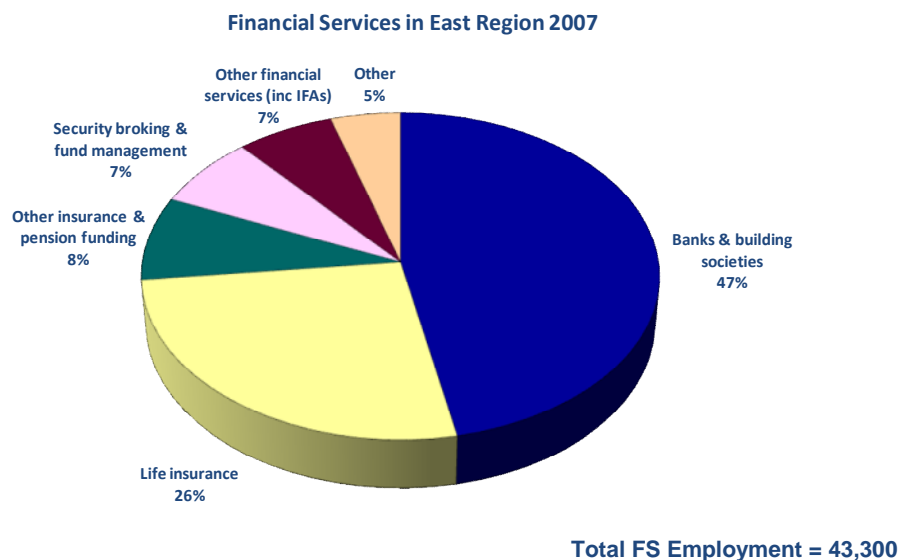
The financial services sector within the East Region is dominated by banks & building societies and life insurance firms.

There were 43,300 people employed within **financial services** in the East Region in 2007. This accounted for 6% of all jobs, above the equivalent share of 4% for both Scotland and GB. Chart 6.3 shows how these jobs are distributed across the various sub-sectors of the industry.

Banks & building societies accounted for almost half of all **financial services** jobs within the region in 2007. A further quarter of jobs were in life insurance, whilst other insurance & pension funding, fund management and other financial services were also well represented.

Chart 6.3

Source: Annual Business Inquiry



The dominance of the East Region as Scotland's centre for **financial services** can be seen in Table 6.7, which shows the proportion of Scottish jobs across each of the sub-sectors that are located within the region.

- Around half (47%) of Scotland's **financial services** jobs are located within the East – much higher than the region's total share of national jobs (29%)
- The region has particularly high levels of specialisation within life insurance and security broking & fund management – accounting for more than 80% of all Scottish jobs in these sectors
- Over half of Scottish employment within other financial services employment is located in the East Region, reflecting the extensive range of activities that have grown auxiliary to the main sub-sectors.

Table 6.7

Source: Annual Business Inquiry

Financial Services Employment 2007		
	East Region	% Scottish Total
Banks & building societies	20,200	46%
Life insurance	11,400	83%
Other insurance & pension funding	3,600	33%
Security broking & fund management	3,100	83%
Other financial services (inc IFAs)	2,900	51%
Other	2,100	16%
Total Financial Services	43,300	47%

Recent Trends

The East Region's financial services sector has grown rapidly in recent years, driven by large increases in employment within banks & building societies, insurance and pension funding.

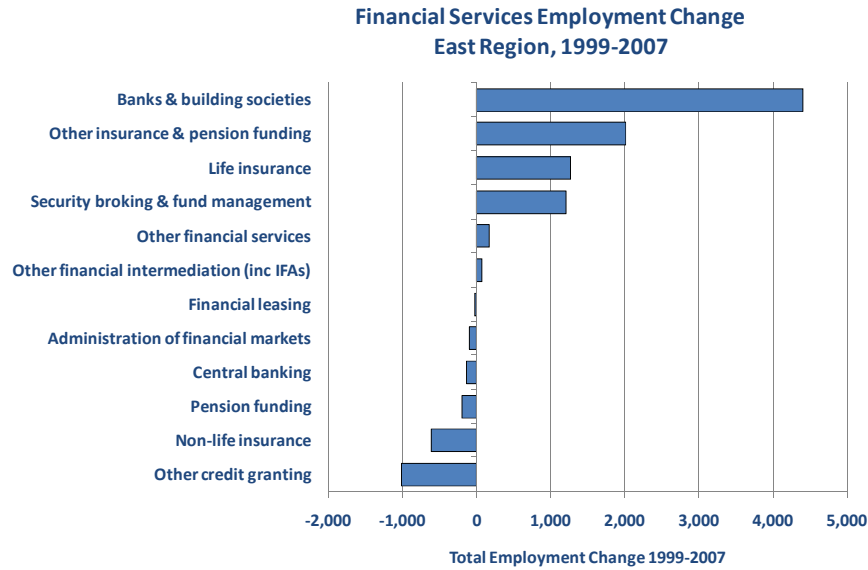
There were a total of 43,300 people employed within **financial services** in the region in 2007. This was 19% higher than the total in 1999, more than three times faster than the growth rate of 6% in the industry across Scotland as a whole. The expansion of the **financial services** sector has also outpaced the 13% overall rate of jobs growth across the region since 1999.

Chart 6.4 shows employment change within each of the sub-sectors of **financial services** over the period:

- Growth in the sector has been largely driven by *banks & building societies*, which have generated an additional 4,400 jobs in the region since 1999;
- *Insurance & pension funding* also grew strongly, creating an extra 2,000 jobs;
- *Life insurance* and *security brokering & fund management* were the only other two sectors to grow strongly, each creating more than 1,000 jobs;
- The only sectors to experience notable employment decline were *other credit granting* (-1,000 jobs) and *non-life insurance* (-600).

Chart 6.4

Source: Annual Business Inquiry



Exports

Financial services are a key exporting sector for Scotland, generating overseas sales of £1.14bn in 2006. This represented 6% of all exports, above the industry's share of national jobs (4%). Export figures are not available for the East Region alone, though as the region is home to around half of all Scottish jobs in the sector, it is likely that it also accounts for at least half of all exports. In fact, as the regional sector is characterised by a large number of headquarter functions, it is likely that it is responsible for generating an even larger share of national exports from the sector.

Since 2002, the value of **financial services** exports from Scotland has grown by more than a third (+37%). This was much faster than the growth of just 3% across all Scottish exports over the period. The sector is therefore a key driver of export growth and is likely to continue to play a key role in wealth generation for the region into the future.

6.5 Food & Drink

Food & drink is a key Scottish industry, particularly in terms of generating export sales. This section looks in detail at the **food & drink** sector within the East Region and covers:

- Sectoral Profile
- Recent Trends
- Exports

Sectoral Profile

The majority of food & drink jobs in the East Region are within meat or fish processing, distilleries or the manufacture of bread, cakes & pastry goods.

In 2007, there were 10,200 people employed in the **food & drink** industry in the East Region. This accounted for 1.4% of all jobs in the area. This was in line with GB, but slightly lower than across Scotland where **food & drink** jobs account for 1.9% of all employment. Chart 6.5 shows how employment was distributed across the main sub-sectors of the **food & drink** industry in the region in 2007:

- The largest sub-sector of the industry in the East region is the *manufacture of bread, cakes & pastry goods*, which accounted for over a quarter (26%) of all employment in the industry in 2007;
- The *manufacture of beverages* is also substantial, accounting for 23% of all *food & drink* jobs in the region. Of these, 8,700 (77% of the total) were in distilleries;
- Combined, *meat & fish processing* account for 27% of all *food & drink* employment in the East Region – a total of 2,700 jobs;
- The remaining jobs are within the *manufacture of dairy and grain mill, cereal & starch products* and various other types of mainly food products.

Chart 6.5

Source: Annual Business Inquiry

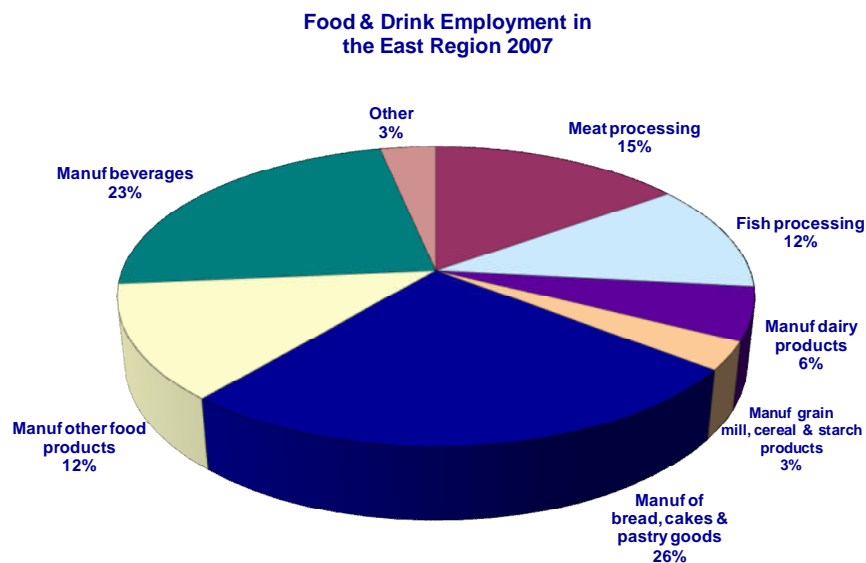


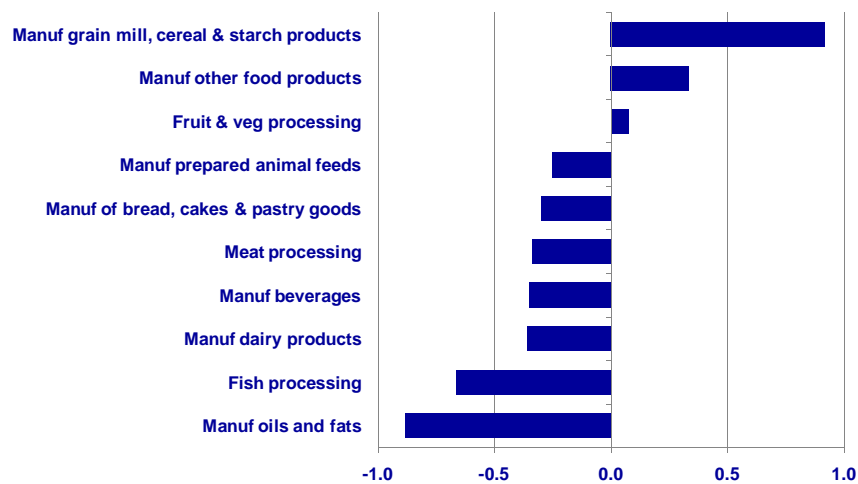
Chart 6.6 shows how employment levels in the sub-sectors of *food & drink* in the East Region compare with the Scottish average, which provides a good indication of region's level of specialisation within each. A positive specialisation score indicates the industry is over-represented in the region, relative to Scotland as a whole. Conversely, a negative score indicates the industry is under-represented relative to Scotland as a whole. This analysis shows that:

- The East Region has an above average level of specialisation within the *manufacture of grain mill, cereal and starch products*, with around 90% more jobs in the sector relative to the Scottish average;
- The region also has an above average level specialisation within *other food products*, with around a third more jobs in the sector than the Scottish average. This is a broad category which includes *confectionary, sugar products, tea & coffee, condiments & seasoning and dietetic food*; and
- The only other sub-sector of the *food & drink* industry within which the East Region has an above average level of specialisation relative to Scotland is *fruit & veg processing*, which is around 7% larger in employment terms than the Scottish average.

Chart 6.6

Source: Annual Business Inquiry & SLIMS Calculations

**Specialisation in Food & Drink Sub-Sectors
East Region relative to Scotland, 2007**



Recent Trends

Employment within the food & drink sector in the East Region has fallen at a rate faster than across Scotland as a whole in recent years. This decline has been largely driven by job losses within meat processing and drinks manufacturing.

Table 6.8 shows employment change in *food & drink*, relative to all industries, in the East Region and Scotland as a whole between 1999 and 2007. There were 10,200 people working in the *food & drink* industry in the East Region in 2007. This was 29% lower than the total in 1999, in contrast to an employment increase of 13% across the economy as a whole.

The contraction of the *food & drink* industry in the region was more severe than across Scotland as a whole, where employment in the sector fell by 19% over the period in contrast to growth of 11% across all industry sectors.

Table 6.8

Source: Annual Business Inquiry

Employment	1999		2007		Change 1999-2007	
	Total	%	Total	%	Total	%
East Region						
Food & Drink	14,300		10,200		-4,100	-29%
All Industries	628,800		709,100		80,300	13%
Scotland						
Food & Drink	56,900		46,000		-10,900	-19%
All Industries	2,167,000		2,407,700		240,700	11%

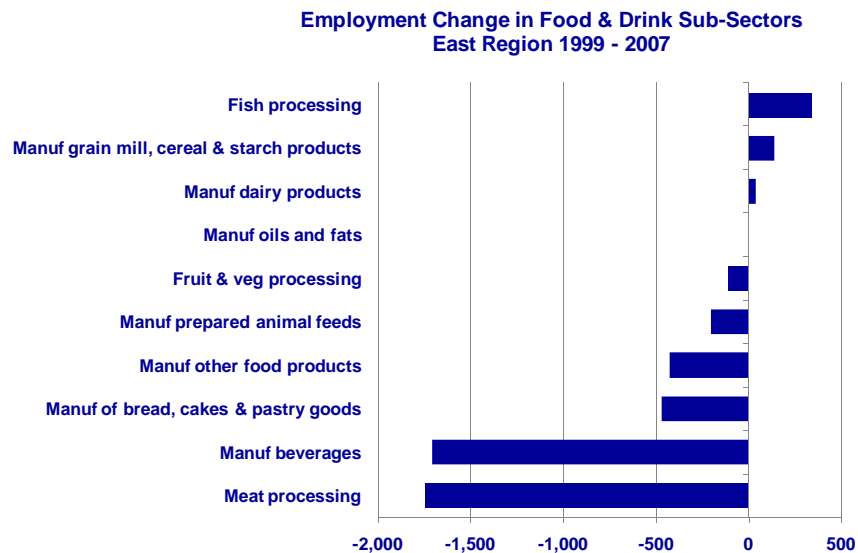
Chart 6.7 shows employment change within each of the sub-sectors of *food & drink* between 1999 and 2007:

- The sub-sectors to experience the largest falls in employment over the period were *meat processing* and *manufacture of beverages*, with over 1,500 jobs lost within each;
- Employment within *other food products* (-470 jobs) and *bread, cakes and pastries* (-420 jobs) also fell substantially;

- There was some employment growth in the *fish processing* industry, which was responsible for creating around 340 new jobs in the region over the period;
- The only other sectors that did not contract between 1999 and 2007 were *manufacturing of grain mill, cereal & starch products, dairy products* and *oils & fats*. However, growth was insufficient to offset the rapid declines within other parts of the *food & drink* industry in the region.

Chart 6.7

Source: Annual Business Inquiry



Exports

In line with the trend across Scotland as a whole, the value of exports sales from the food and drink industry in the East Region increased rapidly between 2002 and 2006.

Table 6.9 shows change in the value of exports from the East Region, relative to Scotland as a whole, between 2002 and 2006:

- The value of export sales from the *food & drink* industry in the East Region was £847m in 2006, 49% higher than in 2002;
- This was faster than the increase of 38% in the value of exports from the Scottish *food & drink* industry as a whole and seven times faster than the increase of 7% in exports across all industry sectors in the region; and
- This rapid increase in exports has taken place against a backdrop of falling employment in the industry both within the East Region and across Scotland as a whole.

Table 6.9

Source: Scottish
Global Connections
Survey, Scottish
Government

Exports (£m)*				
			Change 2002-2006	
	2002	2006	Total	%
East Region				
Food & Drink Exports	567	847	280	49%
All Exports	5,477	5,880	403	7%
Scotland				
Food & Drink Exports	2,615	3,615	1,000	38%
All Exports	19,940	20,550	610	3%

** Figures refer to value of exports in current prices*

7. Infrastructure & Place

7.1 Land & Property Supply

7.1.1 Vacant & Derelict Land

Introduction

The Scottish Government publish annual estimates of the amount of urban vacant and derelict land located within each local authority in Scotland. This data can be used to give an indication of the scale and quality of the land available for development within an area.

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 2,483 hectares of urban vacant or derelict land within the East Region, accounting for 23% of the Scottish total – well above the region's share of total land mass in Scotland (13%). Chart 7.1 shows how this land was distributed across the region. Fife (excluding North East Fife) and West Lothian have the largest overall amount of available land for development, combined accounting for 61% of the total in 2008. Edinburgh, Midlothian and Stirling account for a further 26%, with the remainder spread across the other areas.

Chart 7.1

Source: Vacant & Derelict Land Survey, Scottish Government

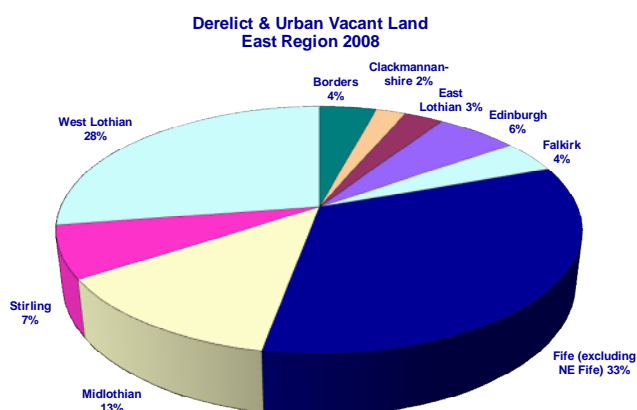


Table 7.1 shows that, in absolute terms, Fife has the largest volume of vacant and derelict land within the region, as well as the largest number of vacant or derelict sites. West Lothian has the second largest volume of land available, but this is distributed across a much smaller number of sites resulting in an average site size of more than eight hectares – the highest in the region.

Aside from Stirling, East Lothian and Borders, the proportion of land available for development within each local authority area in the region is above the Scottish average, suggesting that there is considerable scope for further development within the region. The

share of total land available for development is particularly high within West Lothian, Fife, Edinburgh and Midlothian.

Table 7.1

Source: Vacant & Derelict Land Survey, Scottish Government

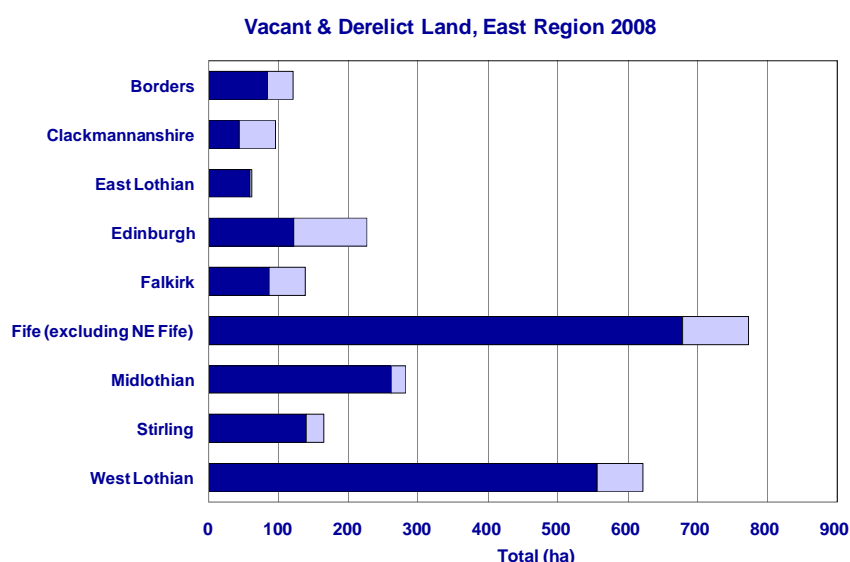
Vacant & Derelict Land 2008				
	Total Derelict or Urban Vacant Land (ha)	Number of Derelict or Urban Vacant Sites	Average Site Size (ha)	Derelict & Urban Vacant Land as % of all land
Borders	121	116	1.0	0.0%
Clackmannanshire	95	28	3.4	0.6%
East Lothian	62	34	1.8	0.1%
Edinburgh	227	92	2.5	0.9%
Falkirk	139	80	1.7	0.5%
Fife (excluding NE Fife)	772	167	4.6	1.4%
Midlothian	282	84	3.4	0.8%
Stirling	164	52	3.2	0.1%
West Lothian	622	74	8.4	1.5%
East Region Total	2,483	727	3.4	0.2%
Scotland	10,970	4,012	2.7	0.1%

Of the 2,483 hectares of available land within the East Region as a whole in 2008, 82% was derelict – that is, it requires remedial work before it can be used for development. The remaining 18% was vacant and therefore available for immediate development. Chart 7.2 shows how each of the areas within the region compare on this measure.

Although Fife and West Lothian have the largest quantities of available land, the majority of this (90%) requires some form of remedial work before it can be developed, which could pose problems in terms of attracting investment. This is also the case across most of the other areas within the region with the exception of Edinburgh and Clackmannanshire where around half of all available land is ready for immediate development.

Chart 7.2

Source: Vacant & Derelict Land Survey, Scottish Government



7.2 Transport & Connectivity

Effective transport infrastructure is a key contributor to economic performance. Transport provides access to and from local labour markets and goods and services, while strategic

networks provide connections to and from the rest of the country and beyond. The quality of a region's transport 'offer' can also influence inward investment decisions, and the attractiveness of a location for tourism.

Connectivity, both internal and external, has been identified as a crucial characteristic contributing to the competitiveness of cities¹³. This view is also reflected in the *Eddington Transport Study*¹⁴, which reviewed the long-term linkages between transport and UK economic performance. The study concluded that prioritisation of future policy efforts was required to avoid an adverse impact upon the nation's productivity and competitiveness. The study outlined three strategic economic priorities for transport over the next 20 years:

- Inter-regional transport connections
- Strategic transport linkages between city regions
- International transport links.

Within the East Region, there is an increasing recognition among policy-makers that the quality of the transport infrastructure needs to be improved to avoid constraining future economic growth. This section of the report looks at the transport infrastructure of the East Region and provides commentary on the following:

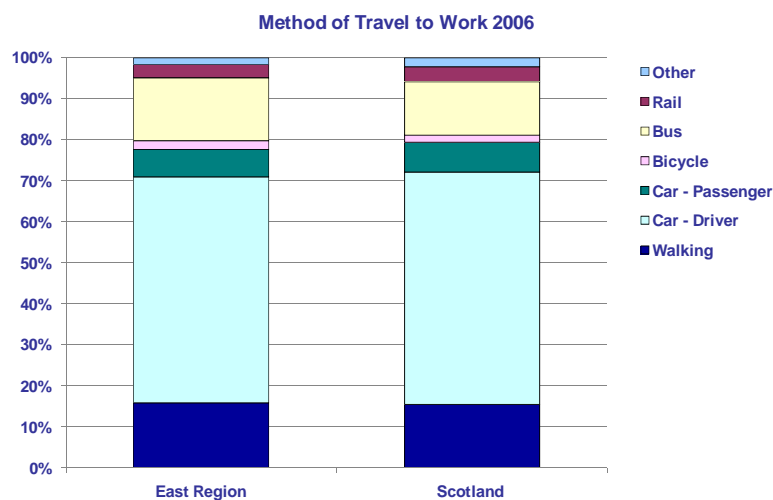
- Travel to work patterns
- External connectivity
- Internal connectivity.

7.2.1 Travel to Work

Chart 7.3 compares the method of travel to work for residents of the East Region relative to Scotland as a whole. The car is by far the most popular mode of transport to work for residents within the region. In 2006, 62% of all residents travelled to work by car, mainly as drivers. This was broadly in line with the equivalent rate of 64% for Scotland. Just under a fifth of residents (19%) used public transport to travel to work (bus or train), though this was slightly higher than the national average of 17%.

Chart 7.3

Source: Scottish Household Survey



¹³ Hutchins & Parkinson, 2005 *Competitive Scottish Cities?*

¹⁴ *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 to the rest of the EU¹⁵. Relative to the other Scottish city regions, the East Region appears to be one of the most well connected and there is evidence of improvements against this measure in recent years. In the latest Cushman & Wakefield UK Cities Monitor¹⁶, Edinburgh is now the 5th ranked UK city in terms of international transport links, while the city has moved from 13th to 9th place in terms of transport links to other cities.

Air Connectivity

Edinburgh Airport is central to the region's external connectivity, acting as a key international gateway to and from the city and beyond. The UK Government's Air Transport White Paper - *The Future of Air Transport* - provides a strategic framework for the development of air transport until 2030, and recognises the importance of the airport's gateway function.

The airport is one of the fastest growing in the UK, and handled just over 9m passengers in 2007. This figure is more than double the equivalent figure in 1997, meaning that passenger throughput has overtaken Glasgow for the first time. Forecasts predict that the airport could be handling up to 30m passengers by 2030¹⁷. The need to strengthen the East Region's international transport connections is reflected in Scotland's National Transport Strategy, which in concurrence with the White Paper highlights future expansion of the airport as a national priority, including the possibility of a second runway within the next 20 years.

Rail Connectivity

The East Region also benefits from good rail linkages with other cities both within Scotland and across the UK. At the same time there is recognition that improving the quality of these links in the future will be vital to regional competitiveness. The potential development of high speed rail links could play a key role in enhancing the wider competitiveness of both the Edinburgh and Glasgow City Regions combined¹⁸. The UK government has recently announced it will consider options for a high speed rail link between London – the Midlands, and consider the case for extending this link into Scotland.

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 East Region has an important role to play in its knowledge driven economy, 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) highlights a mixed picture in the East Region. Chart 7.4 shows the proportion of businesses with broadband access across former Local Enterprise Company (LEC) areas. The share of businesses with access in Fife and Edinburgh & Lothians was 95% in 2007, above the average of 90% across Scotland. However, in contrast, Forth Valley was below the national average with just 82% of businesses connected to broadband.

¹⁵ National Planning Framework 2 Discussion Draft, 2008

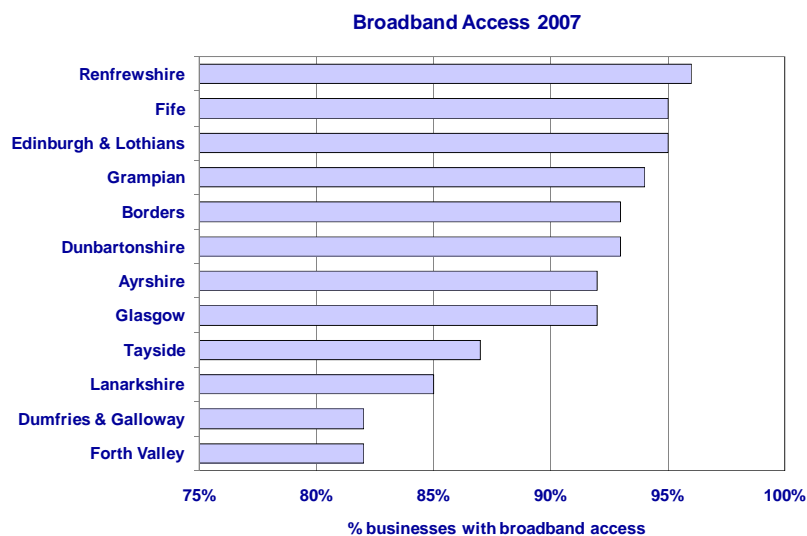
¹⁶ Cushman & Wakefield UK Cities Monitor 2008

¹⁷ *ibid.*

¹⁸ Docherty, 2006 *The Edinburgh City Region Conference, Background Conference*

Chart 7.4

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.

7.2.3 Internal Connectivity

Good transport connections offer the opportunity to widen local labour markets and improve access to goods and services. There is recognition amongst policy-makers within the East Region that internal transport infrastructure is in need of improvement if the region is to remain competitive in a national and international context.

Reducing road congestion has been identified as a particular priority for action with the Edinburgh City Bypass and Forth crossings particularly prone to traffic 'bottlenecks'. The Scottish Government has recently committed to a replacement Forth Road Bridge at an estimated cost of around £2.4bn. With the existing bridge retained for public transport use, consideration is also being given to the provision of a bus-based rapid transit service to improve connectivity between Fife and Edinburgh & West Lothian.

The relative quality of the East Region's internal rail infrastructure has been cited as a key source of frustration by the local business community, highlighting the need and scope for future upgrading and investment¹⁹. The need to improve internal rail infrastructure is apparent both in terms of regional links, as well as cross-city connections.

Regionally, a number of improvements are planned or in progress to enhance connectivity between Edinburgh and Glasgow. These improvements include increased frequency of services, and upgrading of existing infrastructure. Replacing the proposed Edinburgh Airport Rail Link (EARL), a new train station at Gogar to serve Edinburgh Airport by tram will allow Edinburgh - Glasgow train services to access Edinburgh Airport. Regional enhancements should also result in increased service provision via the reconstructed Airdrie – Bathgate rail link in 2010; commitment to the Borders Rail Link; and the recent re-opening of the Stirling – Alloa – Kincardine rail line.

In terms of cross-city connections, work is well underway on Phase 1 of the new tram network, which will see a new route from Newhaven to Edinburgh Airport, while a decision will be taken at a later date regarding an additional loop linking Haymarket to Granton. The planned upgrade of the Haymarket Public Transport Interchange seeks to enhance

¹⁹ City of Edinburgh Council, 2003, *Edinburgh's City Vision*

opportunities for modal shift, allowing passengers to transfer between heavy rail, light rail and bus services.

The National Planning Framework identifies the need for extended container port capacity if Scotland is to meet growing volumes of container freight traffic and increased demand for container capacity. In light of this, the Framework proposes the creation of an international container terminal at the port of Rosyth. Located just eight miles from Edinburgh, the plan is to create a multimodal container terminal with deep water access with improvements to road & rail links.

7.3 Physical Development Priorities

Allied to transport infrastructure improvements, a number of major physical developments are either planned or already in progress within the East Region. Some of these aim to address existing capacity constraints, while others aim to support the growth of key sectors such as financial & business services, life sciences, and energy. A summary of key projects is given below.

West Edinburgh – The West of Edinburgh is recognised in the National Planning Framework as a key gateway to Scotland and a significant economic development zone. Some of the transport projects identified above should address the growing pressure on West Edinburgh's transport infrastructure, and are part of a wider strategy aimed at fashioning West Edinburgh as an International Business Gateway. Plans are in progress to create a high quality business park, and hotel and conference accommodation to capitalise on West Edinburgh's proximity to Edinburgh Airport, and are all aimed at establishing the area as an internationally competitive business location.

Edinburgh Waterfront – Plans are well underway to regenerate Edinburgh Waterfront, principally around Leith and Granton. The population of this area of Edinburgh is set to increase dramatically over the coming decades through the creation of up to 30,000 new homes, significant amounts of new commercial, leisure and retail accommodation, a new further education campus and public space.

Craigmillar Urban Regeneration Company – Around £200m is being invested in regeneration schemes in the Craigmillar area of Edinburgh. Around 2,000 new homes, a new secondary school, and three new primary schools are proposed as part of these schemes. Further improvements include a new town centre with around 300,000 square feet of retail, leisure and office space, and a range of community facilities and enhanced public space.

Edinburgh BioQuarter – Scotland's flagship life sciences project, the BioQuarter in the south east of the city aims to establish Edinburgh as one of the world's top 10 life science locations. A partnership between Scottish Enterprise, the University of Edinburgh and the NHS, the project is expected to provide around 1.4m square feet of biomedical and R & D facilities, create several thousand new jobs, and add around £350m annually to the Scottish economy by 2025.

Fife Energy Park – Fife's Energy Park provides a large scale industrial location for renewable energy companies, and those operating in the oil and gas industries. At approximately 134 acres, the site (based at the former Kvaerner offshore fabrication yard at Methil) provides around 500,000 square metres of fully serviced industrial space. It is hoped that development of this site will allow Scotland to compete in the future growth of this key sector.

8. Sub-Regional Performance




This section provides a broad overview of how each of the local authority areas within the East Region perform against the key purpose targets set out in the Government Economic Strategy.

8.1 Economic Growth

GES Target: to raise Scotland's GDP growth rate to the UK level by 2011.

The average annual GVA growth rate for the East Region between 1999 and 2006 was 4.0%. This was above the UK average of 3.2%, meaning that the region as a whole is currently exceeding the national growth target.





Table 8.1 ranks each of the local authority areas within the East Region on how they perform on this measure using the following coding:

-  = below the national average
-  = broadly in line with the national average
-  = above the national average

This analysis shows that the economic growth achieved by Edinburgh, Midlothian and West Lothian outpaced the Scottish average between 1999 and 2006. Growth within East Lothian, Fife and Stirling was broadly in line with Scotland as a whole, whereas it was below average within each of the other local authority areas.

Table 8.1

Source: Oxford Economics

Economic Growth	
	GVA Growth Rate 1999-2006
Scotland	2.8%
Clackmannanshire	
East Lothian	
Edinburgh	
Falkirk	
Fife	
Midlothian	
Scottish Borders	
Stirling	
West Lothian	

8.2 Productivity










GES Target: to rank in the top quartile for productivity amongst our key trading partners in the OECD by 2017.

In 2006, productivity within the East Region (as measured by GVA per employee) amounted to £38,400. This was above the equivalent figures for both Scotland and the UK (£35,200 and £36,900 respectively). Table 8.2 shows how each of the local authority areas within the region perform on this measure, using the same coding as above.

On this measure, Edinburgh, Falkirk and West Lothian all have productivity levels above the national average. The only areas with below average levels of productivity in the region (relative to Scotland) in 2006 were Clackmannanshire, Borders and Stirling.

Table 8.2

Source: Oxford Economics

Productivity	
	GVA per Employee 2006
Scotland	£35,200
Clackmannanshire	
East Lothian	
Edinburgh	
Falkirk	
Fife	
Midlothian	
Scottish Borders	
Stirling	
West Lothian	

8.3 Participation










GES Target: maintain our position on labour market participation as the top performing country in the UK and close the gap with the top 5 OECD economies by 2017.

The employment rate is a good indicator of labour market participation as it is essentially a measure of the proportion of the working age population that are in work. The employment rate in the East Region was 77% in 2008, above the national average of 76%. The region is therefore already making a positive contribution to the national target.

Table 8.3 shows how the other areas within the region compare to the national average on this measure, using the same coding as the previous sections. It shows that, aside from Clackmannanshire, all of the local authority areas within the region have employment rates at or above the national average.

Table 8.3

Source: Annual Population Survey

Participation	
	Employment Rate 2007
Scotland	76%
Clackmannanshire	
East Lothian	
Edinburgh	
Falkirk	
Fife	
Midlothian	
Scottish Borders	
Stirling	
West Lothian	

8.4 Population

GES Target: to match European (EU-15) population growth over the period from 2007 to 2017.










Population growth within the East Region has outpaced both Scotland and the UK in recent years, growing strongly by 5% between 1999 and 2007. If this trend continues, the region will be in a good position to contribute to the national growth target.

Table 8.4 shows how the performance of each of the areas within the region compares with the national average. Population growth in East Lothian, Edinburgh, Scottish Borders and West Lothian outpaced Scotland as a whole between 1999 and 2007. Most of the other

areas matched Scottish growth and Midlothian was the only local authority area within the region to experience population decline over the period.

Table 8.4

Source: General Register Office for Scotland

Population	
	Population Change 1999-2007
Scotland	1%
Clackmannanshire	
East Lothian	
Edinburgh	
Falkirk	
Fife	
Midlothian	
Scottish Borders	
Stirling	
West Lothian	

8.5 Solidarity









GES Target: to increase overall income and proportion of income earned by three lowest income deciles as a group by 2017.

Average earnings for those working within the East Region were £382 per week. This was above the Scottish average of £375. However, there are wide variations on this measure within the region as shown in Table 8.5.

Edinburgh is the only part of the region where wage levels were above the Scottish average in 2008 - the city is therefore driving up the regional average on this measure. Average wage levels within most of the other local authority areas broadly match that of Scotland as a whole. However, average weekly wages for those working in the Borders and Fife were some way below the regional and national averages in 2008.

Table 8.5

Source: Annual Survey of Hours & Earnings, ONS

Solidarity	
	Average Weekly Earnings 2008
Scotland	£375
Clackmannanshire	*
East Lothian	
Edinburgh	
Falkirk	
Fife	
Midlothian	
Scottish Borders	
Stirling	
West Lothian	
* data disclosive	

8.6 Cohesion

GES Target: to narrow the gap in participation between Scotland's best and worst performing regions by 2017.

The indicator for measuring progress towards the cohesion target is the employment rate. As we have seen in section 4.7.3, almost all parts of the East Region perform well on this measure with the exception of Clackmannanshire. The employment rate in Clackmannanshire is the second lowest of all local authority areas in Scotland meaning that it has a key contribution to make towards achieving the national target.

8.7 Sustainability










GES Target: to reduce emissions over the period to 2011 and to reduce emissions by 80% by 2050.

In 2006, the East Region was responsible for a third of all CO² emissions in Scotland, above the region's population share. Table 8.6 shows how each of the component parts of the region compare to the national average on this measure.

The above average level of CO² emissions per head in the East are predominantly the result of the very high levels from Falkirk and East Lothian. Falkirk is home to the UK's largest oil refinery, whilst the power plant in East Lothian emits the highest volume of CO² in Scotland. Edinburgh and Midlothian have very little heavy industry, whilst the Borders is a predominantly rural area, resulting in very low emission rates within these areas.

Chart 8.6

Source: DEFRA

Sustainability	
	CO2 (t) per head 2006
Scotland	8.5
Clackmannanshire	
East Lothian	
Edinburgh	
Falkirk	
Fife	
Midlothian	
Scottish Borders	
Stirling	
West Lothian	

9. Outlook for the East Region

9.1 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 East Region 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 East Region. This is based on:

- Our understanding of the recent economic performance of the East 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 East Region.

This chapter of the report set outs:

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

9.2 What contribution has the East Region made to the GES targets?

9.2.1 An important part of the Scottish Economy

The East Region is a major and significant part of the Scottish Economy. Looking across some key economic indicators, the Region:

- Generated 32% of Scotland's GVA in 2006;
- Accounts for 29% of all Scottish jobs;
- Is home to half of all Scottish financial services jobs; and
- Is characterised by relatively high value added companies: GVA per head in each of the main industrial sectors is above the Scottish average.

The East Region has been a key driver of Scottish economic growth. Since 1999:

- There has been a net increase of 80,000 jobs in the region, accounting for a third of the total increase across Scotland;

- This has been partly driven by strong growth in financial services, which has been a key contributor to the region's overall economic performance;
- The East is the only Scottish region to have outpaced the UK in terms of economic growth – a key GES target; and
- GVA growth has been underpinned by strong growth in exports.

The region also has a number of strong people and place assets that have contributed to, or resulted from, strong economic performance:

- Relative to Scotland and the UK, the East Region has a highly skilled workforce with a high proportion of graduates and fewer residents with no qualifications at all;
- Over 12,000 residents from the region graduate with an undergraduate degree on an annual basis;
- The East Region is home to a world-class cluster of Higher Education Institutions, centred within Edinburgh and Stirling; and
- The region has experienced strong, consistent population growth since 1999 and this has been concentrated among people of working age.

9.2.2 A strong contributor to the achievement of the GES targets

The East Region, on the basis of recent performance, is well positioned to make a strong contribution to the purpose targets, set out on the Government Economic Strategy for Scotland. The East is the only SE region where recent economic performance has exceeded most of the targets set out in the GES:

- GVA grew at an average annual rate of 4.0% between 1999 and 2006, above the equivalent growth rate of 3.2% for the UK;
- Productivity, as measured by GVA per employee, amounted to £38,400 in 2006, above both the Scottish and UK averages;
- Labour Market participation, at 77%, is currently above the Scottish average;
- Population grew by 5% between 1999 and 2007, outpacing both Scotland and the UK; and
- The Region is characterised by high levels of wages and disposable income – though there are wide disparities across the region on these measures.

Relative performance against GES Purpose Targets

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

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

A key objective of this study is to understand the potential **future** contribution that the East Region could 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 Oxford Forecast and the views of the SLIMS/Oxford team on the impact that the recession will have on the East. We conclude by highlighting some potential policy implications from the review findings.

9.3 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.

9.3.1 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:

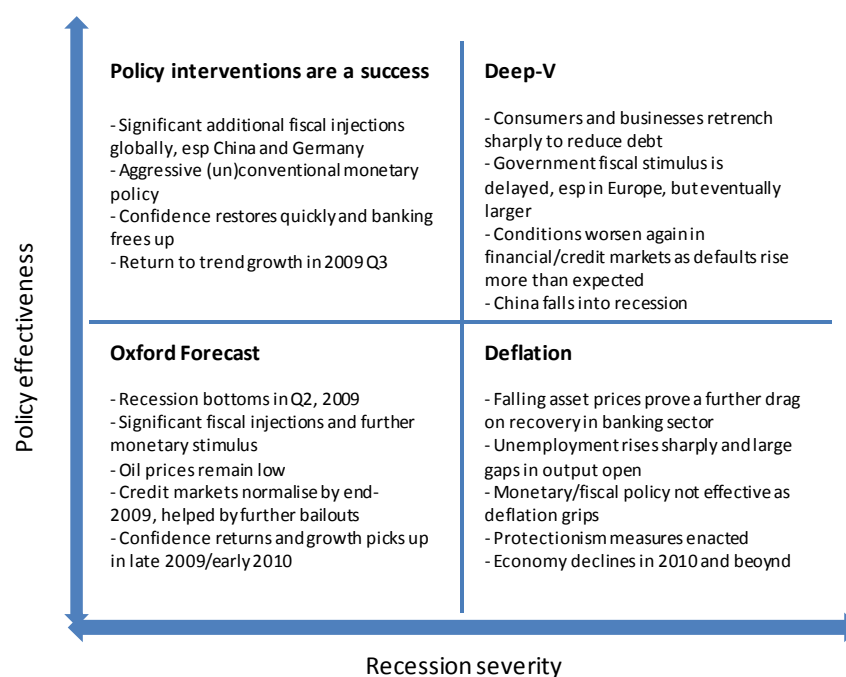
- The loss of nearly three million or one in fifty jobs in the US since September – the worst labour market experience in the post-war era;
- German factory orders down 27% in the year to November;
- The transmission of the downturn to emerging nations reliant on trade – with Chinese exports in January 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;
- The East Region's unemployment claimant total has increased by 13,800 (+71%) since February 2008.

9.3.2 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 Chart 8.2, 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.

Oxford Economics forecast scenarios



9.4 Economic Forecast for the East Region

This chapter provides an overview of the economic outlook for the East Region over the decade ahead.

9.4.1 GVA Growth

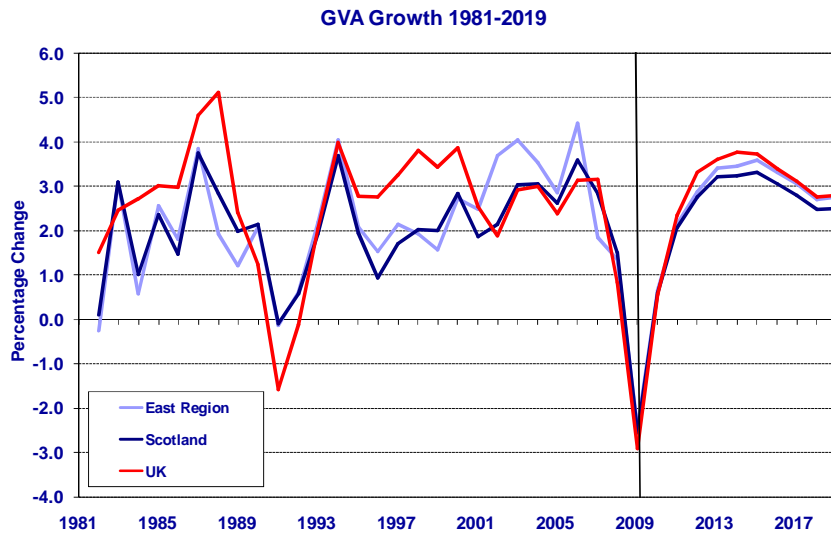
Chart 9.1 shows GVA growth for the East Region, Scotland and the UK. After outperforming Scotland and the UK between 2002 and 2006, the East Region is expected to suffer a similar scale of downturn to Scotland in 2009, but perform marginally better than the UK. A return to outperforming the Scottish economy is likely in the aftermath of the recession, but the region's growth is likely to lag the UK during this period.

The concentration of financial and professional services within Edinburgh leaves the region vulnerable to the recession, but this is offset by a stronger public sector performance on the back of faster population growth. Scotland and the East Region are forecast to lag behind UK growth in the medium term as the result of the pick-up within the Southern regions of the UK and London.

The forecast suggests that output will drop by 2.9% in UK and 2.5% in both Scotland and the East Region in 2009. As recovery begins, a growth rate of 0.7% is expected for the region in 2010, compared with 0.6% for Scotland and the UK. For the period from 2011 to 2018, when the growth rate is temporarily boosted by the rebound from recession, East Regional GVA growth is expected to average 3.1%, compared with 2.9% for Scotland and 3.3% for the UK.

Chart 9.1

Source: Oxford Economics

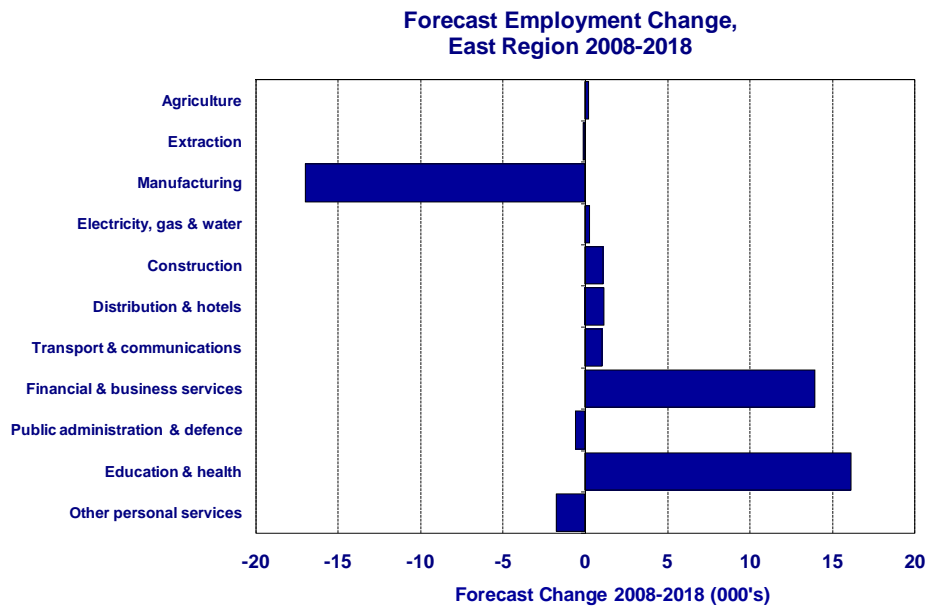


9.4.2 Employment

In the short term, there is an expectation of falls in employment across a number of key sectors, most notably financial and business services. However, over the longer term, the forecast points to an additional 14,200 jobs (+1.8%) within the East Region over the decade ahead. This will be led by education & health and financial and business services, with construction, distribution & hotels and transport & communications forecast to experience modest growth. The number of manufacturing jobs will continue to decline within the region, with a loss of almost 17,000 jobs forecast. Chart 9.2 sets out the full sectoral picture, although it should be noted that these forecasts cover a 10 year period.

Chart 9.2

Source: Oxford Economics

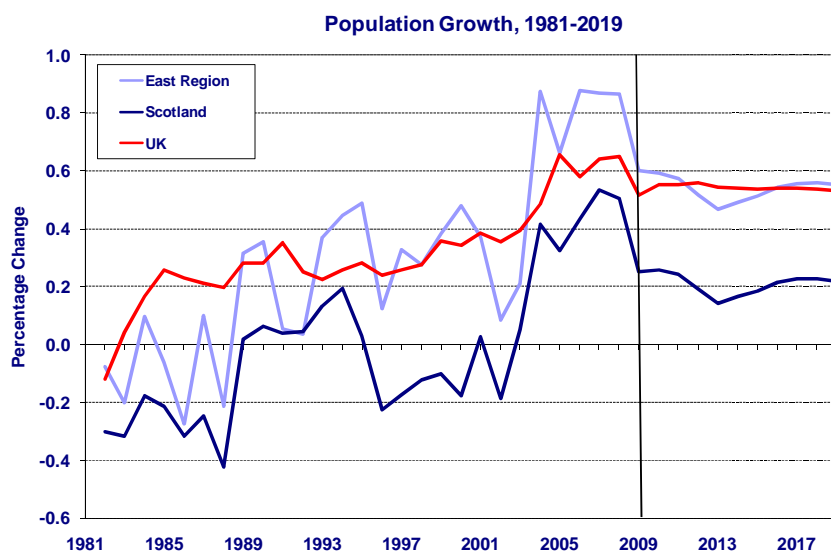


9.4.3 Population

Migration into the Region will remain positive over the decade ahead, with net migration expected to average around 6,000 per annum – over 75% of the net migration we expect into Scotland over the period to 2018. Our migration outlook takes account both of the current downturn and the changed medium term prospects for the UK and Scottish economies. As a result our forecast is considerably below the trend based official forecasts. One of the risks associated with the forecasts is how migration reacts to the challenging economic conditions and whether net migration levels fall.

Chart 9.3

Source: Oxford Economics



9.4.4 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.

A short term fall in economic activity levels is likely in each of the UK, Scotland and the East Region. In both the UK and Scotland, economic activity rates recover to around their recent peaks by 2015. However, the fall in the economic activity rate in Edinburgh is more protracted, falling from a high to 82.5% in 2008, to a low of 81.2% in 2011, with only a muted recovery thereafter. This is the result of working age population increasing at a rate faster than the labour force. Net migration into the region averages around 6,000 per annum over the forecast period, compared to an average net increase in employment of around 1,400 per annum.

9.4.5 Local outlook

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

Tables 9.1-9.3

Source: Oxford Economics

Employment (000's)	2008	2009	2010	2011	2012
Edinburgh	337	327	322	322	325
East Lothian	32	31	31	31	31
West Lothian	83	80	79	80	81
Mid Lothian	32	31	30	30	30
Stirling	57	56	52	52	52
Falkirk	66	64	66	67	67
Clackmannanshire	16	16	16	16	16
Fife (excluding NE Fife)	120	117	115	115	116
Scottish Borders	55	54	53	53	53
East Region Total	796	775	765	765	772

Employment Change (%/year)	2008	2009	2010	2011	2012
Edinburgh	0.5	-3.0	-1.6	-0.1	0.9
East Lothian	1.8	-2.1	-0.9	0.5	1.2
West Lothian	1.1	-2.6	-1.3	0.4	1.0
Mid Lothian	1.5	-2.9	-1.7	-0.2	0.5
Stirling	4.1	-1.7	-6.2	-0.9	0.9
Falkirk	0.2	-2.2	3.0	0.8	0.8
Clackmannanshire	0.4	-2.5	-1.1	0.4	1.0
Fife (excluding NE Fife)	0.2	-2.5	-1.2	0.2	0.8
Scottish Borders	2.4	-2.0	-1.0	0.2	0.7
East Region Total	1.0	-2.6	-1.4	0.1	0.9

GVA Growth (%/year)	2008	2009	2010	2011	2012
Edinburgh	1.6	-2.1	0.4	2.0	2.8
East Lothian	1.6	-2.1	0.9	2.4	3.1
West Lothian	1.0	-3.2	0.8	2.7	3.3
Mid Lothian	1.7	-3.0	0.1	1.7	2.4
Stirling	4.1	-1.4	-2.8	0.8	2.7
Falkirk	0.4	-3.0	3.8	3.1	3.0
Clackmannanshire	1.2	-2.8	0.9	2.4	3.0
Fife (excluding NE Fife)	0.3	-2.9	0.8	2.3	2.9
Scottish Borders	1.2	-2.6	0.9	2.1	2.6
East Region Total	1.4	-2.5	0.7	2.2	2.9

Given their sectoral mix, Edinburgh, Mid-Lothian and West-Lothian suffer most from the downturn in 2009 and associated difficulties in financial and business services, with employment falling by 3.0%, 2.9% and 2.6% respectively.

- A return to GVA growth is expected within all of the local authorities within the city region except Stirling from 2010 onwards, with Falkirk expected to be the fastest growing of the local authorities and West and East Lothian, Clackmannanshire and Fife (excluding NE Fife) outperforming the region average
- Employment falls persist in Stirling, Mid-Lothian and Edinburgh until 2011, and over the 2009-2011 period. All local authorities are expected to gain jobs from 2012 onwards with Edinburgh, gaining 23,000 of the 45,000 net new jobs expected in the region between 2012 and 2018
- The weak performance of Stirling in GVA and employment terms partly reflects the development of a major new hospital in Falkirk which will replace services currently delivered in Stirling.

9.4.6 Forecast Summary

At the time of writing (March 2009), the economy is heading into perhaps its sharpest setback period since the war, with the weakness in 2009 likely to be widespread. It is expected that output from the East Region will contract 2.5% in 2009 and will experience only modest growth of 0.7% in 2010. This is in line with the expected performance for Scotland as a whole, though less severe than the 2.9% fall in output predicted for the UK in 2009.

Employment is set to fall in both 2009 and 2010 with the loss of 20,600 and 10,600 jobs respectively. A return to growth in employment terms is not expected until 2012. The problems are not confined to the financial services sector but are spread across all sectors, with only education and health escaping from job losses. The recovery process is likely to be slow, with the region expected to underperform until 2011.

The longer term outlook for the region is more favourable. In GVA terms, the East Region is expected to outperform the other SE regions from 2011 onwards. In employment terms, an additional 44,900 jobs are forecast between 2011 and 2018, driven by financial and business services and education and health. Employment within public administration and defence is expected to contract slightly over the next couple of years and to remain stable between 2012 and 2017.

Finally we would remind readers of the significant uncertainty that exists in the forecast models at this time, particularly around the short-run forecasts. These are contingent on credit markets normalising by mid 2009. We would urge readers reviewing this document through 2009 to refer to Oxford's most recent UK and Scottish Economic Forecasts.

9.5 Potential Policy Implications

This concluding section highlights a number of potential policy implications arising from the analysis contained within this review. They are categorised as both risks and opportunities which might impact upon the outlook for the East Region.

9.5.1 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. On the demand-side, fears over the economic outlook may also hit demand for credit for investment, house purchase 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, particularly in urban centres and partially completed developments.

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 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 organisations.

- **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;
- the slowing of the flow of young workers into sectors under particular stress, such as construction, may aggravate skill-shortages when the economy recovers;
- postponement or cutting back of graduate recruitment programmes, particularly in high-value sectors, may act as a brake on future growth when the recovery does come;

- youth unemployment will rise significantly in the short-term and graduates may not be able to find jobs commensurate with their educational attainment or on-the-job training needs.
- **Participation issues**
 - some people of working age will drop out of the labour force, potentially adding 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.

9.5.2 Potential Opportunities

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

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. In particular, the East Region may be able to attract or retain consolidating activities in financial services.

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, particularly in Edinburgh, 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.

SLIMS / OXFORD ECONOMICS: MARCH 2009

Appendix 1 – Geographical Definitions

Functional Economic Geographies	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)	Equivalised 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 worst 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
JSA Claimant Rate 2008	DWP
IB 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 85
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