

Public Audit Committee
Thursday, 9 May 2024
15th Meeting, 2024 (Session 6)

National Strategy for Economic Transformation

Introduction

1. At its meeting today, the Committee will take evidence from the Scottish Government on the Auditor General for Scotland's (AGS) briefing, [National Strategy for Economic Transformation](#), which was published on 8 February 2024. The briefing can be found in the **Annexe**.
2. The Committee previously took evidence from the AGS on the briefing on [14 March 2024](#).
3. The Committee will decide any further action it wishes to take following the evidence session today.

Clerks to the Committee
May 2024

Annexe: National Strategy for Economic Transformation briefing

Briefing

National Strategy for Economic Transformation

AUDITOR GENERAL 

Prepared by Audit Scotland
February 2024



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Key messages

- 1** The Scottish Government's vision is to create a wellbeing economy. This means an economy that works for everyone, where traditional economic growth is not the only measure of success but where the focus is also on the quality of people's lives and protecting the environment. Delivering across all aspects of this vision, while growing the economy to increase tax revenue, will be a substantial challenge and will require all parts of government and others such as businesses to work together.
- 2** Under the Fiscal Framework, Scottish public finances are now more closely linked to how Scotland's economy performs relative to the rest of the UK. This makes it all the more important for the Scottish Government to achieve the economic performance ambitions in its National Strategy for Economic Transformation (NSET). If the Scottish Government does not achieve improved economic performance, there will be further pressure on Scotland's public finances.
- 3** It is too early to assess the impact of the NSET, but the Scottish Government has set up a governance framework to encourage collective ownership, accountability, and oversight for progress. There is a gap in collective political leadership as the government has yet to establish its planned Economic Leadership Group.
- 4** The NSET's programmes span different policies, Scottish Government directorates and public bodies, which means managing delivery is complex. While good connections have been established across the Scottish Government to support

the NSET's delivery, it is not clear how directorates are working together to agree funding priorities. There is a risk that NSET objectives are not being given the same priority by all directorates when it comes to funding decisions. This could hamper the NSET Delivery Board's ability to drive the change needed to transform Scotland's economy.

- 5** The Scottish Government has not determined how much investment is needed to deliver the NSET. This creates a risk to financial management and public accountability. With the current financial challenges, an understanding of cost and affordability will help the Scottish Government to prioritise spending decisions and is critical for transparency, scrutiny and accountability.
 - 6** The Scottish Government is still developing its evaluation approach for the NSET. With continued pressure on public finances, the Scottish Government needs to better understand which NSET activity is making the most difference and demonstrate clearly how this is contributing to the outcomes it wants Scotland to achieve.
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Recommendations

The Scottish Government should:

- Establish the Economic Leadership Forum, as set out in the NSET Accountability Framework, or put in place an alternative mechanism to provide the planned political leadership of the strategy and route for the delivery board to escalate major delivery concerns. The NSET Accountability Framework documentation should be updated to set out any change to arrangements.
- Increase the transparency of decisions taken within directorates which affect the allocation of funding to NSET activity. Specific roles and reporting responsibilities to enable this should be clearly set out in the NSET Accountability Framework.
- As part of its update of the NSET and its delivery plans:
 - clearly set out which actions have been prioritised and why, and the funding allocated to these
 - clearly set out the links between the actions in the NSET and their expected impact on delivering the vision of a wellbeing economy
 - set out more clearly defined interim and longer-term targets and timescales for NSET actions and measures of success, to support assessment of performance
 - develop an approach to evaluation to better understand what activity is making the most difference and where its investment is most effective at transforming Scotland's economy
 - review the groups and forums established to support delivery of the NSET, on a regular basis, to ensure these remain fit for purpose and they have clear roles, responsibilities, and reporting lines
 - be transparent about timescales for the publication of the NSET update.

Introduction

Background

1. Scotland is a small open economy with a **GDP** of £187.3 billion in 2022. The key sectors are services including health and social services, financial and business services, and production which includes manufacturing. There were around 341,000 businesses in Scotland in March 2023, most of which are small- and medium-size enterprises. The emerging and growth sectors, such as digital, green technology and energy, and health sciences provide opportunities for growth and transformation for Scotland's economy.

2. Like other countries, Scotland has faced a period of significant change and challenge in recent years. Recovery from the economic shock of the Covid-19 pandemic is ongoing and the war in Ukraine has increased macroeconomic instability and risks. This is at a time when Scotland's economy is still adjusting to the UK leaving the European Union, and the UK and Scottish governments are facing significant fiscal challenges.

3. The Scottish economy faces challenges in important areas. There has been slow GDP growth over the last decade, with only 1.5 per cent average annual growth between 2000 and 2019 followed by substantial fluctuation during the Covid-19 economic shock. Scotland's productivity has remained ranked 16 out of 38 comparator economies over the last decade, demonstrating no progress on the Scottish Government's target to improve Scotland's relative performance.¹ Real pay growth has been limited and the challenging economic context has contributed to the Scottish Government not being on track to meet its statutory child poverty reduction targets.² Latest available data, for 2021/22, shows that 24 per cent of children in Scotland were living in relative poverty against an interim target of 18 per cent for 2023/24 and longer-term target of 10 per cent by 2030/31.³



Gross domestic product (GDP) is a measure of the total value of the goods and services produced in a country during a specific period of time, usually a year.

¹ The Scottish Government compares its performance on this measure to other countries in the Organisation of Economic Co-ordination and Development (OECD).

² [Tackling Child Poverty Delivery Plan: progress report 2022–2023](#), Scottish Government, May 2023.

³ The timing of this data means that it does not capture the impact of the Scottish Government's Scottish Child Payment, a key intervention in its Tackling Child Poverty Delivery Plan 2022–26.

4. In March 2022, the Scottish Government published its National Strategy for Economic Transformation (NSET). This ten-year strategy outlines the government’s vision to create a wellbeing economy: a society that is thriving across economic, social, and environmental dimensions, and that delivers prosperity for all of Scotland’s people and places. This is a shift from the Scottish Government’s previous economic strategy in 2015 which focused on two objectives: boosting competitiveness and tackling inequality.

5. The ambitions of the NSET are wide-reaching, touching upon many policy areas. The strategy is built around five thematic programmes: Entrepreneurial People and Culture, New Market Opportunities, Productive Businesses and Regions, Skilled Workforce, and A Fairer and More Equal Society. These are all underpinned by a cross-cutting programme, A Culture of Delivery, which focuses on setting up the arrangements and relationships needed to deliver the strategy.

6. In October 2022, the Scottish Government published delivery plans for each of the six programmes, containing the 77 actions from the NSET. Some of the NSET actions are newly established, while others restate existing commitments and activity ([Exhibit 1](#)). The Scottish Government

Exhibit 1. Examples of NSET actions



Actions established by the NSET:

Action 6	Create a national system of pre-scaler hubs that will stimulate the very earliest stages of high growth commercial and social entrepreneurship.
Action 15	Build strategic partnerships with other key entrepreneurial ecosystems in other countries.
Action 36	Design and implement programmes on practical actions business and leaders can take to boost productivity at scale.

Actions which restate existing commitments:

Action 20	Deliver on our export plan which takes a targeted sector and country approach to raising Scotland’s international exports.
Action 24	Deliver on the ambitions of ScotWind and future renewable energy developments.
Action 56	Deliver on the commitment to require payment of the Real Living Wage in Scottish Government contracts from October 2021.

Source: [Scotland’s National Strategy for Economic Transformation: Delivering Economic Prosperity](#), Scottish Government, March 2022

plans to update the NSET, including the NSET delivery plans, in response to recent policy and economic developments. It is considering the scale and scope of the update and has not yet finalised a timescale for its completion.

7. In its 2023–24 programme for government, published in September 2023, the Scottish Government set out its three pillars of fiscal sustainability. One of them is an increased focus on economic policies and actions that grow both Scotland’s wellbeing economy and the country’s tax base to help fund public services.

8. The NSET’s vision to transform Scotland’s economy has potential to impact positively on public finances and fiscal sustainability. Certain taxes, most notably Scottish Income Tax, and some social security benefits have been devolved to the Scottish Government. The **Fiscal Framework** sets out how these new responsibilities affect the Scottish budget.

9. The Fiscal Framework is intended to incentivise the Scottish Government to increase economic growth and means that Scottish public finances are affected by the performance of Scotland’s economy relative to the rest of the UK. Where economic performance in Scotland is relatively better than in the rest of the UK, the Scottish budget will benefit in two main ways:

- Relative taxes in devolved areas may perform better, generating more funding for the Scottish budget.
- The demand for social security benefits may reduce, freeing up funding in the Scottish budget.

10. The NSET’s ambitions have the potential to reduce demand on public services as well as to increase funding available, for example by supporting people to enter and progress in the labour market, improving fair pay and employment security. Delivering on these aspects has the potential to help reduce demand for services such as social security, which is a large area of devolved spending.

About the briefing paper

11. While it is too early to assess the success or impact of the NSET, this briefing highlights issues for the Scottish Government to consider and makes recommendations to support improvement. It looks at the framework established by the Scottish Government for delivering its vision to transform Scotland’s economy through the NSET. It examines the governance and delivery arrangements that have been established to support successful delivery of the NSET, and how these are operating. It also considers progress to date, the Scottish Government’s plans for measuring overall success, and how it is monitoring progress and managing performance across the NSET actions.



The Fiscal Framework,

established in 2016, is an agreement between the Scottish and UK governments in response to the Scottish Parliament’s new responsibilities for taxes, social security and borrowing. The framework sets out the Scottish Government’s financial arrangements including how the grant received from the UK Government is calculated and how much money the Scottish Government can borrow.

We have previously reported on the operation of the [Fiscal Framework](#), setting out detail on the arrangements and the financial, economic and policy risks for the Scottish Government.

The Scottish and UK governments agreed a revised Fiscal Framework in August 2023.

1. Arrangements to deliver the NSET

The Scottish Government has established dedicated governance structures to support delivery of the NSET's vision

12. Establishing good governance arrangements for delivery of strategies is key to ensuring clear performance oversight and accountability, empowering effective decision-making, managing risks, and maintaining strategic direction.

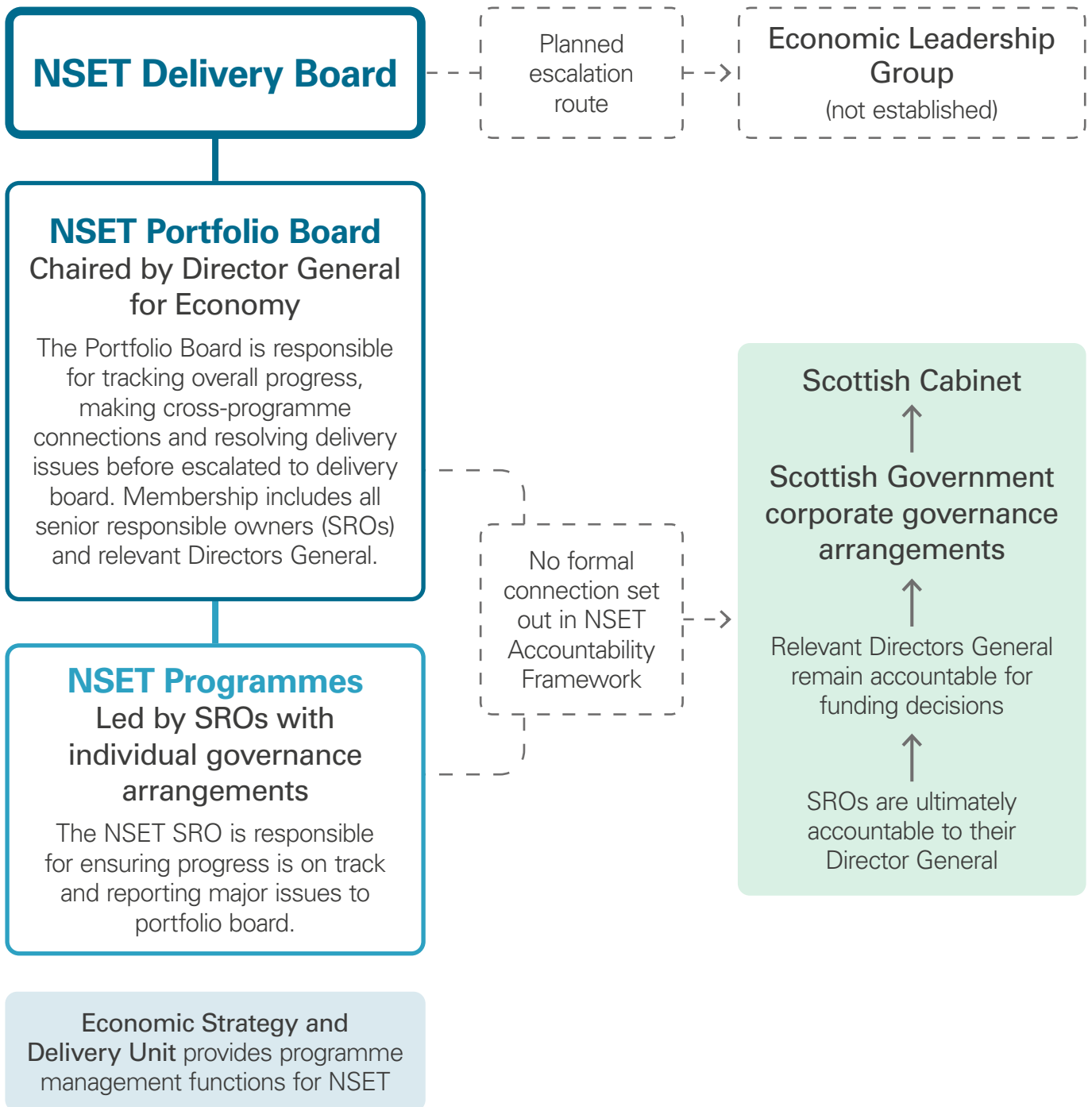
13. The Scottish Government has set up new governance arrangements to oversee implementation and delivery of the strategy ([Exhibit 2, page 10](#)).

Planned structures for collective political leadership have not yet been established

14. Strategic direction and policy decisions of the Scottish Government are ultimately the responsibility of Scottish ministers. The NSET Accountability Framework includes plans for an Economic Leadership Group, to be chaired by the First Minister and attended by key cabinet ministers and the president of COSLA. The Scottish Government intended it to be a key part of overall governance of the NSET. It described its role as ensuring political accountability for delivering the strategy and providing a route for the NSET Delivery Board to escalate major cross-portfolio delivery concerns. Nearly two years on since the launch of the NSET, the Economic Leadership Group has not yet been established.

15. The NSET's activity and achieving a wellbeing economy for Scotland is beyond the scope of any individual cabinet minister's responsibilities. Without this part of the governance structure, there is a gap in political leadership for these shared priorities. It is not clear how evidence about what is successfully transforming Scotland's economy will flow to the relevant decision-makers.

Exhibit 2. NSET governance arrangements



An NSET Delivery Board and Portfolio Board have been set up to provide oversight and encourage cross-government ownership

16. The NSET Delivery Board was established in May 2022 and brings together a range of people with relevant expertise across the strategy's themes. The board's role is to:

- ensure successful delivery of the interconnected policy programmes of action set out in the national strategy
- challenge and adapt any aspects within the identified programmes that do not deliver on the ambitions of the national strategy
- prioritise, based on what is most important, what the timescales are and where the greatest influence can be brought to bear.

17. The Director General for Economy is the accountable officer for delivery of the NSET. A **senior responsible owner (SRO)** has been appointed for the strategy and for each of the NSET programmes. This helps to ensure that there is clear ownership and accountability for the strategy and the individual programmes.

18. The NSET Delivery Board provides a focus on the strategic aims of the NSET, cutting across policy and directorate areas, and offers direction and challenge to the SROs. Delivery board members have taken on champion roles for their specific areas of expertise, through which they offer more direct challenge and support within individual programmes.

19. An NSET Portfolio Board has been established which brings together the programme SROs; other relevant Directors General (Net Zero, Education and Justice, Communities, Corporate, and Strategy and External Affairs); the chief executives of the three enterprise agencies; local government representation; and two Scottish Government non-executive directors. This provides a good forum to encourage cross-directorate collaboration and to engage with delivery partners. The three enterprise agencies have aligned their recent business plans and activity to support delivery of the NSET.

20. Elements of the NSET's programme governance build on existing internal arrangements, for example the Fair Work Steering Group oversees delivery of fair work projects. Across the NSET programmes, and the many connecting plans and strategies, there are a lot of groups and forums in place to support delivery. While it is good to have wide engagement and involvement, without careful management of roles, responsibilities and reporting lines, there is a risk of duplication of effort, fragmentation and lack of clarity on purpose. These groups and forums should be regularly reviewed and revised to manage this risk.



Senior responsible owner (SRO)

Responsible for delivery of a programme or project, including being responsible for the delivery of its objectives and policy intent; for securing and protecting its vision and for influencing constructively the context, culture, and operating environment of the project.

[Scottish Public Finance Manual, SRO appointment letter](#), November 2023

There is no shared approach to funding decisions for NSET actions

21. Various directorates contribute to achieving NSET's ambition and the government's vision of a wellbeing economy. The Scottish Government has not established a shared budget for NSET. Responsibility for spending decisions sits with the relevant directorates, in line with the existing scheme of delegation. The delivery board does not have a direct role in allocating or re-prioritising funding.

22. There is a lack of transparency about directorate decisions on allocation of funding for NSET actions. Existing financial controls present a barrier to shared spending decisions and there is a risk that NSET objectives are not given the same priority by all directorates when it comes to funding decisions. The role of existing directorate accountability arrangements, including expectations around reporting of decisions, is not set out in the NSET Accountability Framework.

23. There is evidence of the NSET Delivery Board members seeking more information on availability of funding and greater clarity on the links between investment and impact. To be effective, the delivery board relies on its ability to influence those with direct decision-making responsibilities. We highlighted similar challenges for the Enterprise and Skills Strategic Board in our 2019 briefing on the Scottish Government's Enterprise and Skills Review.⁴ Greater transparency on funding decisions would enable the board to offer further challenge, scrutiny and direction, particularly with the current pressure on budgets and resources.

NSET action 40 was to launch a Centre for Workplace Transformation

As part of the budget process a decision was taken by the Director General for Economy, as portfolio accountable officer, to pause this action. There is no evidence of this decision being formally discussed with or reported to the NSET Delivery Board. The decision was taken in line with standard accountable office budget control arrangements and following ministerial direction. Improving the transparency of decisions like this would give the delivery board greater oversight of funding challenges and support it to provide informed challenge and advice.

The Scottish Government has not clearly set out how much investment is required to deliver the NSET vision

24. The NSET delivery plans have limited information on committed investment. Where there are references to investment, it is not always clear if this is existing funding or new funding which has been identified because of the NSET. It is also difficult to build a sense of the overall planned investment.

⁴ The restructuring of the Enterprise and Skills Strategic Board into the NSET Delivery Board is action 65 of the NSET.

25. The NSET annual report references around £9.8 billion of investment for actions. But as with the delivery plans, the financial information lacks detail on when investment is planned and also on the type of the investment. Some of the information relates to activities which predate the NSET, for example the application of Fair Work First conditions to around £4 billion of public funds since 2019. In some areas the information relates to direct investment by the Scottish Government, in others it relates to spend by other bodies, such as the enterprise agencies and the Scottish National Investment Bank, and to potential values of contracts.

The NSET delivery plans include detail of funding commitments for some activities:

- £50 million for the Just Transition Fund
- £42 million for a tech scaler programme
- £25 million of supply chain investments as part of the ScotWind developments
- £10 million hydrogen innovation scheme
- £4.7 billion of Covid-19 related business support.

26. The NSET programme management team is carrying out work to identify and map spending, to provide a clearer picture of what funding has been allocated across the projects and activities. This work is at an early stage and there are challenges with current IT systems which do not easily allow spending to be mapped across budgets. Approaches to support this should have been developed from the outset of the NSET. [We have previously reported](#) that, where priorities require action across policy areas, the Scottish Government needs to have financial processes that can easily identify and analyse relevant spending across government.

27. Funding challenges is one of the top three risks on the delivery board's risk register. The board has questioned the overall funding position for planned activity and has raised the need for prioritisation given the current financial challenges. With continued pressure on resources, it is important the Scottish Government understands the scale of funding it needs to deliver NSET's vision, and where there are potential shortfalls. This could help inform discussions and decisions on the key priorities in NSET. If established, the Economic Leadership Group could promote collective political leadership of NSET priorities and spending decisions.

The Scottish Government has set out plans to strengthen its relationship with businesses in transforming Scotland's economy

28. Businesses will have a key role to play in supporting the Scottish Government to achieve its economic vision. NSET's programmes set out

Scotland's financial response to Covid-19

Audit Scotland,
June 2022



the significant opportunities for growth and innovation and the Scottish Government has set out aims to re-set and strengthen its relationship with businesses. It launched the New Deal for Business in April 2023 and established a New Deal for Business Group, of which the NSET Delivery Board co-chair is a member. Business sector representatives have welcomed the New Deal for Business, but it will take time to see the impact of this activity.

29. The group published a [report](#) in June 2023 with 78 recommendations for action, followed by an implementation plan to deliver these by April 2025. The group expect the New Deal for Business to be a core focus of the NSET.

2. Reporting progress and measuring success

The Scottish Government has established arrangements for reporting progress on NSET actions but needs clearer timeframes and targets for some performance measures

30. Regular monitoring and evaluation are essential to assess progress towards NSET's vision of transforming Scotland's economy as well as to understand what is working.

31. The Scottish Government has set out overarching outcomes and objectives for each NSET programme, along with high-level measures of success ([Exhibit 3, page 16](#)). These sit below NSET ambition indicators and are intended to complement indicators in the Wellbeing Economy Monitor and the National Performance Framework.

32. The Economic Strategy and Delivery Unit within the Scottish Government's Jobs and Wellbeing Economy Directorate monitors and reports progress across the programmes to the NSET Delivery Board and NSET Portfolio Board. The NSET Portfolio Board considers monthly dashboards. These set out the status of projects within each of the programmes, key deliverables, progress against priority actions, along with the top risks and narrative to help interpret the data. Dashboards setting out overall progress on delivery of the strategy along with performance against the high-level measures of success for each programme are presented to the NSET Delivery Board.

33. The Scottish Government published its first NSET annual progress report in June 2023. It outlines key deliverables achieved, performance against the high-level measures for success, and progress against the actions set out in the delivery plans ([Exhibit 4, page 17](#)).

34. There is, however, a lack of detail on when actions are expected to be delivered and how much progress the Scottish Government expects to make against some measures, both over the lifetime of the strategy and at interim milestones. It is not always easy to make the link between the NSET actions and their expected contribution to outcomes. Many measures do not specify a target or communicate clear ambition, for example the number of new businesses surviving beyond three years. This lack of detail limits the Scottish Government's and other stakeholders' ability to assess performance and identify areas which are not on track.

Exhibit 3. NSET measures of success

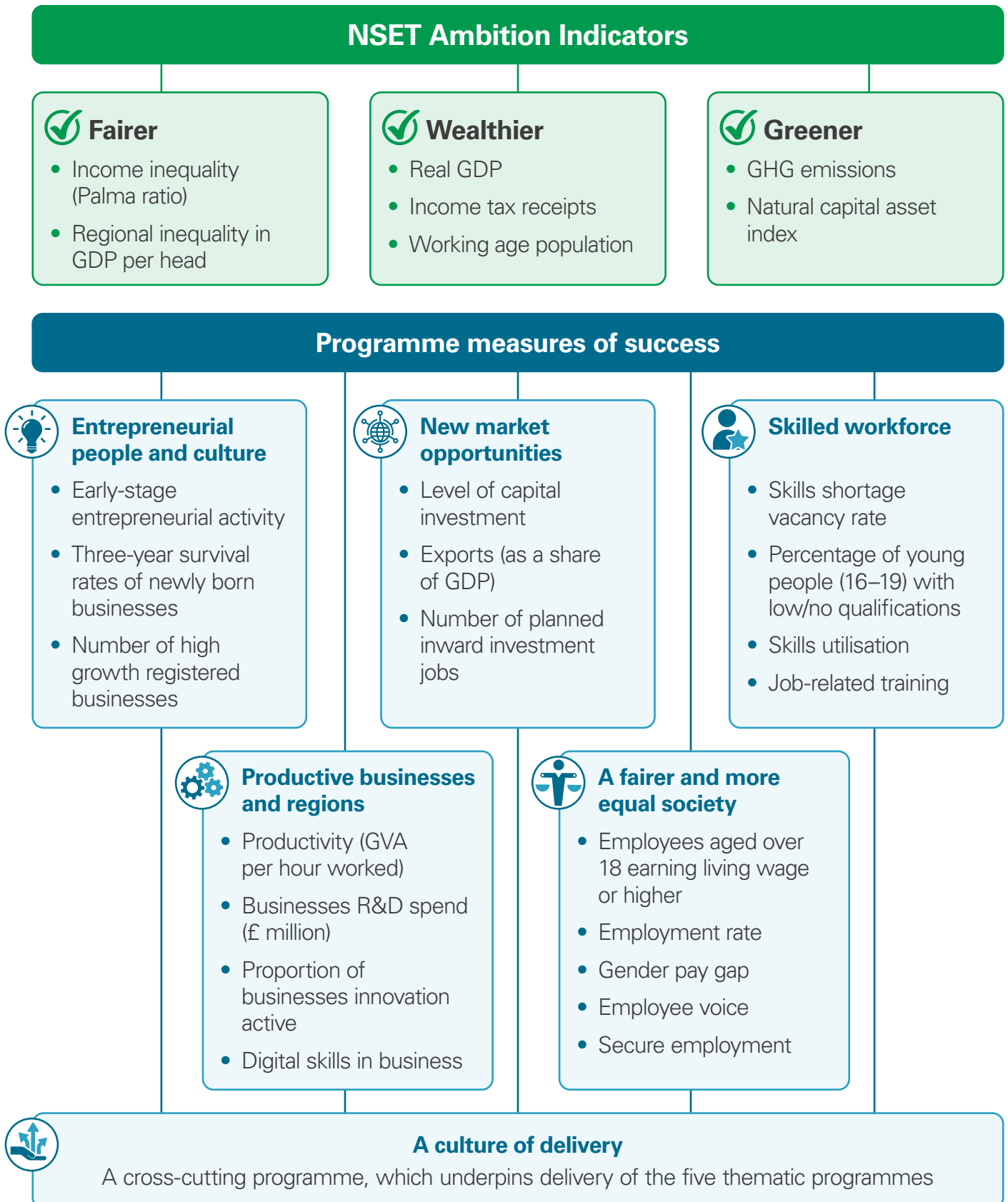


Exhibit 4.

Progress against NSET actions

Programme	Actions completed	Actions in progress	Actions not started
 Entrepreneurial people and culture	1	9	9
 New market opportunities	0	12	1
 Productive businesses and regions	1	7	5
 Skilled workforce	0	8	2
 A fairer and more equal society	2	7	1
 A culture of delivery	6	5	3
Total	10	48	21

Note: Two new actions have been added to the NSET since publication of the delivery plans.

Source: [NSET Annual Report](#), Scottish Government, June 2023

The Scottish Government has set out high-level success measures but is still developing an approach to evaluation

35. Action 77 of the NSET is to ensure a consistent approach to evaluation that drives continuous improvement. As part of progressing this action, the Scottish Government is developing logic models which set out the links between the NSET's inputs, activities, outcomes and the impact it hopes to achieve. It has not set out when it expects these to be in place or how they will be used to support performance reporting and measuring success.

36. Evaluation of policy interventions is critical to assessing cost-effectiveness, supporting accountability for performance, and identifying improvement to current and future activity. Economic measures of success are often influenced by a range of issues, for example international trade can be affected by geopolitical pressures, making evaluation challenging. Evaluation approaches need to be designed and planned effectively and should be built in from the start to ensure the data required is collected and measured.

37. Since the launch of the NSET, public finances have become even more challenging, and the Scottish Government has been clear that it will need to make difficult choices about budget allocations. Understanding which NSET actions have the potential to deliver the greatest impact is critical to ensuring the refresh of the NSET delivery plans focuses on priorities.

Briefing

National Strategy for Economic Transformation



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