DEVOLUTION: SCOTTISH SOLUTIONS TO SCOTTISH PROBLEMS
AN ASSESSMENT OF PROGRESS TOWARDS A MORE ENTERPRISING, FAIRER AND BETTER GOVERNED SCOTLAND
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A prosperous and fair Scotland.
We in the small business community want a Scotland that is committed to growth, fairness and better government - and we want to be a part of building that Scotland.

THE FEDERATION OF SMALL BUSINESSES IS SCOTLAND’S LARGEST DIRECT MEMBER BUSINESS ORGANISATION AND IS WIDELY RECOGNISED AS THE AUTHORITATIVE VOICE OF THE SMALL AND MEDIUM SIZED BUSINESS SECTOR.
INTRODUCTION & OVERVIEW

‘There shall be a Scottish Parliament’

The first six words of the Scotland Act, and with those simple words Scotland’s politics were forever changed.

The first Scottish Parliament in 300 years offered so much promise to our nation. The promise of a stronger economy. The promise of a fairer society. And the promise of greater democracy and empowerment for all.

The new Parliament laid down a challenge to all who seek to make every corner of Scotland a better place to live, learn, work and do business. That challenge was to engage with Scotland’s new politics, to contribute in the policymaking arena, and put forward ideas for a progressive and prosperous Scotland for all.

WHERE WE STAND

Scotland’s economic success does not just rest on the raw strength of the business community; it rests equally on the strength and security of the communities in which businesses operate. Too often the ideas of a prosperous economy and a fair society which offers equality of opportunity are treated as mutually exclusive objectives.

We subscribe to the view that not only can there be a natural synergy between prosperity and fairness, but moreover that you cannot truly achieve one without the other.

An economy that allows the number of people in poverty to grow is an economy that is underperforming and wasting its best resource: people. Equally, we believe efforts to tackle inequality of opportunity will be futile unless they are matched by efforts to boost wealth creation.

The rhetoric is easier to utter than the reality is to deliver, that is why a more successful and stronger Scotland also rests on a third pillar of good governance. Scotland needs strongly accountable public institutions, both locally and nationally. These need a strong sense of purpose and, most of all, need to be effective. This means a government that does more steering than rowing, a government that uses all the agencies that exist within our society to exact change, and these agencies being prepared to take calculated risks in the pursuit of policy objectives.

WHAT THIS DOCUMENT IS FOR

This document represents an assessment of the overall performance of the Scottish Executive over the past three and a half years in the three key areas essential for creating a better Scotland for all: enterprise, equality of opportunity and governance. It judges the Executive’s success against two yardsticks. Firstly, whether Ministers have achieved the aims they set themselves in the Programmes for Government, and secondly, whether devolution has led to different outcomes than if we had continued with the pre-devolution system of government.

We hope that you will find this document an interesting and enlightening read, whatever your area of interest or expertise. It is intended to be fresh, fair-minded and free from dogma.

Early next year we will publish our manifesto which will lay out our progressive vision for Scotland. Until then, this assessment will hopefully provide the signposts for action and prove a valuable contribution to the debate over Scotland’s economic future.

Yours,

Andy Willox
Scottish Policy Convenor

WHO WE ARE

The Federation of Small Businesses in Scotland has welcomed the opportunities devolution has presented. Devolution has greatly enhanced our opportunities to represent our 16,000 Scottish members directly here in Scotland. Moreover, as the ‘Progressive Voice of Scottish Business’, FSB in Scotland believes the Parliament and the Executive are beginning to understand our calls to put Scottish businesses and Scottish people first.

They have begun to demonstrate that they understand the significance of the fact that small businesses represent 98% of all enterprises in our economy, support nearly half of all Scottish jobs and, crucially, account for nearly two-thirds of all commercial innovations. These statistics, familiar to many, underlie the nature of the new economy, where small businesses have fast become the best breeding ground for innovation, so vital to boosting the nation’s productivity.

May

1999

- First Scottish Parliament elections
- David Steel elected Presiding Officer
- Donald Dewar elected First Minister
- Lib-Lab partnership signed
- John Reid appointed Secretary of State for Scotland
THE FSB THINKS IT IS IMPORTANT THAT THE SCOTTISH EXECUTIVE:

**ENTERPRISE**
- Brings greater focus on the key issue of growing Scottish businesses
- Recognises the role of technological advances in delivering increased productivity
- Expands markets, improves connections and reduces transportation costs

**OPPORTUNITY**
- Invests in skills and encourages self-reliance, especially in the early years which are the most important in developing the abilities of each person
- Ensures public investment acts as a platform for growth by providing a better environment in which to live, work and do business

**GOVERNANCE**
- Utilises limited public funds in order to deliver the maximum return to national prosperity
- Ensures government at all levels has a positive impact on encouraging economic growth

**WHY IT’S IMPORTANT AND WHAT’S HAPPENED...**

**A STRONGER ECONOMY**
A stronger economy leads to a more prosperous country where fewer people live in poverty and more people have jobs. Faster growth means there is more money available for necessary and productive public services and less money required for those which deal with the consequences of economic failure.

We believe the Executive has made steps in the right direction towards improving Scotland’s economic performance. Their long-term strategy, built on homegrown businesses and on our human capital, should pay dividends in building a Scotland with the potential to become a ‘Tartan Tiger’.

**A FAIRER SOCIETY**
In a country like Scotland where unemployment is relatively low and the population is ageing, it is imperative that we boost the productive potential of those on the margins of society in order to encourage growth. This means bringing into play young people who would previously have failed, and others who are currently inactive. We need to encourage lifelong learning so that our ageing population updates its skills and remains in productive employment.

The Executive has started well in terms of putting in place new training and learning initiatives and in beginning to plan for future job skills requirements. However, it has sometimes fallen short in finding imaginative solutions to the multiple problems surrounding stubborn poverty and unemployment. These problems continue to hinder the prospects of wealth creation in our country.

**A BETTER GOVERNMENT**
The very existence of the new Parliament has been a huge step forward in reinvigorating Scottish society and in engendering debate over the future of many areas of public policy. But in order for this debate to result in better policies, improvements are needed in the new system of governance. A more effective system of budget allocation, based on evidence, best value and best practice, needs to be introduced, focusing on economic growth and equalisation of opportunity.

In their capacity as leaders of reform in areas like health, education and local government, the Executive and civil service need to exhibit more ability and willingness in driving forward modernisation. Success in the modernisation of our public institutions will only be achieved after greater reform of the civil service has occurred.

**the story so far**
The Scottish Parliament has undoubtedly been a force for positive change. The new system has an Executive and a Parliament completely focused on finding Scottish solutions to Scottish problems. Scotland has changed. The people of Scotland are now better able to influence the way we live, work and do business.
This document assesses the actions of the Scottish Executive under the headings Enterprise, Opportunity and Governance in accordance with our wish to see a more prosperous, fairer and better governed Scotland. In order to bring greater focus to the debate over the Scottish Executive’s performance, the FSB has identified five high points where the Executive has performed well and five areas where progress has been disappointing. Some illustrative examples are given below, but these points are discussed in greater detail in each chapter of the document.

### High points

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<tr>
<th>ENCOURAGING A MORE STRATEGIC APPROACH TO SCOTLAND’S LONG-TERM ECONOMIC GROWTH</th>
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<tbody>
<tr>
<td>● Establishing a long-term economic strategy</td>
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<td>● Launch of “A Smart, Successful Scotland”</td>
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<td>● Linking jobs and skills with creation of an Enterprise and Lifelong Learning Department</td>
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<td>● Focusing on science and skills strategies</td>
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<th>INVESTING IN PEOPLE</th>
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<td>● Training and learning through Modern Apprenticeships and the principle of individual learning accounts</td>
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<td>● Labour market co-ordination - matching people with vacancies via all age careers guidance and creation of Future Skills Scotland</td>
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<td>● Beginning to address the problems of literacy and numeracy</td>
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<th>RE-FOCUSING ON SUPPORT FOR GROWING BUSINESSES</th>
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<tr>
<td>● Streamlining of business advice by creation of Small Business Gateway</td>
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<td>● Streamlining of, and improved access to, funding and support for business (i.e. Regional Selective Assistance, Fund of Funds)</td>
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<td>● A better balance within the Scottish Enterprise Network between supporting business growth and creating new businesses</td>
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<th>SOCIAL JUSTICE STRATEGY</th>
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<td>● Establishing the Social Justice Annual Report</td>
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<td>● Transfer of rights and responsibilities to local communities with housing reform</td>
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<td>● Package of measures for older and younger people (concessionary bus travel, central heating initiative and more nursery places)</td>
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<th>July 1999</th>
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<td>Queen officially opens Parliament</td>
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<td>Independent Cubie Committee on tuition fees set up</td>
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<td>Lobbygate</td>
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<td>Publication of first Programme for Government</td>
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<td>Labour wins Hamilton South Westminster by-election</td>
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Wendy Alexander announces intention to abolish Section 28

Low points

Long-term cost of short-term compromises
- Reacting to crises in particular industries rather than focusing on long-term objectives e.g. fishing industry
- Failure to help declining industries adapt to the modern economy e.g. manufacturing
- Failure to analyse difficult problems and look at alternative solutions in the face of public pressure e.g. free care for the elderly

Tackling poverty
- No reduction in the number of children living in poverty
- Initial high profile focus on social justice has not been maintained, raising questions over extent of commitment
- Policies failing to penetrate down to those most vulnerable to Scotland’s persistent problems: alcohol; teenage pregnancy; drugs; youth crime and anti-social behaviour
- Key targets continue to be missed by the health service

Infrastructure
- Broadband – lack of awareness of its economic importance and failure to significantly invest in infrastructure
- Transport policy ‘sliding all over the road’ – focus moving from rural areas to central belt and from public transport to roads has led to confusion over priorities and strategic direction
- Lack of integrated transport system – failure to:
  - Link up existing public transport
  - Fill the gaps in road rail and air transport infrastructure
  - Make internal transport more affordable
  - Encourage greater international airlinks

Civil service’s slowness to adapt to the new political environment
- Lack of external expertise introduced to civil service
- Maintaining cautious administration, rather than dynamic management, restricts pace of progress
- Overly hierarchical management system acts as a dampener to finding creative solutions to public policy problems

Lack of focus and direction
- Too much focus on inputs to programmes, rather than on outcomes
- Lack of clear and consistent spending priorities
- Little evaluation and assessment of public spending to allow for evidence-based policies ensuring ‘more bang for the public buck’
- ‘Targetitis’ – diluting priorities through an expanding number of artificial targets

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Key Scottish Executive Promises

- Help create 40,000 new Scottish businesses by 2003
- Support 180 high growth start-ups in 2000/01
- Develop a manufacturing strategy

DELIVERY: BEGINNING TO GIVE ECONOMIC GROWTH THE ATTENTION IT DESERVES

Devolution has enabled a more responsive governance of the Scottish economy, which it has been without for far too long. However, the original focus on manufacturing by the Executive was a misdirection of resources into the failed strategies of the pre-devolved institutions. Furthermore, the Executive’s promise that it would create 100,000 new businesses over 10 years, and 40,000 businesses by 2003 was made without evidence of achievability, and the evidence available suggests that the net number of new businesses will not meet these targets.

After this shaky start, the Executive has begun to find its way, firstly with the publication of a ‘Framework for Economic Development in Scotland’, which provided a strategic skeleton of economic objectives, and then with ‘A Smart, Successful Scotland’, which has very much put the meat on the bones, with realistic evidence-based targets intended to improve Scotland’s productivity.

The Scottish Executive has identified the need to re-focus strategy towards long-term sustainable growth and recognised the limited prospects for a Scottish economy over-reliant on foreign investment. The new strategic focus on supporting homegrown businesses and strengthening Scotland’s entrepreneurial spirit has already produced some welcome policy initiatives. However, the latest economic figures have shown that the new devolution-led policies have, unsurprisingly, not yet had sufficient time to significantly impact on economic performance.
REFORMING THE ENTERPRISE NETWORK: A MORE FOCUSED APPROACH

The Executive began to sort out a lot of the inefficiencies and conflicting policy work that existed within the Enterprise Network. This was reinforced with the publication of ‘A Smart, Successful Scotland’ which gave greater thrust to this process and gave the Network greater focus. Most significant is the clear role differentiation that now exists between the Local Enterprise Companies, as public service delivery agencies, and the central strategic organisations, Scottish Enterprise and Highland and Islands Enterprise. This restructuring has enabled the Network to develop a clearer strategic focus, on supporting indigenous businesses to start-up, grow and, ultimately, sustain themselves.

One area of disappointment, however, is the Local Economic Forums. These were established to identify ways to cut out confusion and duplication of local business support services. Those forums that have created progressive action plans to improve local support services should be commended but too many have achieved little real change. If the situation is to be improved then best practice needs to be implemented in all forums.

SUPPORTING BUSINESS DEVELOPMENT: MOVING FROM EMPHASIS ON START-UP TO SUSTAINABILITY

Leaving aside the Executive’s initial error of promising to create 40,000 businesses over four years, the launch of Business Gateway and the restructuring of the Enterprise Networks is beginning to demonstrate results. With strengthened co-ordination and strategic management, Scottish Enterprise is set to exceed its target of 7,200 new businesses in 2001/02. In particular, the Executive forecasts the creation of 187 high growth start-ups, in excess of the targets laid out in ‘A Smart, Successful Scotland’.

Particularly pleasing is the diversity of people starting new businesses. For example, ‘A Smart, Successful Scotland’ highlighted the small number of self-employed women as a waste of our entrepreneurial human and intellectual capital. Since then, the number of business start-ups by women has met the target of 37% of all start-ups.

REGIONAL SELECTIVE ASSISTANCE: PUTTING THE FOCUS ON HOMEGROWN

The review of Regional Selective Assistance has led to a welcome change of focus away from supporting inward investment, predominantly in the manufacturing sector, to providing greater support for indigenous businesses across all sectors, and particularly projects with potential for high growth. However the Enterprise agencies should be cautious of focusing only on high growth businesses, given their previous poor track record in attempting to ‘pick winners’ and forgetting about the high growth potential of many small businesses. Also significant is the change in assessment procedures, which are designed to increase the tolerance of risk. This is fundamental to increasing entrepreneurial activity.

BETTER REGULATION: A GOOD IDEA, UNDER RESOURCED

The formation of the Improving Regulation In Scotland (IRiS) Unit was initially welcomed by the business community. However, the unit has been under-resourced and lacks the full weight of senior official and ministerial backing. The overwhelming difficulty has been the inertia in Executive departments when considering the drafting of effective legislation and the use of Regulatory Impact Assessments (RIAs). Recent reports have highlighted that the IRiS Unit has, to date, failed to avoid a single piece of unnecessary legislation from being implemented. The Executive has promised to strengthen the Unit, but it will take ministerial commitment to make certain that it has the power to ensure that the vital RIAs are taken seriously as a means of producing better regulation.

SECTOR STRATEGIES: MISCONCEIVED INITIATIVES

While there was, and remains, clear political pressure to protect the manufacturing sector, the strategy laid out in ‘Created in Scotland’ was not specific to manufacturing, and many initiatives were of equal relevance to other sectors. Furthermore, the strategy made little effort to distinguish between different parts of the manufacturing sector. Most importantly, it avoided the difficult decision of identifying those industries which have most to benefit from intervention, and which sectors are likely to be high growth in the future.

The clusters strategy of the Executive could have offered one way to identify such key sectors for Scotland’s economic future. Sadly they seem to be an example of where “doing less, better” isn’t good enough. While the development of a biotechnology cluster has been extremely successful in improving and expanding knowledge and productivity in this sector, the other clusters remain under-developed and are yet to deliver noticeable gains.
Key Scottish Executive Promises

- Encourage more ideas from our labs into successful businesses
- Establish a Scottish Institute for Enterprise
- Maximise the benefits of publicly funded science

DELIVERY: A WELCOME FOCUS ON DEVELOPING GOOD IDEAS AND RESEARCH

Scotland’s problem is not its ability to innovate, it is the ability to have those inventions developed and produced here. Scottish inventions have been among the most important contributors to global economic growth. From the telephone to tarmac, and from steam engines to the television, Scotland has led the way. Dolly the sheep and our creative software industry demonstrate that Scotland can still trailblaze in areas such as scientific research.

The Scottish Executive has begun to implement a strategy to ensure that not only do our best ideas get to the design table and into production, but that when they do, production is located in Scotland.

These are exactly the sort of policies the Executive should be pursuing to guarantee our future as a high productivity, high growth economy. However, not enough has been done to stimulate and co-ordinate Research & Development in the small and medium sized enterprises (SME) sector - the natural breeding ground of commercial innovation, with nearly two-thirds of all such innovations coming from this sector.

Obviously, given the nature of product development, it is difficult to measure the outcomes of the Executive’s initiatives, but it is clear that with devolution we have a government investing in Scotland’s future markets, and developing and protecting Scotland’s competitive edge as centre for science and innovation.

COMMERCIALISING PUBLIC SECTOR INNOVATION: ON THE RIGHT PATH

The Scottish Executive Science Strategy has a primary aim of increasing commercial spinout from our universities’ best research and development. Through the Scottish Institute for Enterprise, universities and business are being encouraged to work together.

Innovative policies such as the £33 million Proof of Concept Fund, which has already supported over 80 groundbreaking projects, have helped to improve the commercial spinout from research and development in the public sector (primarily in universities and the NHS). Furthermore, projects such as the Alba Centre, which are designed to support innovation in our growing industries, should continue to strengthen Scotland’s competitive edge.

The launch of the £40 million Fund of Funds is precisely the sort of market-driven policy that should lever in new investment and provide backing for some of Scotland’s best and brightest ideas, increasing our stock of high-growth, high productivity firms. In the past, too many of Scotland’s great ideas have never even come close to getting off the ground due to a lack of access to finance, particularly venture capital.

In addition, a number of initiatives which are designed to engender entrepreneurialism among our top public sector research centres are worthy of mention. Scottish Equity Partnership and the Enterprise Fellowships are examples of public sector initiatives that, with limited government support, have become permanent foundations on which to build an increasingly innovative economy. Scottish Equity Partnership was founded as an investment arm of Scottish Enterprise and was then privatised, becoming a profitable business in its own right. This is a very worthwhile model for developing enterprise. The expanded Scottish Enterprise / Royal Society of Edinburgh Enterprise Fellowship scheme has provided useful support in helping academics make the jump to becoming entrepreneurs.

May 2000

Jim Wallace deputises while Donald Dewar has heart operation

June 2000

Alex Salmond resigns as leader of SNP
Framework for Economic Development Scotland published
CLOSING THE BUSINESS RESEARCH AND DEVELOPMENT GAP: DISAPPOINTING PROGRESS

The Scottish Executive's Science Strategy has brought considerable added benefit to the research institutions, and combined with the Research & Development tax credit will stimulate innovation. However, the major effects have been with larger businesses, and little has been done to stimulate such activity in the small business sector. According to the FSB's own 'Lifting the Barriers to Growth Survey 2002', the SME sector in Scotland has a stronger appetite for Research & Development than its UK counterpart. By ignoring the SME sector, which is responsible for nearly two-thirds of all commercial innovations in our economy, the Executive is going to find it harder to close the gap between Scotland and the UK's business Research and Development spend.

However, there have been some welcome initiatives. The SMART:Scotland awards help a number of small businesses to get good ideas off the ground and into production. Fourteen small businesses have benefited this year from awards of up to £45,000 to help start-ups or small businesses have benefited this year from start-up and into production. Fourteen businesses use broadband, and while the capacity of some of Scotland's broadband network is significantly under-utilised, the issue remains whether the infrastructure is in place in many areas of Scotland. The Scottish Executive needs to work in partnership with the private sector to invest in infrastructure, stimulate demand and highlight the clear benefits of broadband for productivity.

BROADBAND/ICT: LACK OF COMMITMENT AND INVESTMENT

A recent FSB/ BT Scotland ICT survey showed that 76% of members using broadband believed it had improved their business's productivity. The debate on broadband now needs to move on to how we can accelerate Scotland's take up of this technology. Other than plans to aggregate public sector demand, little has been done to stimulate additional 'sign-up' to broadband technology. Currently only 3% of small businesses use broadband, and while the capacity of some of Scotland's broadband network is significantly under-utilised, the issue remains whether the infrastructure is in place in many areas of Scotland. The Scottish Executive needs to work in partnership with the private sector to invest in infrastructure, stimulate demand and highlight the clear benefits of broadband for productivity.

Scottish Enterprise's Project ATLAS and Highlands and Islands satellite broadband initiative have both begun to tackle the problems of information gaps, a patchwork cable network and, most importantly, the excessive cost of new technology. However, if the Welsh Assembly can put together a £100 million strategic plan, that will deliver broadband to 310,000 extra homes and 67,000 extra businesses, it has to be asked, why can't Scotland?

THE ENVIRONMENT - 'MEETING THE CHALLENGE, MAKING THE CHANGE': A MISSED OPPORTUNITY

Environmental policy is too often seen in terms of the regulatory and taxation burden associated with it. This is particularly the case in Scotland where the FSB's 'Lifting the Barriers to Growth Survey 2002' revealed that environmental legislation has a more onerous impact on our businesses than elsewhere in the UK. However, the Scottish Executive has missed a real opportunity to develop this policy area as an opportunity for growth. The Executive is engaged in discussions with environmental organisations and big businesses, but there has been a failure at a strategic level to work with the small business sector on developing environmental businesses.

On the most basic level, reducing waste and energy use are prime ways for businesses to cut costs, and increase their sustainability and profitability. Not enough has been done to promote good practice or to highlight how such cost savings can be made.

The need to develop environmental businesses which can develop and deliver new products and services for a global economy is of even greater importance. It is essential to nurture innovation to support the growth of green economy. While it is encouraging to see pilot projects such as the hydrogen cell fuel technology in Islay developed in Scotland, not enough has been done to promote environmental research and development. The same is true for the renewable energy sector - an area in which Scotland could excel and which has received too little support.
Key Scottish Executive Promises

- Deliver a sustainable, effective and integrated transport system
- Publish a Tourism Strategy
- Attract inward investment, creating or safeguarding 7,000 jobs in 2000/01
- Develop a strategy to build mutually beneficial links with other nations and regions in Europe

DELIVERY: FAILING TO MAKE THE CONNECTIONS

Whether it be meeting new clients, getting goods to market, attracting new investors or visitors or exploring new markets, Scotland needs to make better connections between our cities, towns, and rural communities, and with the rest of the world.

Everyone carried great hopes for a devolved administration being able to expand our transport networks, our international networks, and our business networks to a state appropriate for a 21st century economy.

But it was unrealistic to expect that almost two decades of public sector under-investment in capital projects could be made up in only three and a half years. However, despite a lot of early discussion, the Scottish Executive has yet to deliver even the foundations of international connectivity needed to guarantee Scotland’s place in the global marketplace.

TRANSPORT: FRACTURED AND FAILING

The first three years of the Executive’s strategy attempted to shift resources and attention to the rural economy, through the £18 million Rural Transport Fund, which assisted almost 500 projects in the most rural and remote communities of Scotland. However, this was not nearly enough to begin to resolve the infrastructure problems which need to be addressed to help grow the rural economy. While this money brought benefit to business in these communities, it underlies the problem with transport policy; namely, that investment in the local infrastructure predominantly benefits the local economy, rather than accruing benefit to the Scottish economy as a whole. However, investment in major infrastructure hubs like the M8 and Edinburgh and Glasgow airport links have the potential to benefit the entire Scottish economy.

This is not to diminish some of the Executive’s achievements, such as successfully getting 18 million lorry miles off the road. However, a transport strategy needs to be more than...
TOURISM: STILL STRUGGLING TO GET A GRIP ON OUR POTENTIAL

Tourism is one of Scotland's greatest assets and the Scottish Executive has clearly given high priority to developing tourism. Unfortunately, the initial tourism strategy was plagued by too many unfortunate mishaps and mistakes. The new management of VisitScotland has started to get to grips with the problems. It is too early to assess the overall impact of marketing of Scotland as a product-based, 'must-visit' destination focused on what there is to do in Scotland as a product-based, 'must-visit' to assess the overall impact of marketing of Scotland as a product-based, 'must-visit'.

Public confidence in the performance of the rail network has plummeted and the current criteria for the new rail franchise appear to suggest there will be no major improvements in the performance of the rail network of Scotland.

Management of local economic infrastructure investments should be devolved to the local level. This would allow the Executive to concentrate on producing a transport strategy, based on the prioritisation of projects which improve the economy as a whole. The recent Comprehensive Spending Review saw a welcome increase in the transport budget but the improvements outlined need to be implemented as quickly as possible. Businesses satisfaction with the current transport infrastructure is unsurprisingly low, with the FSB's 'Lifting the Barriers to Growth Survey 2002' revealing the extent of the dissatisfaction indeed 'Lifting the Barriers to Growth Survey 2002' revealed the extent of the dissatisfaction.

Indeed, 'Lifting the Barriers to Growth Survey 2002' revealed the extent of the dissatisfaction. The Ossian project is a classic example of a good idea, poorly delivered by the public sector to the cost of an estimated £5m of public money. However, the creation of eTourism Ltd, under the operating name of VisitScotland.com, offers hope that these problems may have been overcome.

The Executive's failure to grasp the nettle on reform of the Area Tourist Board network, which desperately needs to be brought into line with a co-ordinated national strategy, serves only in delaying progress.

However, it is difficult to measure the true effectiveness of the new tourism strategy, given that the industry has been hit hard by slower economic growth, September 11th and Foot-and-Mouth disease.

FOREIGN TRADE, FOREIGN INVESTMENT: STRUGGLING THROUGH TROUBLED TIMES

Too much focus has been given to big manufacturing businesses, and not enough to small manufacturing or service industries, where there is more potential for increased opportunities. The Enterprise Networks do not offer enough help to business in identifying new markets and opportunities overseas and do not link exporting to the business growth agenda. Indeed, 'Lifting the Barriers to Growth Survey 2002' revealed the extent of the dissatisfaction amongst small businesses with only 7% stating that they were satisfied with access to new overseas markets.

Levels of foreign direct investment have fallen dramatically. While such falls cannot be laid directly at the door of the Scottish Executive, mistakes were made in the past by placing so much importance on foreign investment at the expense of supporting indigenous growth.

The Executive now seems to have realised this. With European enlargement on the horizon, it seems unlikely that we will be able to compete with such low labour costs that the Eastern European economies can offer, and nor should we. 'A Smart, Successful Scotland' lays out the correct strategy for building an economy with links to world markets. The creation of Scottish Development International has supported the change of focus in economic policy from one primarily attracting inward investment, to one committed to promoting Scottish businesses abroad, with improved co-ordination to promote foreign trade.

The Executive has been slow to develop strategic relationships with other regions in Europe. The partnership with North Rhine Westphalia and the recent partnership agreement with Catalonia are not insignificant, and could deliver real benefits in a number of areas of common interest. However, a record of only two such partnerships in three and a half years is disappointing, given the commitment to develop strategic links outlined in the Programme for Government.
Key Scottish Executive Promises

1. Provide training for skills that match jobs for the future
2. Increase adult participation in education and training
3. Create a culture of lifelong learning
4. Widen access to further and higher education

DELIVERY: GOOD

Devolution has led to a clear realisation that Scotland must invest in her people to achieve greater economic success.

The creation of an Enterprise and Lifelong Learning Department, linking skills and jobs, was a good first step and the concept of lifelong learning has gained widespread support, with an initial burst of ideas to make the concept a reality. Problems such as the lack of core skills among the workforce have long been talked about, but now we will have accurate, up-to-date information on where these skills shortages are with the creation of Future Skills Scotland. Pre-devolution, access to learning was a series of barriers but comprehensive information on learning opportunities is now widely available.

However, there are still some stubborn problems which have prevented greater uptake of training and education. Without action to address these, the lifelong learning concept will never fully flourish and our potential for economic growth will not be met.

TRAINING SCHEMES: GOOD PROGRESS OVERALL

The Executive has prioritised the importance of getting more young people into training, education or work, accepting that if a successful transition is not made from school into one of these sectors, young people face the prospect of social exclusion for the rest of their adult life. Modern Apprenticeships are popular with both employers and employees and there has been an increasing acceptance of Scottish businesses’ need for vocational and in-house training. This is an important move, as the FSB’s ‘Lifting the Barriers to Growth Survey 2002’ highlighted that only 21% of employers were satisfied with the relevance of available training courses.

The number of Modern Apprenticeships has increased and the Executive has met its target of 20,000 by 2003.
The New Deal has been rolled out, as in the rest of the UK, to bring in previously excluded groups, such as the 50+ and lone parents, for example, and it has been reasonably successful in finding sustainable employment for these groups. However, unskilled school-leavers remain the most vulnerable to a downturn in the economy, which is confirmed by the continuing fluctuations in youth unemployment. The New Deal has also failed in certain geographical areas and chronic pockets of unemployment remain. Greater flexibility in the use of resources and more joined up activity between various programmes is required to find Scottish solutions to Scottish problems.

LABOUR MARKET CO-ORDINATION: NEWLY IMPLEMENTED

Effective economic policy-making cannot be achieved without accurate, detailed labour market information and the matching of skills provision. Future Skills Scotland will collate information and aims to provide business with six-monthly ‘skills maps’ which, when implemented, will be a welcome step. The Executive was also committed to reviewing the Careers Service in Scotland and has established Careers Scotland to provide all-age guidance across Scotland. Aligned with Scottish Enterprise, Careers Scotland should end the criticism levelled at the previous system of ‘careers guidance by postcode’. However, it appears that the Executive is still unclear on whether it sees the new service as a controlling mechanism or as a facilitating body.

RAPID REACTION (PACE) UNITS: A SUCCESSFUL SHORT-TERM FIX

High profile company closures led to the establishment of rapid reaction, minister-led units, involving company officials, trade-union officials, Scottish Enterprise and local authorities, with the express aim of re-training and finding employment for those facing redundancy. This has had a good measure of success in its aim of re-training workers and has mitigated large-scale additions to the unemployment queue. However, the impact on the supply chain of small businesses which service big companies is not fully considered by the public sector when a large firm closes its doors. Equally, the closure of smaller firms does not initiate any such support from the Executive.

LIFELONG LEARNING: ACHIEVING A CHANGE OF CULTURE

The publication of ‘A Smart, Successful Scotland’ highlighted the importance of improving human capital in Scotland and focusing on the concept of lifelong learning. Our confidence and economic performance is undermined by the nation’s poor literacy and numeracy skills, which were highlighted in a much-welcomed Adult Literacy Task Force Report. The Scottish Parliament’s Enterprise and Lifelong Learning Committee has carried out a comprehensive inquiry into lifelong learning in Scotland, and their report made the vital connection between lifelong learning and economic competitiveness. Establishing a Scottish University for Industry was an important step in stimulating demand for and increased participation in lifelong learning. The Scottish University for Industry (under its brand name Learndirect Scotland) has delivered a highly successful national phoneline and website offering advice on learning opportunities. The implementation of Individual Learning Accounts in Scotland was hailed as a triumph, and indeed over 100,000 Scots had an account opened. However, the closure of the scheme, amid financial irregularities, was an embarrassing blow. We hope that re-designed Individual Learning Accounts will build on the initial success of the scheme.

WIDENING ACCESS TO FURTHER AND HIGHER EDUCATION: GENERAL PROGRESS

Places and funding at FE colleges have increased, but the Further Education sector still needs effective streamlining to counter widespread duplication of courses. Higher Education student support arrangements were reviewed following the Cubie Inquiry and student endowments brought in to replace upfront tuition fees. Numbers applying are on the up; including a gradual increase from lower socio-economic groups, but doubts remain about the long-term impact of current levels of student and graduate debt. Establishing a University of the Highlands and Islands would have gone a long way to bringing previously unavailable educational opportunities to peripheral areas of the country; unfortunately we have not yet seen any real progress.

The Executive has undoubtedly pushed for more people to enter Higher Education, but the employability of our graduates must be improved if the Executive’s strategy is to benefit our economic performance. The value of a degree and of simply increasing the size of the Higher Education sector are increasingly being called into question. The current strategy assumes that large numbers entering higher education will automatically result in the upskilling of our workforce. This approach has to be replaced by one that focuses more on the appropriate destination of graduates. Too often, the increasing numbers of students are being shoehorned into the same facilities, a factor that does not contribute to maintaining the quality of the education. The Scottish Executive must recognise that having a highly qualified workforce is not the same as having a highly skilled workforce.
Key Scottish Executive Promises

1. Defeat child poverty in Scotland within a generation
2. To modernise Scottish schools
3. Every young person has the opportunities, skills and support to make the transition to work and active citizenship
4. Increase the number of older people who enjoy active, independent and healthy lives

DELIVERY: A GOOD START, BUT FALLING AWAY

Our people are our most valuable asset in the long-term task of turning around our economy, so we must improve the education, confidence, health and life skills of all Scots.

In the FSB’s ‘Lifting the Barriers to Growth Survey 2002’, less than a quarter of businesses in Scotland were satisfied with the availability of suitable labour, believing that character and attitude to work were the most important employee attributes. Achieving these attributes is best done at an early age - it is often too late by the time a young person accesses training schemes. Many factors contribute to the wrong attitudes, not least of which are the continuing level of poverty in Scotland, and the associated symptoms of poor health and under-achievement in education. These must be overcome if we are to move people from a dependency culture to an enterprising and work-oriented one.

The Scottish Executive published the fundamentally important document ‘Social Justice... A Scotland where everyone matters’ in 1999. This set out the Executive's vision of ending child poverty within a generation and included targets for annual assessment. However, the prominence given to the document has ebbed away over the last eighteen months. Certainly, some of the targets the Executive set were over-ambitious and the failure to meet some of these long-term targets in a political atmosphere of 'quick hits' may explain the quiet sidelining of the Social Justice Annual Report. That would indeed be a mistake, as the principles and objectives of the document remain as relevant today as they were three years ago and should continue to be high on the agenda of any government which aims to boost economic growth in Scotland.
OVERCOMING GENERATIONS OF POVERTY MEANS STOPPING THE CYCLE AT AN EARLY AGE AND THERE IS NO DOUBT THAT SOME MEASURES HAVE BEEN SUCCESSFUL IN IMPROVING THE LIFE CHANCES OF OUR CHILDREN. AMONGST THE MOST IMPORTANT HAS BEEN A NURSERY PLACE FOR ALL 3 AND 4 YEAR OLDS, WHICH HAS ALREADY BEEN LARGELY ACHIEVED. SURE START SCOTLAND HAS ALSO BEEN A SUCCESSFUL VENTURE, GIVING OUR CHILDREN A PRE-SCHOOL BOOST OF SUPPORT. THE LACK OF AFFORDABLE CHILDCARING HAS BEEN RECOGNISED AS A MAJOR BARRIER TO EMPLOYMENT FOR PARENTS, AND INITIATIVES TO INCREASE OUT OF SCHOOL CARE HAVE BEEN PROMOTED BY THE EXECUTIVE, ALTHOUGH THE ACCESSIBILITY OF CHILDCARING IS STILL NOT IN TUNE WITH THE NEEDS OF THE WORKFORCE AND CONTINUES TO POSE A PROBLEM FOR BUSINESSES AND THEIR EMPLOYEES. THE CONCEPT OF NEW COMMUNITY SCHOOLS - PROVIDING INTEGRATED PROVISION OF SERVICES - STILL NEEDS TIME TO BE BEDDED DOWN, BUT IS LIKELY TO LEAD TO A MORE HOLISTIC APPROACH TO THE INDIVIDUAL CHILD’S NEEDS. HOWEVER, NEARLY A THIRD OF SCOTLAND’S CHILDREN STILL LIVE IN POVERTY, SO THERE REMAINS A LONG WAY TO GO FOR THE EXECUTIVE TO REACH ITS TARGET OF ENDING CHILD POVERTY WITHIN A GENERATION.

SCHOOLS: SOME PROGRESS, BUT LITTLE SIGN OF TRANSFORMATION

Basic attainment levels in English and Maths were set by the Executive and results are improving. However, there is a long way to go before all our pupils leave primary school with the basic required level of literacy and numeracy and the Executive must continue to focus on these core competencies. Large-scale investment, mainly through Public Private Partnership, has seen the construction and refurbishment of schools across the country, and the Executive has probably surpassed its modest target of refurbishing 100 schools. Most local authorities still face school repair bills which run into millions of pounds, although this situation may be eased by the latest round of PPP bidding.

The educational establishment was rocked by the Scottish Qualifications Authority fiasco, which led to late and erroneous exam results being sent out to many pupils following the introduction of re-vamped assessment procedures for Highers. The McCrone settlement limited the teachers’ working week to 35 hours and gave a 21% pay increase by 2003, but in truth it settled few of the major issues concerning teachers. Despite these changes, the Executive launched another brainstorming consultation, “the National Education Debate” over the summer of 2002, which suggested they were still unsure of how to proceed on reforming Scottish education. Recent announcements suggesting that the Executive intends to place more emphasis on vocational training and core skills are welcome. The Executive’s progress in educational reform will be judged against what appears to be more radical changes south of the border.

WELLBEING OF CHILDREN AND YOUNG PEOPLE: NO REAL SIGNS OF PROGRESS

Scotland’s health problems are widely accepted as a major challenge. Efforts to improve the health of our young children have achieved some success by introducing initiatives to reduce the proportion of women smoking during pregnancy, low birth-weight babies and dental decay among 5 year olds. Breakfast clubs have begun to address nutrition problems and there are plans to look at the nutritional value of school meals. Improving the health and wellbeing of our young people has also proved frustrating. Tackling teenage pregnancies, drinking, smoking and suicides have all seen a great deal of effort and money put into imaginative awareness raising campaigns, welcomed by all, yet still to show any real results. The Executive is right to pursue the wellbeing of our young people, but will have to re-double its efforts to prevent another generation being excluded.

OLDER PEOPLE: POSITIVE GAINS

Against the backdrop of criticisms of the Westminster government’s treatment of pensioners, devolution has seen improvements for Scotland’s older people. The Scottish Executive has taken a landmark step in this field by implementing free personal care for the elderly, as recommended in the Sutherland Report, after initially rejecting the idea on cost grounds. This u-turn was partly a result of the resounding support the measure had in the Scottish Parliament and amongst the public, and partly due to a new First Minister, Henry McLeish, hoping to make his mark. The Executive has gone some way to achieving greater independence and choice for our older people, although private care homes are still under tremendous pressure and for most elderly in Scotland there is limited choice of provision. However, allowances for councils to install central heating for elderly tenants, combined with concessionary bus travel have added to the list of measures to appeal to the powerful ‘grey lobby’.

GIVING CHILDREN THE BEST START: SPORADIC SUCCESS

Overcoming generations of poverty means stopping the cycle at an early age and there is no doubt that some measures have been successful in improving the life chances of our children. Amongst the most important has been a nursery place for all 3 and 4 year olds, which has already been largely achieved. Sure Start Scotland has also been a successful venture, giving our children a pre-school boost of support. The lack of affordable childcare has been recognised as a major barrier to employment for parents, and initiatives to increase out of school care have been promoted by the Executive, although the accessibility of childcare is still not in tune with the needs of the workforce and continues to pose a problem for businesses and their employees. The concept of New Community Schools - providing integrated provision of services - still needs time to be bedded down, but is likely to lead to a more holistic approach to the individual child’s needs. However, nearly a third of Scotland’s children still live in poverty, so there remains a long way to go for the Executive to reach its target of ending child poverty within a generation.

OPPORTUNITY

- Invest in skills and encourage self reliance, especially in the early years which are the most important in developing the abilities of each person
- Ensure public investment acts as a platform for growth by providing a better environment in which to live, work and do business

COST OF HOLYOORK BUILDING NOW ESTIMATED AT £260MILLION

November

Jack McConnell elected Labour leader and First Minister
Major reshuffle of Cabinet
Helen Liddell announces formal consultation on future numbers of MSPs

December

Cost of Holyrood building now estimated at £260million
Key Scottish Executive Promises

- Regenerate the most disadvantaged communities
- Ensure decent, affordable housing is available to everyone
- Develop new approaches to treatment and shorten waiting times

DELIVERY: ACTIVITY WITHOUT OUTCOMES

Small businesses are an integral part of the community in which they operate. They also employ most of their staff locally so suffer from many of the problems affecting local communities across Scotland. Too often, business growth opportunities are denied because the local environment is not well maintained, the crime level too high and because of skills gaps in local communities.

Ministerial muscles have been flexed in addressing these issues, as the Executive has tried to get to grips with re-building crumbling communities across Scotland. This remains a key aim of the Executive, but real success has yet to be seen. After three years of exercising its powers by initiating a range of changes in health, housing and regeneration, matched with cash boosts, overall success has proved largely elusive. Attempts to regenerate communities have led to a change in direction following an over-reliance on Social Inclusion Partnerships, while housing has been addressed by a low-key, yet basically sound Housing Act. Clearly though, the housing debate has suffered from too much focus on the Glasgow stock transfer.

Equally, business owners need to have a healthy workforce to operate efficiently. Absence from work through sickness cost Scottish businesses almost £1billion in 2001. These effects are felt even more acutely by small businesses, where the absence of an employee can have serious consequences on a day-to-day level. Small businesses in Scotland are in a particularly bad position, with Scotland continuing to have amongst the worst health statistics in the western world.

Attempts to reform the health service continue to vex the Executive, with large scale investment failing to bring about measurable improvements in either waiting times or lists. While valuable lessons have been learned by the Executive team, they must realise that the public expects to see results.
May

Wendy Alexander resigns as Enterprise Minister
Glasgow Housing Stock transfer YES vote

July

Free personal care of the elderly comes into effect
Official opening of Loch Lomond and Trossachs National Park

HEALTH: INVESTMENT AWAITING RESULTS
Much activity has taken place to reform the NHS in Scotland, but the results are not yet evident. Investment targets for new hospitals and one-stop clinics - intended to help bring down waiting times – appear to have been met, but like the rest of the UK this cash injection has not yet produced the intended outcomes. Health spending per head continues to be much higher in Scotland, yet our record of poor health continues. Unless there is radical reform of the health service in Scotland, we will continue to pour money into a service which does not deliver significant improvements in the health of the Scottish people. Apparent failures, like the staff crisis at the Beatson Oncology Centre, have portrayed an Executive not yet in command of re-directing the Health Service. Even changing the Executive’s indicators from waiting numbers to waiting times has not improved matters with all the key figures still moving in the wrong direction. Attempts to educate the nation on health issues have proved more successful, highlighting the need for Scots to adapt to a healthier lifestyle, but results will not be seen in the short term.

HOUSING: A LOOMING PROBLEM
Attempts to bring much-needed investment to Scotland’s housing have largely taken the form of stock transfer with the potential for local empowerment as a guiding principle. This will lead to a boom in the construction industry, with Glasgow’s stock transfer alone planned to create 3,000 construction jobs, although this threatens to leave the industry with a severe skills shortage. However, the stock transfer debate has not featured any worthwhile discussion on how, and if, local authorities might be expected to continue their role as housing providers in the future. The Glasgow situation received high-profile ministerial support, but there has not been any real strategic leadership in the wider housing debate. The shortage of affordable housing in Southern England achieved prominence within the recent Comprehensive Spending Review in Westminster, but similar problems around Edinburgh have yet to be taken seriously in Scotland.

A BETTER ENVIRONMENT TO DO BUSINESS IN: PLAYING ‘CATCH-UP’ WITH SOUTH OF THE BORDER
Initial thoughts that Social Inclusion Partnerships would go a long way to regenerating Scotland’s forgotten urban and rural communities have given way to the realisation that the partnerships and local initiatives have not addressed the bigger picture. Whilst the partnership lessons learned in the formation of Social Inclusion Partnerships have been valuable to local service providers, the result has been success in only a few narrowly defined areas. The perception remains that the problems have simply moved to neighbouring non-Social Inclusion Partnership communities. The Neighbourhood Renewal Strategy of the Department for Trade and Industry is a more effective model, focused on the need for key, location-specific targets and the use of Public Service Agreements. Also, attention should be given to the Department for Trade and Industry’s idea of moving from ‘benefit to enterprise’. The Executive wants to see more business start-ups in deprived areas, but the role of small businesses and communities in achieving this has not yet been fully explored.

COMMUNITY PLANNING offers an opportunity for small businesses to become more involved in decision-making in their local environment, which is welcome. ‘Lifting the Barriers to Growth Survey 2002’ illustrated the low level of trust between businesses and local authorities, with only 6% of Scottish respondents satisfied with the level of local government consultation with business. Clearly this figure needs to be improved, particularly given the vital importance of local infrastructure to small businesses.

Crime is an ever-present menace in many communities. The average costs of crime are greater to Scottish businesses than comparable crime is to households - the average cost of housebreaking in Scotland is £793, break-ins to Scottish business cost an average of £3,075. However, the Executive’s efforts to reduce crime figures have done little to change the perception that Scotland’s streets are no safer now than they were four years ago.

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Key Scottish Executive Promises

- Not increase income tax in the first term of the Scottish Parliament
- Introduce Public Finance and Accountability Bill setting out the financial framework for the Scottish Parliament
- Modernise the Scottish Executive’s spending decisions process
- Deliver Best Value for the whole of the Scottish budget

DELIVERY: OPPORTUNITIES MISSED, SLOW TO SHOW MATURING RESPONSIBILITY

In general, issues of financial management have improved compared to the pre-devolution age, but at a slow pace. The financial management side of governance is particularly important as the effective allocation of a limited budget can have a significant impact on encouraging economic growth or bringing about equalisation of opportunities.

An apparent lack of authority on the part of the Minister for Finance and his Department in terms of influencing the final destination of funds and setting the criteria by which such decisions are made undermines the ability for co-ordinated, coherent, decision-making.

The Finance Department suffers from deficiencies in terms of: its use of outside expertise; the application of Best Value systems; and the ability to measure outputs/outcomes rather than inputs. This has hindered progress in terms of seeking Best Value and comparing returns from different potential investments. As a result, decision-making tends to be driven by political priorities rather than public investment priorities.

The absence of a clear and consistent set of values and overarching objectives has also hindered good decision-making. While documents like the original Programme for Government, the Social Justice Strategy or the ‘Framework for Economic Development in Scotland’ all had the potential to act as a guide for prioritising spending allocation decisions there is little evidence that any of them did. Consequently, spending decision arrangements are little changed from Scottish Office days.

In contrast, the UK Treasury has made progress in recent years in improving financial procedures and the methodology for resource allocation. Clear rationale have been outlined for making spending decisions and considerable effort has been expended in promoting Best Value, transparency and outcome based goals, although admittedly with varying degrees of success.

BEST VALUE: LITTLE INNOVATION OR INTRODUCTION OF EFFICIENCY INCENTIVES EVIDENT

Whilst we agree that this is the way forward, there has been, with the odd exception like road maintenance contracts, little progress in promoting best value. There are few signs that the Best Value process which is required of local authorities yet applies to the Executive itself. The Holyrood Project is symbolic of a general lack of expertise in the financial management of large scale capital projects.

FINANCIAL FRAMEWORK/BUDGETTING PROCESS: UNSPECTACULAR PROGRESS

A new financial framework has been introduced and is working in practice. However, it has failed to engage the public or the Parliament meaningfully in terms of greater participation in either prioritising spending decisions or in evaluating outcomes. Too much time is taken up in political point scoring concerning rises and falls in budget lines and in special pleading. In contrast, not enough time is spent on improving allocation methodology or pursuing better value as opposed to just higher spending.
Labour Party inquiry into financial irregularities in First Minister’s constituency party accounts
Holyrood building costs exceed £300million

SPENDING REVIEWS: NO GUIDING PRINCIPLES EVIDENT THAT EXPLAIN ALLOCATION OF FUNDS

Considerable extra funds have been made available via the Barnett formula since the Parliament’s inception, resulting in little pressure on departmental budgets, as demonstrated by the high levels of end-year carryover. There has been little incentive to drive down costs by improving efficiency, as a result of these years of relative feast. Nor has there been much progress in introducing and embedding guiding principles in relation to the prioritising of funding allocations. Clear and consistent values and objectives, which transcend departmental issues, have also been missing from these exercises.

REVENUE POWERS: STABILITY IS THE KEY

As promised there has been no invoking of the tax varying power. However, neither has there been any clarification given of the circumstances under which the Executive might consider invoking the power so it remains unexplored territory.

The review of business rates resulted in a transparent and easy to implement Small Business Rates Relief Scheme which reduces the disproportionate business rate burden on Scotland’s small business sector. The one year freeze in the business rate poundage and the pegging of increases to the RPI until 2005 in the latest Spending Review was also welcomed by the business community, but reductions in taxation alone will not be enough to induce economic growth in Scotland. The introduction of three-year financial settlements for local government also allows for greater transparency and stability in council tax levels.

PUBLIC-PRIVATE PARTNERSHIPS: MAINTAINING COMMITMENT IN SPITE OF OPPOSITION

The Executive’s continuing support of PPP is to be welcomed. Over time, contracts have improved as both sides have become more experienced in negotiating and assessing risk. However, a more mature debate needs to be encouraged which genuinely considers the merits of other models without losing sight of the gains already achieved through the existing one.

GOVERNANCE

- Utilise limited public funds in order to deliver the maximum return to national prosperity
- Ensure government at all levels has a positive impact on encouraging economic growth
LOCAL GOVERNMENT: PROGRESS ON BETTER VALUE BUT NOT REFORM
Whilst the FSB maintains a neutral view on constitutional issues, including electoral systems, the elephant in the living room remains electoral reform, particularly the question of moving to a system of proportional representation for local government elections. A deal between Labour and the Liberal Democrats has now been announced, which means we should see the use of Single Transferable Vote in local elections in 2007, although, the bill will not be discussed during this Parliament. Public Private Partnerships have been extensively used despite continuing hostility in many quarters. The same applies to other modernising initiatives like housing stock transfers, which have been pursued in the face of some local opposition.

CIVIL SERVICE REFORM: FEW SIGNS OF PROGRESS
While managing to adjust to a new system with higher demands in some areas of work, the Civil Service has been slow in grasping new opportunities. Old practices and methods have been maintained which has led to gridlock in places e.g. answering Parliamentary Questions and correspondence. Unappealing career structures, poor incentives and an overly hierarchical management system limit the attraction for high-quality newcomers and the scope for cross-fertilisation with non-career civil servants. Very modest progress has been made in introducing ICT related efficiencies or in accessing outside expertise.

DELIVERY: PROGRESS HAS BEEN SLOW ON MOST FRONTS
For government to be effective at any level it must have a strong interest in economic growth. The Executive has still not fully convinced the business world that they understand this. Any thoughts that the transformation of Scottish politics through the establishment of a Scottish Parliament would lead to a similar revolution sweeping through the civil service and local government have been dispelled during the first term. Both the civil service and local government remain fundamentally unchanged post-devolution, in both cases to the detriment of an effectively and democratically run Scotland.

Relationships with other government bodies have been mixed. Those with the European Union are marginally stronger, while, paradoxically, those with Whitehall seem weaker. The latter is probably due to the combination of Whitehall officials feeling less of an obligation to consider Scotland in their thinking and inexperienced Scottish ministers being unaware of the importance of good contacts with their Westminster counterparts. There needs to be a maturing of these relationships with closer contacts and more positive attitudes towards sharing information and ideas.

The Committee system and various attempts at taking parts of the new political system around Scotland have resulted in greater engagement and participation in the political process. However, this improvement in openness and transparency has had little impact on Executive accountability.

Key Scottish Executive Promises
- Making progress on electoral reform in local government
- Modernising government in Scotland using new technology
- Establish a Scottish Executive presence in Brussels
- Establish crosscutting initiatives to provide co-ordinated solutions
EXTERNAL RELATIONSHIPS: CLOSER TO BRUSSELS BUT FURTHER FROM LONDON

The opening of an office by the Executive in Brussels and regular visits by those Ministers most affected by EU decisions, suggests that contacts and influence have improved with EU administrators. The reverse may be true of London where some Whitehall civil servants appear to treat devolution as meaning that any policy implications for Scotland can be ignored. This situation has been exacerbated by Scottish Minister’s and MSP’s distance from their Westminster counterparts. There are advantages in staying in close contact with both civil servants and politicians, who still have very considerable influence and control over many aspects of Scottish governance. Attempts to alleviate this by setting up bodies like Joint Ministerial Committees have often looked like window dressing.

THE PARLIAMENT: STRONG COMMITTEE SYSTEM, WEAK DEBATING CHAMBER

While some committees are still growing into their roles, the Committee system is generally seen as having been successful in challenging both politicians and unelected officials and in improving popular access to the political process. In contrast, the debating chamber has been a disappointment with the style of debating proving uninformative and the quality of speeches low. Rarely does debate lead to greater clarity over the fundamental issues in question, which is its purpose. Longer debates and contributions, on fewer subjects, might improve matters. First Minister’s Question Time also adds little to the debate. While Parliamentary Questions are an important element of democratic scrutiny, some MSPs have been asking excessive number of questions. They should exercise judgement in declining to ask spurious questions aimed at generating more heat than light.

CROSSCUTTING INITIATIVES: A SUCCESS IN THE RIGHT CIRCUMSTANCES

Progress in crosscutting initiatives has generally been marginal. However, the potential for the success of such initiatives can be seen in the progress made on co-ordinating the response to drugs. The lesson seems to be that crosscutting initiatives are effective in those areas which can be quite clearly understood, like drugs, but are less effective in less tangible areas, like sustainable and rural development. Progress was made in the area of Social Justice when it was in the vanguard of Executive priorities but progress has stalled since it has slipped down the pecking order.

GOVERNANCE

- Utilise limited public funds in order to deliver the maximum return to national prosperity
- Ensure government at all levels has a positive impact on encouraging economic growth

Early next year we will publish our manifesto which will lay out our progressive vision for Scotland. Until then, this assessment will hopefully provide the signposts for action and provide a valuable contribution to the debate over Scotland’s economic future.

A prosperous and fair Scotland.

We in the small business community want a Scotland that is committed to growth, fairness and better government - and we want to be a part of building that Scotland.
Did you know?

There are 294,000 businesses in Scotland, employing 1.8 million people. Of them...

- 98% employ less than 50 people
- 93% employ less than 10 people
- 185,000 are sole traders or partnerships without employees
- Small businesses employ 44% of the total Scottish workforce
- Small businesses are responsible for over 60% of commercial innovations

Source: Scottish Executive; Scottish Economic Statistics March 2002