REGIONAL *Review*

SCOTTISH REGIONS AND THE LECS

Introduction

In this Regional Review the relative economic performance of the Local Enterprise Companies (LECs) are examined. Regional GDP, regional employment and sectoral performance are described. The focus is forward looking and forecasts over 1997-2001 for each LEC are discussed. The strengths, weaknesses and opportunities of each LEC are also considered.

Overview

When examining the long run trends of relative economic performance in the Scottish regions it is clear that a North-East/South-West divide is emerging. Electronics, foreign direct investment and export led growth continue to drive the economy. With regard to employment flexibility and multi-skilled working are becoming much more important. Employment growth is focused on white collar and part time jobs. There is a continuing shift from employment to self employment and females now constitute the majority of employees. There has been an overall fall in labour market participation which has seen unemployment fall. The LECs with the best GDP growth performance include Lanarkshire, Renfrewshire, Lothian and Fife all of which have growth over 1997-2001 which outstrips the Scottish Enterprise National (SEN) figure of 2.9% p.a. Grampian is not far behind the SEN average. LECs which do not perform well include Glasgow, Dunbartonshire, Borders, Ayrshire and Dumfries and Galloway. When electronics are excluded then the ranking of GDP growth performance changes slightly with Lothian, Grampian, Fife, Lanarkshire and Renfrewshire having growth which exceeds or is the same as the SEN average of 2.3% p.a. With regard to civilian employment over 1997-2001 those LECs which do well include Lothian, Grampian, Borders, Tayside who all out perform the SEN average of 0.1% p.a. The LECs which have figures below the SEN average are Renfrewshire, Glasgow, Dunbartonshire and Lanarkshire.

Regional GDP

GDP growth is forecast to be 2.9% in 1997 for SEN but only 2.2% for Highlands & Islands Enterprise (HIE). The following year sees a significant reduction in GDP growth. The peak year for GDP growth is 2001 for both areas. Non-electronic GDP growth is identical for SEN and HIE at 2.2% in 1997 falling to 1.9% and 1.6% respectively in 1998. Non-electronic GDP growth also peaks in the year 2001. High GDP growth for 1997 is seen in Renfrewshire (5.5%), Lothian (3.3%) and Lanarkshire (3.1%) with Dumfries & Galloway only attaining 1.4% growth. The outstanding non-electronics growth in 1997 is Forth Valley (2.8%). For 1998 the best GDP growth performances include, Lanarkshire (5.1%), Renfrewshire (4.1%), Fife (3.5%) and Lothian (3.1%) while Ayrshire (0.6%), Dunbartonshire (1%), Glasgow (1.2%), Dumfries & Galloway (1.3%) and Tayside (1.3%) have poor rates of growth. When electronics are excluded in 1998 the top performers are Lothian, Fife and Grampian. By the year 2001 we expect Renfrewshire, Lanarkshire, Lothian, Fife and Grampian all to have GDP growth above trend. When non-electronic GDP growth is considered for 2001 then Lothian, Grampian, Fife, Lanarkshire, Renfrewshire and Forth Valley all perform well.

Detailed forecasts of sectoral output growth for all the LECs have been made. The areas with fast electronics growth include Lanarkshire, Lothian, Fife and Renfrewshire. Ayrshire and Glasgow have a significant number of sectors with negative growth in 1998 as the economy cools. Other manufacturing sectors with reasonable growth rates include Mining & Quarrying, in Fife, Lanarkshire, Forth Valley and Grampian; Electricity, Gas and Water Supply in Tayside, Forth Valley and Grampian; Paper, Printing and Publishing in Tayside, Renfrewshire, Lanarkshire, Fife, Forth Valley, Grampian and Ayrshire and also in Other Manufacturing where growth is above trend in Grampian, Fife, Lanarkshire, Lothian and Renfrewshire The LECs with the greatest growth in Services include Lothian, Grampian, Renfrewshire, Lanarkshire and Fife whereas the poorest performance occurs in Glasgow and Dunbartonshire each with growth of 2% p.a.

over 1997-2001. Business and Financial Services show strong growth in Lanarkshire, Lothian, Renfrewshire, Tayside and Grampian. Distribution, Hotels and Catering have above trend growth in Grampian, Renfrewshire, Lothian and Lanarkshire over the medium term. Public Services growth is constrained in most areas the exceptions being Fife and Lothian.

Regional Employment

The LECs with the poorest performance over 1997-2001 for all employees on an FTE basis include Glasgow (-7151), Ayrshire(-3349), Forth Valley (-2274), Dunbartonshire (-1991), Tayside (-1533) and Dumfries & Galloway (-1377). Those with net employment gains over the period include; Renfrewshire (759), Lanarkshire (1293), Fife (1440) and Lothian (8240). The only LEC with a net gain in FTE employment in Manufacturing is Fife which is forecast to gain 969 jobs over 1997-2001. The worst performers include Glasgow (-2859), Grampian (-1983), Forth Valley (-1791), Tayside (-1519) and Dunbartonshire (-1305). Service sector employment change for 1997-2001 is an astonishing loss of 3713 in Glasgow, a performance no other LEC matches. At the other end of the scale Lothian adds 7697 jobs over the period with Grampian and Renfrewshire making positive gains of 1476 and 939 jobs respectively.

Regional Review

Ayrshire has the poorest output growth (ex Electronics) of all the LECs and is only 9th equal when electronics is taken into account. The main problems occur in the chemicals, aerospace and textiles sectors. Manufacturing output increases by 1.5% p.a. over 1997-2001 but decreases by 0.4% p.a. over the same period when electronics are excluded. and service sector growth is 2.1% p.a., all of which are below the SEN average. For Manufacturing (ex Electronics) this is the worst performing LEC. Ayrshire has a net gain of 444 jobs over the medium term which is close to the SEN average while the reduction in unemployment for Ayrshire is also of average performance for both the absolute change and the percentage change per annum.

Ayrshire has in the past contributed considerably to export growth delivering 18% of Scotland's manufactured exports from a region containing only 8% of the population. Manufacturing did represent 26% of jobs against the Scottish average of 16% and half of these jobs are in the engineering and electronics sector. The closure of the Jetstream programme amongst other problems was the most serious blow for the region. The strategy for the local economy has been to focus on Prestwick as an international airport, to promote tourism and to encourage light industry in an area which has seen exports double over the last five years. The local officials stress that Ayrshire is a marvelous location with much improved transport links. They also have pressed SEN and the Scottish Office hard for more assistance but the plea seems to fallen on empty pockets. With the forecast drop in non-electronics output the outlook for manufacturing looks bleak and economic development is a difficult task.

Growth in GDP and GDP (ex Electronics) for 1997-2001 is 1.9% p.a. in the **Borders** which leaves it as one of the worst performing LECs in this respect. In terms of ranking it has the 2nd and 3rd worst performance respectively. Manufacturing output is the second lowest of all the LECs at 1.3% p.a. over 1997-2001 but only falls to 1.1% p.a. when Electronics are excluded ranking Borders 9th. Services growth is 2.2% p.a. for the medium term which is only 0.3% p.a. below the SEN average but leaves Borders in 8th equal position. Employment change is 0.2% p.a. over 1997-2001, a net gain of 298 jobs for the CWE which place Borders 4th equal on the percentage change but in absolute terms only ranks the performance as 8th best. Unemployment over the period falls by 120 making Borders the poorest performing LEC in this respect but improves slightly to the 3rd poorest performer when the percentage change per annum of unemployment is considered.

Textiles is the basic problem in the Borders where it is 15% of Borders employment and half of all manufacturing employment and exports. The Borders also has 12% of Scottish textiles employment and nearly 30% of its exports. The region contains 2.1% of the Scottish population and only 1.7% of all of Scotland's jobs. The acuteness of the problem is that the Borders has a narrow base, in fact a severely limited base. The strategy for local economic development must be diversification. Textiles is now a highly competitive market where labour costs in third world countries make competition almost nigh impossible. The global industry is not going to change so the Borders needs to act to help itself. Tourism, electronics, agriculture, food and drink are all sectors which have growth potential for the region although agriculture has limits to growth. Due to the small number of jobs available migration of the young and skilled is also a problem. 20% of residents are over 65 years of age. These are some facts which in part mask the relatively low unemployment rate. There is a considerable challenge for the LEC and other development agencies to boost the Borders economy.

Dunbartonshire has the same GDP and GDP (ex Electronics) growth as Borders ranking similarly to Borders. However Manufacturing performance is considerably better at 1.7% p.a. for 1997-2001 ranking the LEC as 6th equal but when Electronics are excluded the figure falls to 1.5% p.a. and the ranking falls by just one place. Services growth is only 2% p.a. for 1997-2001, the poorest performance which is shared with Glasgow. Employment change is negative with a 0.2% p.a. drop over 1997-2001 sharing the second poorest performance with Lanarkshire. Dunbartonshire loses 1333 jobs over the medium term but three other LECs have job losses which exceed this. The fall in unemployment Dunbartonshire is 1084 which only ranks 8th best but when the percentage change is considered then Dunbartonshire ranks 4th equal with Fife at -3.8% p.a.

This is a LEC which has two distinct areas; the relatively affluent East Dunbartonshire which has low unemployment, large commuter areas for professional and managerial workers, a promising firm formation rate and areas of high academic achievement. Conversely West Dunbartonshire has relatively higher unemployment, a low rate of firm formation, a small concentration of large employers, the defence bases of Coulport and Faslane. Manufacturing employment is concentrated in West Dunbartonshire while half of service sector employment is in the public sector. The LEC has focused growth by targeting selected industries such as tourism, drink, engineering, defence, knowledge based industries, healthcare, innovation and entrepreneurship, biomedical industries and biotechnology. The aim is to safeguard 6,00 jobs in the future and to attract inward investment which could generate extra employment. The most ambitious project is probably the Loch Lomond initiative where 3,000 jobs could be created over 5 years. At the Enterprise Zone around Clydebank there remains a lot to do to foster employment growth although the electronics sector is proving encouraging so far.

Dumfries and Galloway come in at 8th best for GDP and GDP (ex Electronics) growth over the medium term with growth of 2% p.a. in both cases. Manufacturing growth is 1.6% p.a., ranking 8th best, while excluding Electronics allows the LEC to move up to 5th equal amongst its peers. Growth in Manufacturing is 1.6% p.a. over 1997-2001 and does not change when Electronics are excluded ranking Dumfries and Galloway 8th and 5th equal respectively. The Service sector performance is also relatively poor, the LEC is again placed 8th, at 2.2% p.a. for the same time span. Employment change for the CWE is just below the SEN average at 0.1% p.a. sharing 6th place with Forth Valley. Unemployment remains relatively high however as the decline is only 396 which is the second worst performance of all the LECs both in absolute and percentage terms.

This is the most rural of all the LECs in Scotland and is very similar to the Borders. 90% of businesses employ less than ten people with the large employers being the notables here which include Alba Proteins, Alan Young, ICI, Pinneys and the public sector. Areas of opportunity include food, agriculture, forestry, tourism, agricultural machinery and education. There is little to offer as an economic carrot to attract new business here. The LEC must concentrate its efforts on consolidating its position here.

With higher than average GDP growth of 3.5% p.a. over the period, **Fife** secures the 4th best performance which increases by one place when Electronics are excluded, achieving growth of 2.6% p.a. When Manufacturing is considered Fife does even better as it is the 3rd best performer and beats all other LECs except Forth Valley when electronics are excluded with growth of 5.3% p.a. and 2% p.a. over 1997-2001. The Service sector turns in an average performance with growth of 2.5% p.a. for 1997-2001 which is equal to the SEN average. Fife also demonstrates the best employment percentage change for the CWE with employment growth of 0.5% p.a. The absolute employment change for the period is 2828 jobs, the 4th best performance. Fife also scores well, unsurprisingly, on unemployment with a decline of 1761 over 1997-2001 placing it at number 4. It is also 4th equal (with Dunbartonshire) for the percentage change in unemployment (-3.8% p.a.) in the medium term.

For a region which has seen the demise of mining, the closure of Rosyth Naval base and the rundown of the coastal fishing industry the economic recovery has been a real success story. Most significantly Hyundai are to invest £2.4bn in its Dunfermilne plant creating 2,000 jobs. Other successes include Aerpac, BBR Systems, Canon, FLEXcon, Lexmark, Mitsubishi and Shin-Ho-Tech. The revival of the dockyard site has also been heartening and there is potential for greater economic benefits to flow from that site. It is though that nearly 10,000 jobs could have been saved by the actions of Fife Enterprise. Pitreavie is an attractive location as a service centre for financial services while Mossmorran is a major employer. GDP per capita is above the national average. The innovation of Deep Sea World has been tremendously rewarding while tourism also extends into Fife, primarily towards St. Andrews but also along the coast. It has though its downside as it is an area with more than its fair share of opencast mines and other traditional sectors are set to decline but the future gains for Fife could well outweigh the losses.

Forth Valley is 6th equal for GDP and GDP (ex Electronics) performance with growth of 2% p.a. in both cases for 1997-2001. Forth Valley does reasonably well in Manufacturing, 2% growth (unchanged when Electronics are excluded) ranking it 5th best and it shares top spot with Fife when Electronics are excluded. 2.3% p.a. growth in Services is relatively poor however and Forth Valley is the 7th best performer here over the period. Employment change is 0.1% p.a. equal to the SEN average while 621 jobs are gained over 1997-2001 which places Forth Valley 6th. The fall in unemployment is only 1003 which is the 4th worst performance although with a change of 3.1% p.a. the LEC moves up to 6th equal position.

Forth Valley is a collection of districts which have very distinct identities; Stirling is thriving on services, has little manufacturing, low unemployment and a growing population while Falkirk is quite industrial (particularly centred on the Grangemouth petrochemicals complex which is of huge importance to the local economy), is home to Walter Alexander the coachbuilder, has average unemployment and a falling population and last but not least there is Clackmannanshire which is largely in decline especially the traditional industries(brewing, mining and textiles), a significant proportion of the workforce (30%) commute to Stirling and other areas for work, has high unemployment and a steady population. there are 6500 local businesses in Forth Valley of which 8% are in manufacturing and 81% are in services. Despite the obvious bias towards Grangemouth and the significant investments made by BP, ICI, Elf, Zeneca and Mitsui Toastsu in the chemicals sector the area has to cope with the demands of the small business sector, promote Stirling University which has an excellent reputation in several fields and promote and encourage the service sector particularly with the need to attract inward investment. This is a busy and thriving part of the country which is a truly mixed economy.

Glasgow is one of the poorest performers overall and has the worst record for GDP growth (1.8% p.a.), Manufacturing growth (1% p.a.), Services growth (2% p.a.) and absolute employment change (-2631) over 1997-2001. It is second bottom for Manufacturing (ex Electronics) with growth of 1.8% p.a. and percentage employment change, -0.3% in the medium term. There is slightly better news with regard to unemployment where Glasgow's jobless falls by 2977, the 3rd best performance but in percentage terms it only ranks 9th with a 2.6% p.a. fall in unemployment.

A blot on the landscape surely? No, this is not how Glasgow should be viewed. It has undoubtedly got major problems but there is a positive side to Glasgow as well. Employment, per capita GDP, unemployment and output performance are all depressing statistics however Glasgow is the market leader in attracting call centres and backroom financial processing centres. The business start up rate is 36% above the Scottish average, the city has an eighth of Scotland's population yet contributes one sixth of Scotland's GDP and employment. There were 21 inward investments in 1996 which gave rise to 2,000 jobs. The main problems stem from the decline of traditional industries (shipbuilding, steel, mechanical engineering, tobacco and public services) and the subsequent transition to a new industrial structure. Those who live outside the city continue to use its benefits while not paying for them while those within the boundaries find their local authority struggling with severe cutbacks in funding. The

Lanarkshire Enterprise Zone, East Kilbride and Cumbernauld have hindered economic development as they have been more attractive to new investments. Opportunities for Glasgow however lie with bio-technology, call centres, construction, education, financial services, healthcare, housing, retailing, tourism and public transport. It is indeed a stiff challenge but the economic fortunes of Glasgow could be revived although it should be noted that this will take time.

A LEC which is one of the better performers is **Grampian** with GDP growth of 2.7% p.a. (unaltered when Electronics are excluded) placing it at 5th and 2nd best respectively. Manufacturing growth is 1.7% p.a. (again no change when Electronics are excluded) placing at 6th equal with Dunbartonshire and 4th over 1997-2001. The 2.8% p.a. growth in the Service sector is only bettered by Lothian in the medium term. Employment percentage change is 0.3% p.a., above the SEN average, which is the 3rd best performance. The absolute change is a net gain of 3205 jobs which is the second best position. Unemployment has fallen by 1304 only placing Grampian 6th which is similar to its ranking when the percentage change in unemployment is considered over the medium term.

Grampian is dominated by the oil and gas industry. It has seen incredible expansion over the last thirty years; a massive increase in dwellings and commercial properties, spiraling property costs, a huge injection into its transport infrastructure particularly the road links and harbour facilities and unprecedented growth of both output and employment resulting in very low unemployment. The region has become very affluent with one of the highest real personal disposable incomes in the UK. However oil will not last forever and other sectors have had their problems. Paper making has suffered considerable decline, as has textiles, fishing, whisky, beef farming (largely due to BSE) and other manufacturing (partly driven out by the cash rich oil sector). There is undoubtedly an oil/non-oil divide. In Aberdeen city GDP per capita is 22% above the Scottish average while it is 5% below in the rural areas. The economy needs to diversify before it becomes too late and export led growth could be provided by the many specialist oil firms in the area who could export their services to other regions of the world where oil exploration is continuing. The requirements here are quite exacting; it is essential to promote exports of the expertise of the oil and gas sector and the non-oil sector requires to have the opportunities which are most likely to sustain output and employment growth identified and targeted. The difficulty here is the balance between the two because for sustained economic growth the balance is crucial.

Lanarkshire also is well placed topping the GDP growth table with 4.9% p.a. It falls to 4th when Electronics are excluded having growth of 2.4% p.a. It also heads the Manufacturing list with growth of 8.8% p.a. but falls dramatically to 10th equal when Electronics are excluded with growth of 1% p.a. over 1997-2001. Services growth is 2.6% p.a. for the medium term making the LEC the 4th best performer. Lanarkshire does not fare that well in terms of employment however with a loss of 1471 jobs and a -0.2% change per annum, over 1997-2001, both the 3rd poorest performance. It has the best performance with both the absolute and percentage change in unemployment over 1997-2001 with unemployment falling by 3976 or 5.1% p.a.

Initially this appears a huge success story and no-one should take the credit from the LEC for its hard work in redeveloping an area hit by a succession of crippling economic blows. The success is massive investment in Lanarkshire from Chunghwa, Orange, Lite-On, First Direct, Du Pont, Mercury, SMART Modular Technologies, Kwik-Fit Insurance, Amari Plastics, Eurocentral, Allied Precision and Yaskawa Electric. The attraction is an Enterprise Zone, the rail freight terminal at Mossend, a skilled workforce and the motorway connections (M8 and M73/M74). Last year saw 36 investments totalling £126M which may generate 3,000 jobs. While the losses were severe (Ravenscraig, steel mils elsewhere, textiles, coal and heavy engineering) the costs of rebuilding have been considerable. Scottish Enterprise has had to plough considerable funds towards the area, the EU has given it £6M and considerable time and other resources have been devoted to reconstructing the local economy. The twist is that of the new jobs generated 40% are in manufacturing with electronics being the sector which sets the pace. It accounts for just under half of all manufacturing in the area. Manufactured exports rose from £428M to £1.5bn in five years which is now 10.6% of the Scottish total. The local economy also benefits from the big investments with Eurocentral alone providing 70 contracts worth £44M to Scots firms. The strategy is to continue this attraction of inward and new investment while it can but at the same time promote skills and exports of local businesses helping them to compete in the global economy.

Another LEC which does well is **Lothian** which has the 3rd best GDP growth and the best GDP (ex Electronics) growth over 1997-2001 with 3.7% p.a. and 3.1% p.a. respectively. Manufacturing growth is 5.2% p.a. ranking it 4th and when Electronics are excluded it moves up to 3rd with 1.8% p.a. It tops Service sector growth with 3.3% p.a. for 1997-2001. Employment percentage change ranks Lothian 2nd with 0.4% p.a. and the absolute net gain is 5491 which no other LEC can match. Unemployment falls by 3614 or by 4.5% p.a. both of which secure Lothian 2nd place.

The mainstay of Lothian is Edinburgh where financial services, tourism, public administration, education and retailing are the main drivers of the economy. It is the electronics sector in Livingstone and West Lothian which shows the greatest growth contributes significantly to export led growth. Inward investment in West Lothian is quite high but in West Lothian the economy is more rural, with agriculture, hotels and catering and many small industries and the scar of coal mining which absented itself long ago. The advent of a Scottish Parliament is further good news for Lothian as many new jobs will be created particularly in paper, printing and publishing; business and financial services; hotels and restaurants; professional services and in the property sector (ultimately feeding through to construction). Mainstream estimates put job creation at 5,000 jobs due to the Scottish Parliament effect. The LEC is put £1bn into Edinburgh over the next five years safeguarding 33,000 jobs. The future is definitely bright in Lothian.

Renfrewshire has 4.2% p.a. GDP growth over 1997-2001 which is the 2nd best performance but when Electronics are excluded it falls to 5th place with growth of 2.3% p.a. over the medium term. It is only surpassed by Lanarkshire in Manufacturing growth for 1997-2001 with 5.5% p.a. but falls to 8th place when Electronics are excluded with growth of 1.3% p.a. Growth in Services is 2.7% p.a. which is the 3rd best performance but it has the poorest percentage employment change of -0.3% p.a. a position shared with Glasgow. The absolute change in employment over 1997-2001 is a loss of 1827 jobs which is the second worse performance. It has the poorest record for the percentage change in unemployment over the same period with a reduction of 2.1% p.a. and a fall of 852 in joblessness which is the 3rd worse performance of all the LECs.

The area has 10,000 unemployed and a high proportion of these are youths. It has witnessed the decline of shipbuilding, heavy engineering, textiles and vehicle manufacturing. Renfrewshire does well because of electronics with IBM, Compaq, National Semiconductors and Mimtec dominating the horizon. They alone employ 8,000 people. Electronics is 41% of manufacturing jobs now although non-electronic jobs still constitute nearly 25% of jobs. Manufacturing is therefore still an important sector in this region with 19% of jobs being manufacturing jobs compared to the Scottish average of 16%. The LEC focuses on indigenous growth and 500 new businesses were created last year. Glasgow Airport is another key site although the lack of a rail link and a motorway link to the South probably means the area does not realise its full economic potential. The Inverclyde Enterprise Zone is another key area for the LEC to focus on. These development areas are important because non-electronic manufacturing fares less well and needs more attention.

Tayside ranks as the 6th equal LEC in terms of GDP growth with 2.2% p.a. over 1997-2001 which is below the SEN average, a position which is completely unchanged when Electronics are excluded. Manufacturing growth of 1.5% p.a. is the 3rd poorest performance, which is shared with Ayrshire, but when Electronics are excluded Wayside's position improves to 5th equal along with Dumfries and Galloway on 1.6% p.a. over 1997-2001. Growth of 2.4% p.a. in the Service sector is below the SEN average giving Tayside 6th place. Absolute employment change is a net gain of 1174 jobs, the 4th best performance and the percentage change for the medium term is 0.2% p.a. in line with the SEN average. The fall in unemployment is 1623 securing Tayside 4th place which is translated into 6th place when the percentage change of 3.1% p.a. is taken into account.

Tayside faces a severe challenge in it has to restructure quite radically to move away from heavy traditional industries which are no longer sustaining output or employment growth and in many cases have gone into decline. Likewise public services was a large employer in the Tayside area. New firm formation in Tayside has a poor record therefore greater emphasis needs to be applied to this area to sustain employment opportunities. The city of Dundee has a deep water port and considerable industrial land space. This can be used in the development of an alternative location strategy for the oil & gas industry given Aberdeen's relative expense compared to Dundee. Retailing, business and financial services and distribution, hotels & catering are sectors which need to maintain the competitive edge which has been built up in the area to sustain growth and employment. The rural areas of Tayside are unlikely to fare as well as Dundee or Perth and even some of the smaller towns. Service sector employment is likely to become more concentrated within urban areas and agriculture, forestry and fishing offer little prospect of economic opportunity. The main sectors where economic growth can be expanded in a sustainable manner are oil & gas, tourism, healthcare/biotechnology, electronics, education and financial services.