



ABERDEEN ECONOMIC POLICY PANEL REPORT

5 NOVEMBER 2019

Economic Policy Panel Report 2019

Foreword

This is the second annual report of the Aberdeen Economic Policy Panel. In producing this report and in making its recommendations, the Panel has monitored and considered all developments in the Aberdeen City Region, Scottish and international economies. The Panel has undertaken its own analysis and considered any other research relevant to its work.

The Panel's approach has been to review the latest economic data from the past 12 months to gain an up-to-date picture of the Aberdeen City Region economy, building on the broader longer-term trends described in the 2018 report.

The Panel has also provided a forum for discussion of emerging issues in relation to the wellbeing of the Aberdeen and Aberdeenshire economies. Panel members have met with city and regional stakeholders including: Aberdeen and Grampian Chamber of Commerce (AGCC); Aberdeen City Council officers and political leaders; Opportunity North East (ONE); Federation of Small Businesses (FSB); Skills Development Scotland (SDS); VisitScotland; VisitAberdeenshire; Aberdeen City and Shire Hotels Association; Aberdeen International Airport; Aberdeen Harbour Board; University of Aberdeen; Knight Frank; RBS; CBRE; Shepherd Chartered Surveyors; Savills; Pinsent Masons; and Oil and Gas UK.

These consultations informed the data analysis by discussing current thinking on the state of the local economy, the outlook for the sectors they represent and views on future opportunities and challenges.

Although the views and analysis in the report are that of the Panel, the assistance of Aberdeen City Council officers, external stakeholders and local industry in the preparation of this report has been greatly appreciated.

Introduction

In November 2016, Aberdeen City Council became the first Scottish local authority to issue index-linked bonds through the debt capital markets, raising £370 million to drive forward an ambitious capital programme supporting vital infrastructure throughout the city. This report provides an independent analysis of the Aberdeen City Region economy to support the Council's annual credit rating assessment by Moody's Investor Services.

In its first report, published last year, the Panel found that, despite the increased risks around the global economic outlook, the overall picture showed a region emerging from a difficult economic period caused by the fall in, and fluctuating, global oil prices.

This report:

- Examines the economic trends in the City Region in the last year;
- Discusses the challenges and opportunities the City Region faces;
- Reviews the Panel's 2018 recommendations and their implementation;
- Offers a new set of 2019 recommendations.

Commentary is provided on the most recent data available, which varies from 2017 to 2019 depending on the indicator and sector in question and drawing from qualitative and anecdotal information where appropriate.

Summary

These are times of unprecedented political, socio-economic, and environmental change. Brexit; geopolitical tensions; trade barriers; demanding new emission reduction targets; a global slowdown – all these factors increase uncertainty and pose economic challenges to countries, regions, and cities. The International Monetary Fund forecasts global growth of just 3.0% this year, the lowest level since 2009.

Yet despite the turbulence, the Aberdeen City Region's economy remains resilient and continues the recovery signalled in last year's report.

Newly published data shows that the North East of Scotland's economy declined in 2017 by just 0.9% in real terms, after a fall of 11.8% between 2014 and 2016. Wider indicators suggest that activity has picked up in 2018 and 2019. Gross Value Added (GVA) – a measure of the worth of goods and services produced – per head remains amongst the highest in the UK. GVA per head in 2017 was £47,583 for Aberdeen City and £29,481 for Aberdeenshire, compared with a Scottish average of £25,485 and UK average of £27,555.

Latest forecasts predict moderate economic growth for the North East, Scotland and UK in the years to come, but this is likely to be in the context of continuing uncertainty both nationally and globally.

The local labour market is strengthening. Employment rates in the North East remain high by UK and historical standards. To the year ending June 2019, 78% of working age people in Aberdeen and 81% in Aberdeenshire were in a job, up from 70% and 78% respectively, three years ago. The number of people in work also increased to over 260,000 in 2018/19 compared with less than 250,000 three years ago. Employment levels have increased by 3.4% in the most recent 12 months. During 2018, real median workplace earnings rose by 3.5% in Aberdeen and 4.6% in Aberdeenshire, well above Scotland's 1.0% increase.

Notwithstanding the difficult operating environment and challenging market conditions, oil and gas still dominates the local economy. In 2017, GVA in the energy sector in Scotland amounted to £18.4 billion, representing a £4.2bn (or 30%) increase on 2016. Much of this activity is supported by firms with significant presence in and around the North East. Production was at 619 million barrels of oil equivalent (boe) in 2018, up a fifth against 2014, although down significantly on longer run trends of over 800m boe in 2010.

The oil and gas sector – along with the supply chain that supports it – will continue to make a significant economic contribution to the Aberdeen City Region for years to come but the need for diversification within both the wider energy sector and the overall North East economy is crucial to long-term success. Technological innovation; skills capture and redeployment; collaboration between universities and business; decarbonising activity – these are opportunities that can generate yet more positive change.

The signs of moderate economic upturn go beyond oil and gas.

Hotel occupancy rates have stabilised and are showing small upward movement. Average room rates dropped significantly in the last few years, but the decline appears to be levelling off. The fall in rental and house prices has also stabilised in Aberdeenshire although there are still signs of volatility in Aberdeen. But other signs are more mixed. Whilst the stock of commercial property in Aberdeen has increased in recent years from 10.1 million square feet to 13.6 million square feet, 14% of commercial property is currently unoccupied.

Like other cities across the UK, Aberdeen is redefining the role it can play in driving growth. To bolster city centre footfall – amid high street struggles – the local authority has put a strategic focus on culture, tourism, leisure and hospitality. Aberdeen Art Gallery has undergone a £35m redevelopment and the city's Music Hall reopened in 2018 after a £9m refurbishment. A new £333m conference and events centre, The Event Complex Aberdeen, opened in August 2019 in the west of the city.

Other infrastructure investments include the opening of the Aberdeen Western Peripheral Route, the launch of a programme to deliver 2,000 additional council homes, the provision of digital infrastructure through the City Region Deal, and the planned expansion of Aberdeen Harbour. These initiatives have the potential to enhance the region's connectivity and should help broaden its appeal as a place to live, work, visit and do business.

Levels of inequality in Aberdeen remain a long-term challenge and can be a barrier to economic growth. Local authority budgets are reducing at a time when demand for services is rising, in part because of an ageing population. A partnership approach between the public, private and voluntary sector is putting people at the heart of the Aberdeen City Region's transformation. However, fiscal pressures remain high.

There are other challenges.

The Scottish Government has adopted a net zero greenhouse gas emissions target by 2045. The scale of the structural changes needed within the Scottish and Aberdeen economies are extraordinary – and with the government legally bound to reduce emissions by 75% by 2030, the pace will only accelerate. This will require unparalleled changes in the behaviour of individuals and businesses across the whole of Scotland.

Following the recent oil and gas downturn, there has been a net outflow of migrants from the North East, a situation that may be exacerbated as a result of uncertainty over Brexit and future relationships

with leading trade partners. As it stands, exports from the North East account for around 14% of the value of all European Union (EU) destined exports from Scotland; the local economy has benefited from a particularly high concentration of EEA migrants; and this has been a prime location for international investment, including the region's strong university sector (given its access to EU research funds and students).

In such times, the importance of bold policymaking – with a key focus upon identifying 'what works' and prioritising resources at genuine areas of local comparative advantage – is crucial. And it will only be through close collaboration across all local and national bodies with a role in the economy that the Aberdeen City Region will be able to achieve its full potential.

Despite all the uncertainty at home and abroad and the scale of transition that lies ahead, the Aberdeen City Region's economy enters this period in a stronger position than in recent years. The Panel's analysis reveals that trends over the last 12 months are very much a continuation of those moderate improvements observed in the 2018 report. This report, then, chimes with the same cautiously optimistic note of the Panel's previous report. However, the challenges ahead have intensified and the pace of change required in Aberdeen has to respond appropriately.

In assessing the latest economic conditions, the challenges and opportunities facing the regional economy and progress on the Panel's previous recommendations the Panel makes the following recommendations (which are explained in more detail on page 32):

- **Policy needs to move faster and identify regional strategy for net zero.**
- **Greater focus on implementation and monitoring.**
- **Opportunity to take lead by defining the North East's approach to Wellbeing.**
- **Co-creation of regional economic priorities is a strength to build on.**
- **Develop new strategic approach to infrastructure with clearer prioritisation.**
- **National infrastructure plans must support region's transition to net zero.**
- **Regional support must be based on more than just economic performance.**
- **Aberdeen can take regional lead on managing natural assets in the transition to net zero.**
- **Wider discussion needed on how more autonomy can be devolved to the regional level.**
- **Annual fiscal risks report would strengthen strategic planning.**

Notes

Area of Analysis

For the purposes of the analysis, the 'North East' of Scotland and 'Aberdeen City Region' refers to the Aberdeen City Council and Aberdeenshire Council local authority areas.

Bond rating

Aberdeen City Council was awarded an **Aa2** rating by Moody's, with a negative outlook, in October 2016. This rating was one notch below the UK Government, and is the third highest level out of 21 categories, which placed the Council in a high-grade investment bracket. It should be noted that the negative outlook is not a comment on the state of the local economy, Aberdeen, or the Council. It reflects the rating of the UK Government, and the wider uncertainty around Brexit.

It is important in terms of investor confidence in Aberdeen City Council that the authority maintains its credit rating level. The rating is reviewed by Moody's on an annual basis. In September 2017,

Moody's downgraded the UK's long-term issuer rating to **Aa2** from **Aa1** and upgraded the outlook from negative to stable. Following this, and in-line with the UK sovereign rating, Moody's also downgraded the rating for Aberdeen City Council to **Aa3** and upgraded the outlook from negative to stable. Following the annual review Moody's affirmed the **Aa3** rating with a stable outlook in November 2017.

The annual credit rating assessment involves an analysis of the Council's financial and institutional framework, as well as a detailed assessment of the current and future economic performance of Aberdeen and the wider region. In terms of the economic analysis, independent economic commentary in this report will be used to not only support the Moody's annual review, but also provide the city with assurance on the medium-to-long-term economic outlook of Aberdeen and the region to existing and future investors.

With this in mind, the Council approved the appointment of an independent Economic Policy Panel, in March 2017¹, to provide independent commentary on the state of the Aberdeen economy in the form of an annual report each year from 2018 to 2020.

The Panel

Dr Hanan Morsy, Dougie Peedle and Professor Graeme Roy prepared the 2019 final report.

Dr Hanan Morsy: A global strategist, macro-economic and public policy expert, Dr Morsy has extensive experience leading top-quality economic research, policy work for international financial institutions, including the International Monetary Fund, the European Bank for Reconstruction and Development, the African Development Bank, and the private sector. She has provided strategic advice and quantitative policy analysis to national governments on macroeconomic, fiscal and financial issues, as well as on private sector development and structural reforms.

Dougie Peedle: As well as being a member of the Aberdeen Economic Policy Panel, Dougie is an Economic Associate for Pro Bono Economics and Head of Policy for Scottish Wildlife Trust. From 2004 to 2018 he was Chief Economic Adviser to the Government of Jersey and prior to that worked for 10 years in London as Deputy Chief Economist at EEF, International Economist at Rio Tinto and Senior Economist at the CBI. He is a graduate of the University of Aberdeen and the Scottish Masters Programme in Economics.

Professor Graeme Roy: Director of the Fraser of Allander Institute (FAI) and Head of the Economics Department at the University of Strathclyde. For 45 years, the FAI has been a leading independent research institute focused on the Scottish economy. Graeme is a former Senior Civil Servant in the Scottish Government where he was both a Senior Economic Adviser and Head of the First Minister's Policy Unit. He is a member of the UK Government's Scottish Business Taskforce and chairs a Scottish Government advisory board evaluating the economic impact of Minimum Unit Pricing. He is a past independent adviser to the Scottish Parliament's Economy, Jobs and Fair Work Committee.

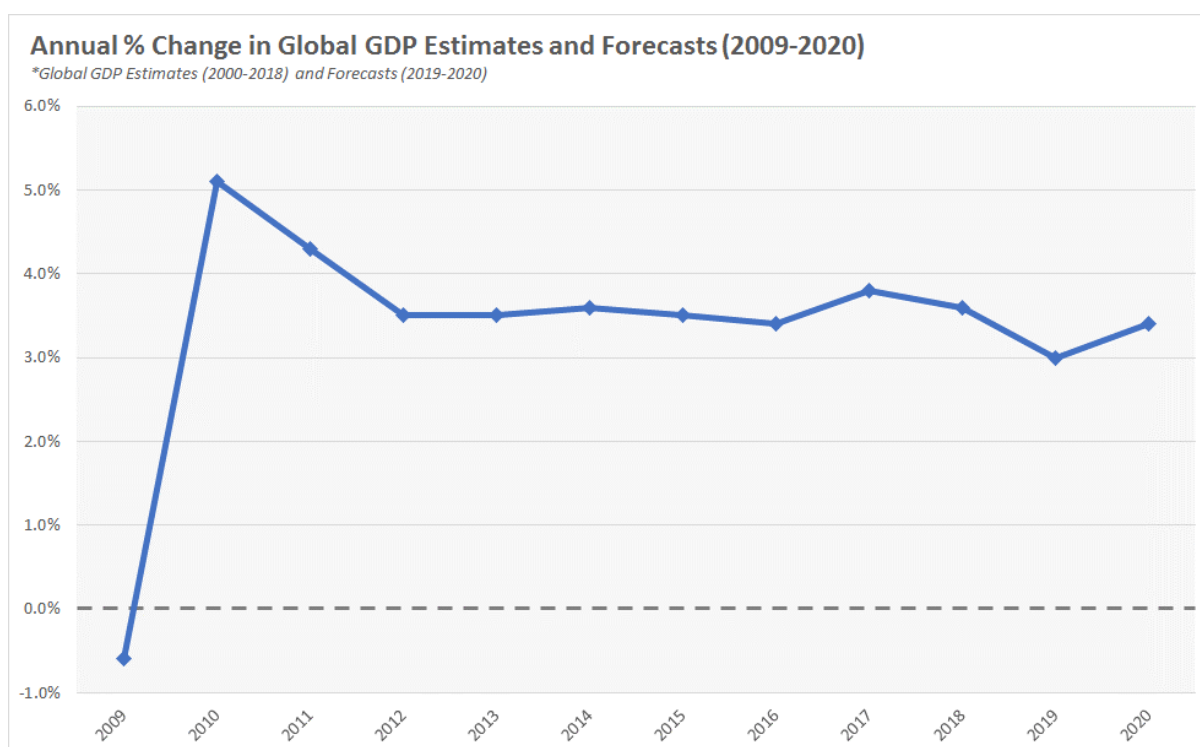
Latest economic trends in the North East

1. Global economy outlook

The global context for the North East economy is more fragile than 12 months ago.

Trade disputes and geopolitical issues have increased uncertainty and dampened business confidence and global trade. As the chart below shows, global growth is forecast by the IMF at 3.0% for 2019, its lowest level since 2009. Growth is forecast to rise to 3.4% in 2020, with the majority of this growth expected from emerging markets¹.

In the two large economies in the world – China and the United States – a slowdown is projected to last for longer than initially thought, which will have its own impact upon world economic growth.



Growth in 2019 is forecast to be considerably weaker than in 2017-18 across Europe. This is due to falling industrial output from lower world demand and trade tensions with knock-on impacts on confidence and investment.

For the UK, IMF forecast growth of 1.2% in 2019 and 1.4% in 2020. More specific to Scotland and the North East, the latest GDP growth forecasts from Oxford Economics predict 1.5% growth per annum between 2018 and 2028 for the North East and 1.7% for Scotland. Other GDP growth forecasts for Scotland are in the range 1.1% to 1.5% between 2018 and 2024². Over the medium term, slower trend growth is projected in many advanced economies as a result of weak productivity growth and ageing populations.

Further escalation of trade tensions and associated increases in policy uncertainty could weaken growth, which could be caused by geopolitical issues or Brexit. If such tensions lead to higher trade

¹ International Monetary Fund

² Fraser of Allander Institute (2019-2021), Scottish Fiscal Commission (2018-2024), EY Item Club (2018-2022), PWC (2018-2019)

barriers then this will only add to the long-term productivity challenge. Unmitigated climate change could further weaken growth.

The Aberdeen City Region economy cannot expect to be immune from such pressures, particularly given its openness to trade and the contribution of oil and gas to the success of the region. Building resilience to such structural changes in our economy must be a key long-term priority.

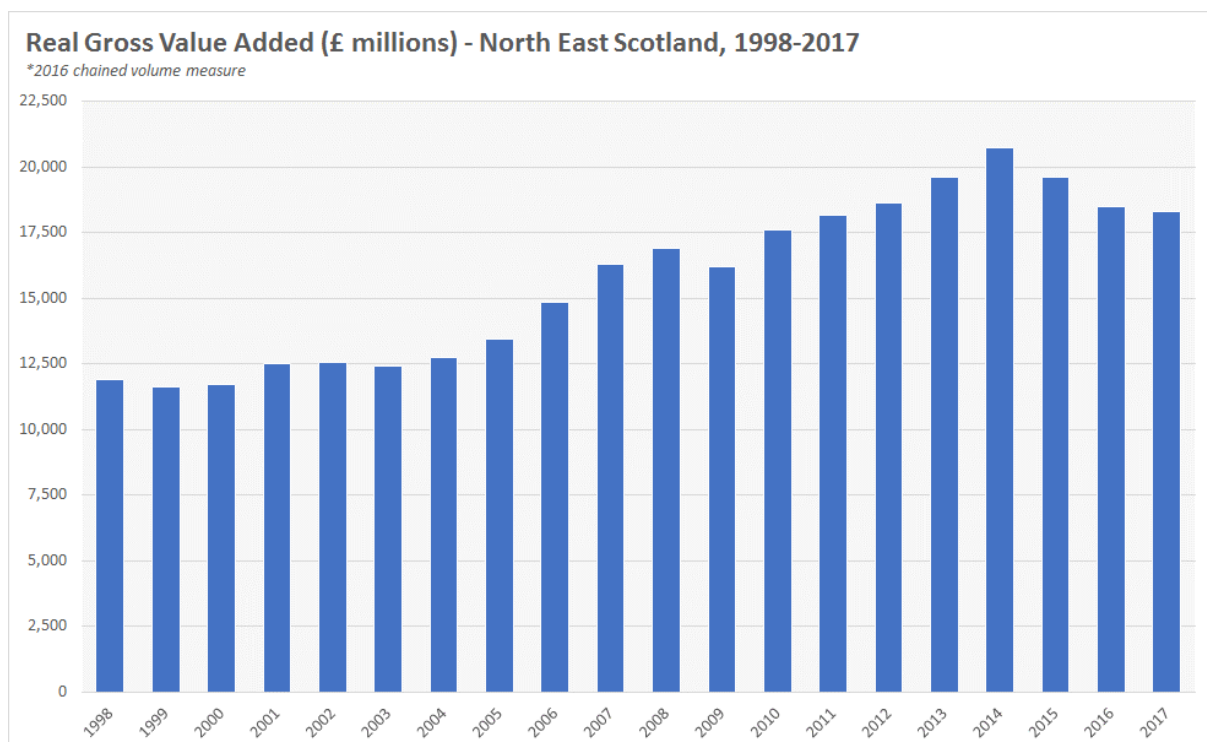
2. Decline in economic activity in the region since 2014 has nearly halted

For several decades, the Aberdeen City Region has enjoyed consistently above average economic growth, fuelled by a high-value oil and gas sector and international supply chain.

The 2014 oil price decline caused a significant downturn in the region's oil and gas sector, which spilled over into the wider local economy.

The chart below shows that after three years of economic decline in the region, economic activity broadly levelled off in 2017. Real GVA fell in 2017 by just 0.9%, after a real fall of 11.8% between 2014 and 2016³.

Oxford Economics predict moderate growth of 1.5% per annum in the next few years for the region.

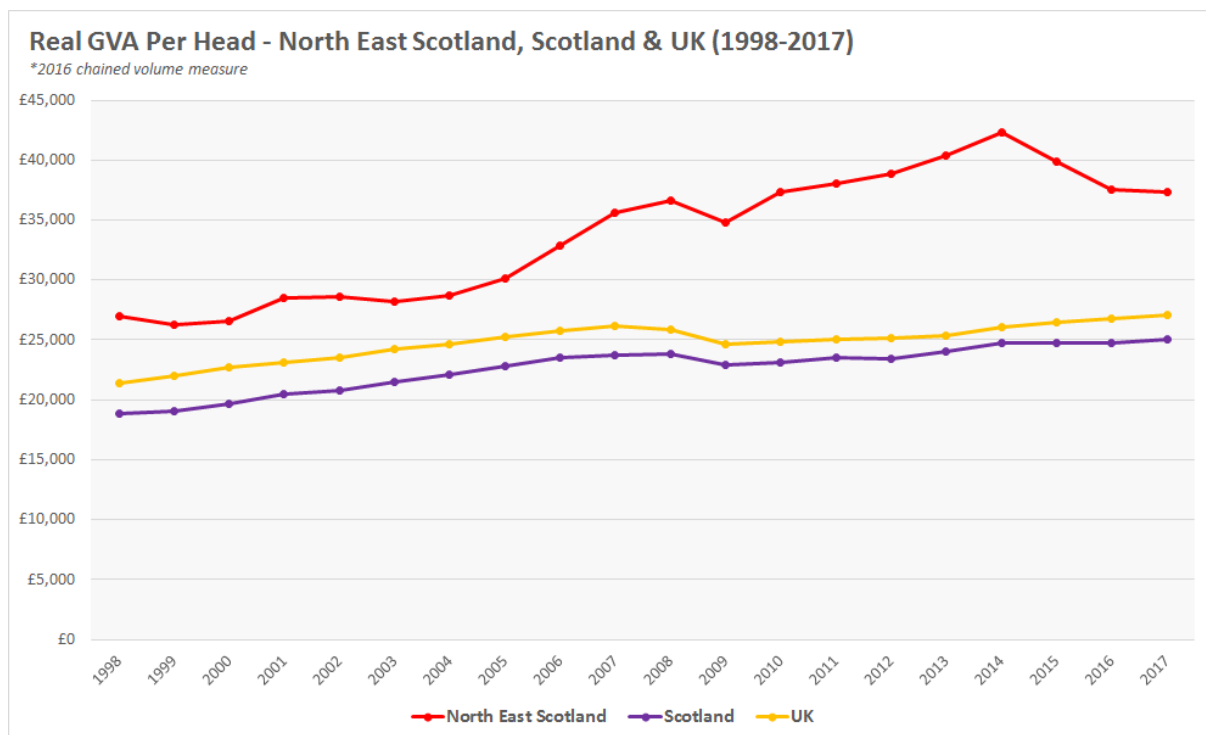


Despite this performance in recent years, Aberdeen and the wider region remain a highly prosperous part of the UK economy.

Relative to their population (9.0% of the Scottish total), Aberdeen and Aberdeenshire make a disproportionately high contribution towards Scottish GVA, accounting for 13.4% of Scottish GVA in 2017 (albeit down from 15.6% in 2014).

³ ONS

The chart below shows that GVA per head across Aberdeen and Aberdeenshire has fallen in recent years but in 2017 was still £37,923, 48.8% and 37.6% above the Scottish and UK averages respectively⁴.



Productivity has declined significantly since 2014

Since the 2008 financial crisis, productivity growth across the G7 has been much lower than previously. However, the UK's productivity fall was steeper and its rebound weaker than in comparison countries⁵.

The Aberdeen City Region has been particularly vulnerable to this due to its dependency on the highly productive oil and gas sector.

Real GVA per hour worked fell by 10.5% in the North East between 2014 and 2017, compared with a rise of 0.6% and 2.3% in Scotland and the UK respectively over the same period. However, it is important to note that in 2017 real GVA per hour worked still remained substantially higher than the national average – £36.84 compared to £32.82 for Scotland and £33.65 for the UK.

Of course, within these aggregate figures there are significant differences across the local business base.

The next chart represents firm level productivity distribution of Great Britain and Scottish city regions in 2016⁶. The additional second high value hump is driven by the high productivity of the oil and gas sector and illustrate as the unique challenge facing the region.

Two important points are worth noting from this.

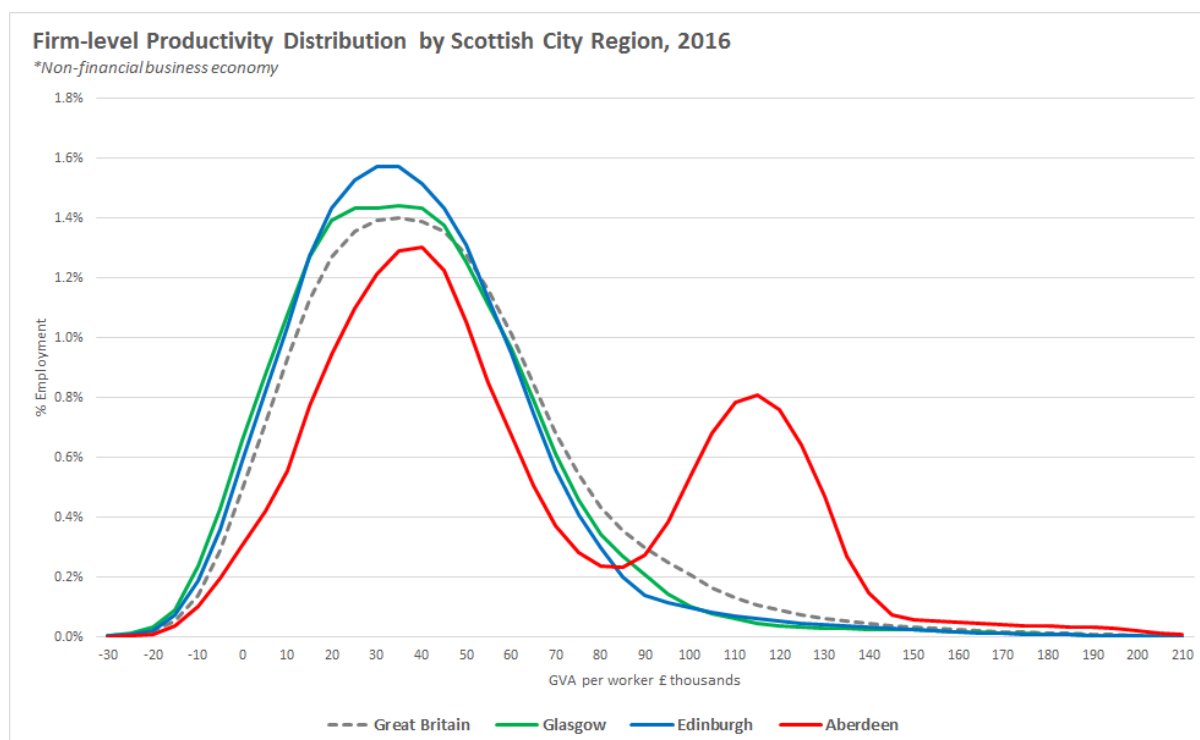
⁴ ONS

⁵ ONS, International Comparisons of UK Productivity, 2016

⁶ ONS

Firstly, as the region diversifies away from oil and gas, then in all likelihood the North East economy will experience further declines on aggregate measures of productivity. Some of this is a simple reflection of the nature of oil and gas and its high levels of productivity on such measures. But it also highlights the importance of using the strength of the oil and gas sector to diversify into other high-value sectors, such as advanced manufacturing and other renewable energy sources.

Secondly, it shows the importance of continuing to focus upon boosting overall levels of productivity in the economy – i.e. the so-called ‘fat middle’ – and seeking to boost efficiencies across all sectors of the Aberdeen City Region.

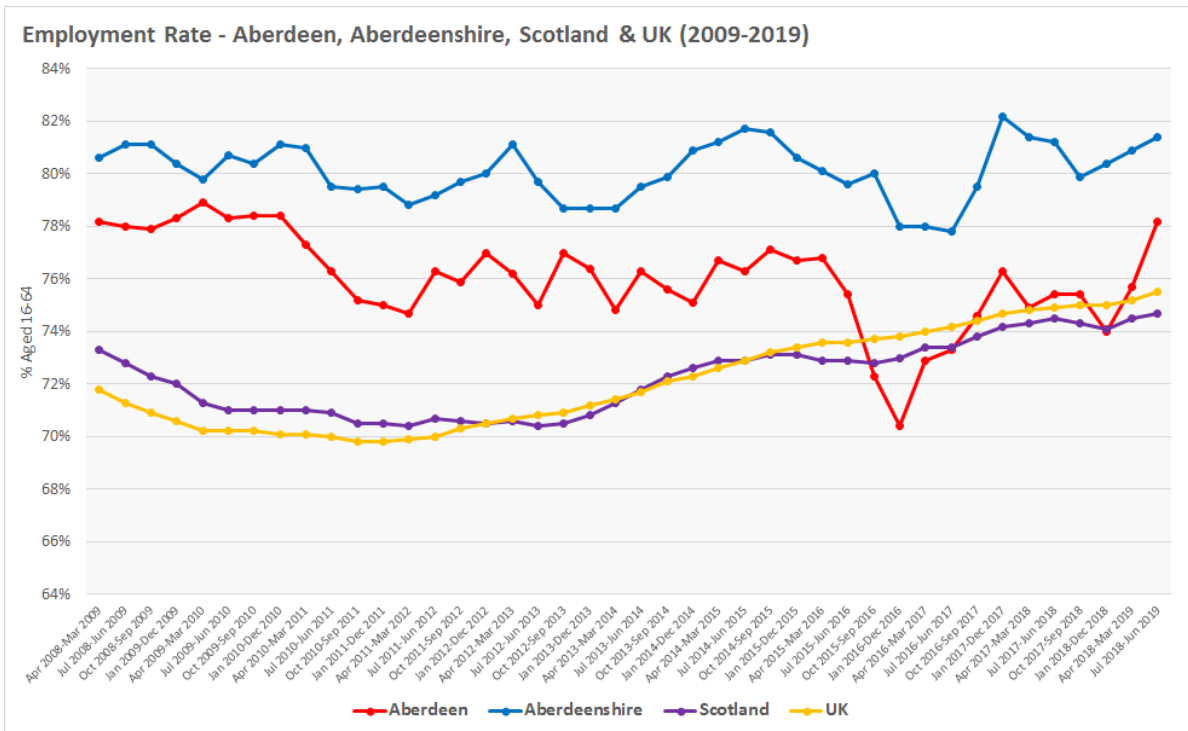


3. The labour market is strengthening

The Aberdeen City Region has historically had employment rates in excess of Scottish and UK averages driven again by a buoyant oil and gas sector and its spill-over benefits to other sectors. Due to the oil and gas downturn however, employment fell significantly from 2015. The chart below shows the employment rate in the region has since stabilised since 2017 and increased in the last 12 months. Between July 2018 and June 2019, 78.2% and 81.4% of working age people were employed in Aberdeen and Aberdeenshire respectively, both above the Scottish and UK averages. At the height of the economic downturn in 2016, employment rates had fallen to 70% and 78% respectively⁷.

The total number of people in work increased to 266,100 between July 2018 and June 2019 compared with 248,600 at the height of the downturn between July 2016 and June 2017. Current levels of employment – having increased by 3.4% in the most recent 12 months – are now close to their pre-downturn peak of 267,000 (Oct 2014-Sep 2015).

⁷ Annual Population Survey, Residence-Based Measures



Real median annual workplace earnings in the region have risen in 2018 by 3.5% in Aberdeen and 4.6% in Aberdeenshire compared with a 1.0% rise in Scotland since declining from 2015. In Aberdeen they rose to £32,342, while in Aberdeenshire they rose to £29,133, compared with the Scottish average of £29,274. Between 2015 and 2017 real average earnings had fallen by 11.7% and 5.0% in Aberdeen and Aberdeenshire and by 1.3% in Scotland, while rising by 0.5% in the UK⁸.

4. Confidence and investment are returning in oil and gas

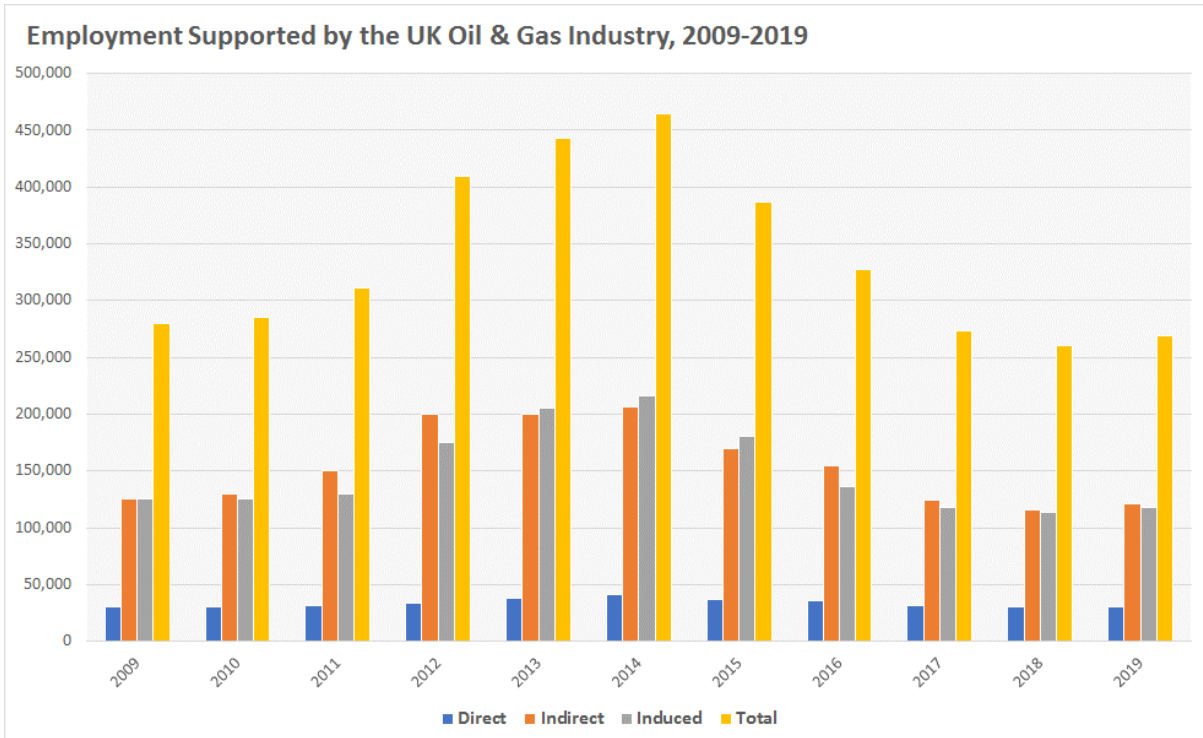
Employment is slowly starting to rise after years of decline

The UK offshore oil and gas industry currently supports more than 280,000 jobs, a rise of 1% since 2018 and the first rise since the 2013 peak of more than 460,000 jobs as shown in the next chart⁹. These jobs are spread across the UK – with almost 60% estimated to be in England, 38% in Scotland and the remainder across Northern Ireland and Wales.

This suggests there are 110,000 jobs in Scotland supported by the oil and gas industry and emphasises the scale of its economic contribution to the North East economy.

⁸ Annual Survey of Hours and Earnings

⁹ Oil and Gas UK



Business confidence is relatively high but not without fragility

Aberdeen and Grampian Chamber of Commerce’s twice yearly survey of business confidence among oil and gas contractors indicates a positive net balance¹⁰ of +42%¹¹. This net balance is still well above the 10-year average net balance of +9%, although it has slipped back from its 2018 highs of +63%. Underlying these headline figures are some concerns, particularly around the current political uncertainty and challenging global market conditions.

Despite this, over the coming year contractors remain relatively upbeat over the outlook for the UKCS area; half of respondents are confident that this upward trend will continue; and only 7% expect the outlook to worsen.

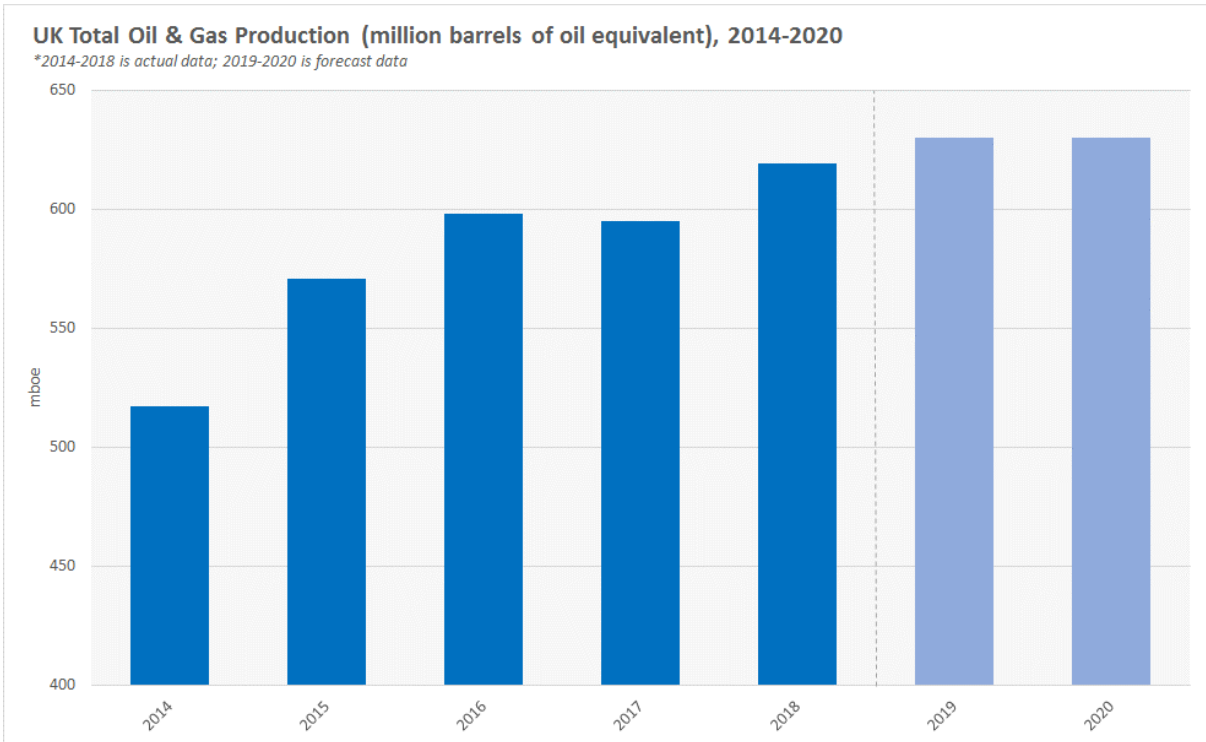
Stable production is forecast to continue in the short run

Since the downturn, the oil and gas sector has worked hard to find efficiency gains to help reduce unit operating costs. This has been key to maintaining the UK Continental Shelf’s (UKCS) competitiveness. The next chart shows total production is forecast to be in the range of 610m-630m barrels of oil equivalent (boe) in 2019¹². This compares with 619m boe in 2018 which itself was a 20% increase in production since 2014. However, both years are down on longer run trends of over 800m boe in 2010. Looking further out, it is expected that the recent stable production trend will continue until at least 2020.

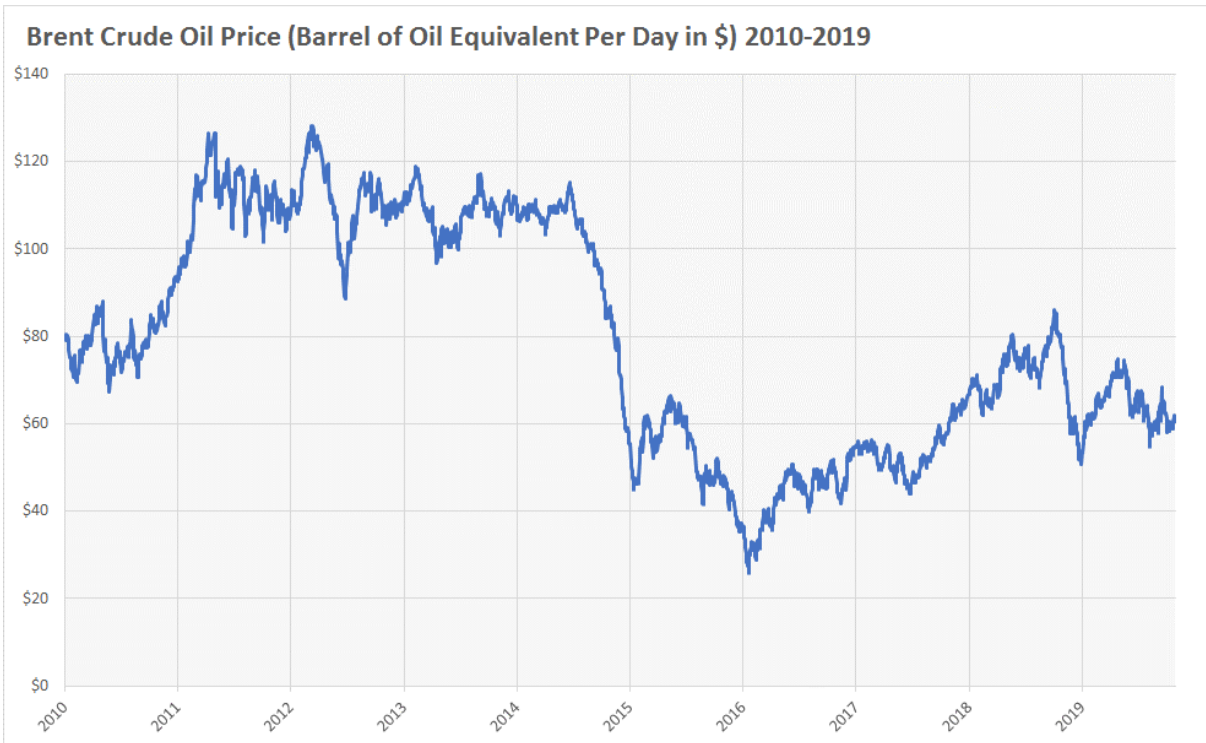
¹⁰ The net balance is the proportion of respondents reporting a rise minus those reporting a fall, therefore a positive net balance indicates an overall increase while a negative reading indicates an overall decline.

¹¹ AGCC Oil and Gas May 2019 survey results

¹² Oil and Gas UK



The oil price has averaged \$60-\$65 per barrel in 2019, down from \$71 in 2018 as shown in the next chart¹³.



¹³ Brent Crude Oil Price 2000-2019

Longer term investment, renewables, and decommissioning

Diversification within the energy sector – including into renewable energy and carbon capture and storage – is vital, not just in helping Scotland meet its challenging net zero targets, but supporting jobs and prosperity within the Aberdeen City Region in the decades to come.

Vision 2035¹⁴ outlines how the industry plans to evolve to ensure a sustainable oil and gas industry that contributes to a ‘net zero future’ transitioning in the longer term to renewable and low carbon energy sources. Vision 2035’s aspiration is to add a new generation of productive life to the basin by successfully managing the production decline to ensure longer term production from the UKCS is at least 365m boe per year in 2035. Continued investment in capital projects of at least the range seen in 2018 will be required.

Levels of capital investment are expected to stabilise in 2019 and 2020, with the potential for a marginal increase to £5bn-£5.5bn this year. This is after significant falls in capital investment of £16.3bn to £5bn in 2018¹⁵.

There is acknowledgement by the industry that oil and gas companies need to transition into energy businesses, but oil and gas is seen as dominant for the foreseeable future and influencing where capital spend is being made. There is a belief among many in the industry that there needs to be greater certainty provided at government policy level to encourage capital spend to create sustained capital investment long term into renewables and other energy markets¹⁶.

Decommissioning remains a significant opportunity for the sector. The industry will spend around £15 billion over the next decade on decommissioning on the UKCS and could be well positioned to secure a share of the rapidly growing international market estimated to be worth £80bn in the next 10 years¹⁷.

In the latest AGCC survey¹⁸, whilst decommissioning activity remains relatively subdued at the current time, in the coming year 28% of firms expect an increase in the value of UKCS decommissioning work and fewer than 10% expect a decline.

In this survey, the proportion of firms indicating that they will likely be involved in UKCS renewables eased to 52% from 57%, 20% indicating that their company will definitely be involved in renewable work and 32% that their company could potentially be involved.

5. Stability is returning to the wider economy although there are still some areas of concern

House and rental prices are bottoming out

Aberdeen has historically had house and rental prices among the highest in Scotland. However, the past five years have seen a substantial reduction in the value of the Aberdeen rental property

¹⁴ <https://www.energyvision2035.com/>

¹⁵ Oil and Gas UK

¹⁶ Addleshaw Goddard Scottish Energy Report Q3 2019

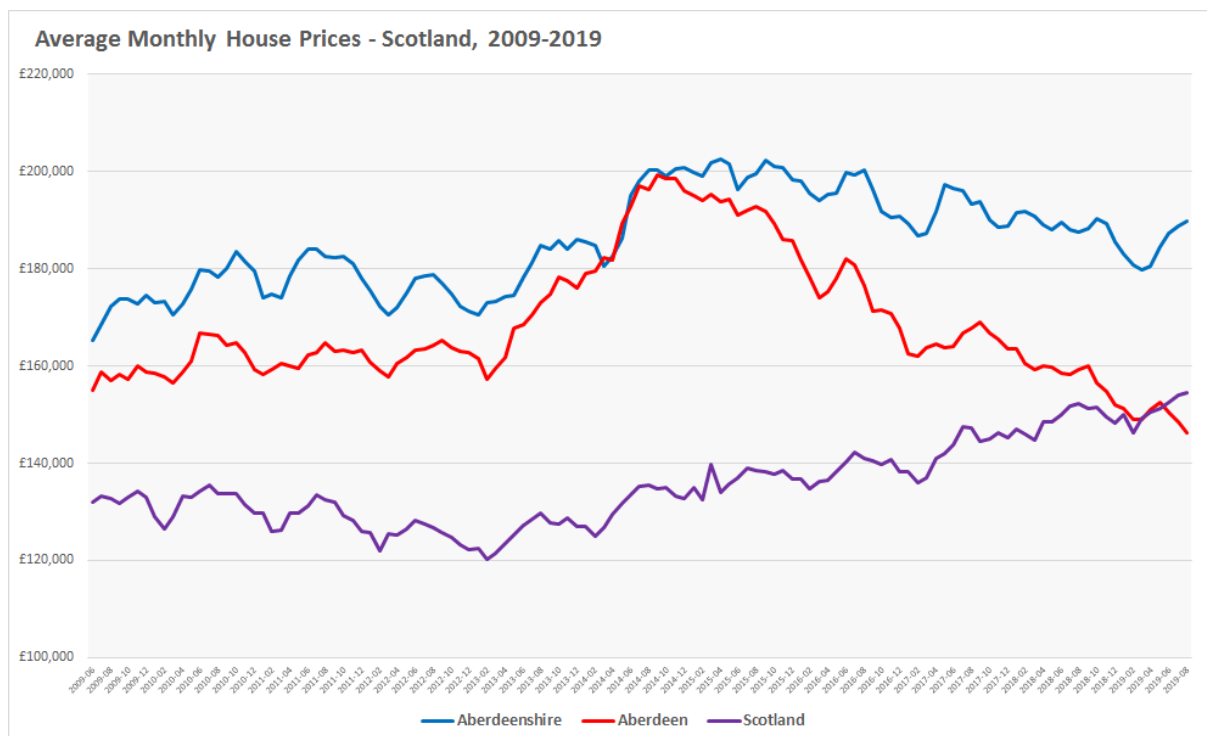
¹⁷ Oil and Gas UK, Decommissioning Insight Report 2018

¹⁸ AGCC Oil and Gas Survey May 2019

market. Rental prices have experienced a 34% drop since 2014 to below those of the Scottish average, having been among the highest in Scotland five years ago. In the last four quarters, rental prices have stabilised. The average monthly rental price of a property in Aberdeen in Q3 2019 was £716 compared to £1,148 in Edinburgh, £803 in Glasgow, £633 in Dundee and £821 for all of Scotland¹⁹.

The next chart shows by August 2019, the average house price in Aberdeen was £146,141 with the average house price in Aberdeenshire at £189,704 and for Scotland was £154,549²⁰. House prices had been on a sustained rise until mid-2015 but between September 2015 and March 2019 the average house price in Aberdeen and Aberdeenshire declined by 22.2% and 11.2% respectively. In contrast, Scottish house prices increased by 8.0%.

Since March 2019 average house prices in Aberdeenshire and experienced five months of modest growth between March and August 2019 of 5.6%. In contrast, house prices in Aberdeen have still been volatile over the same period and are now lower than the Scottish average.



But the commercial office sector shows continuing signs of difficulty

The fluctuating oil price has also impacted on the commercial office sector – often seen as a key barometer of the underlying strength of activity in a local economy.

In Q1 2019, 14.0% of commercial office property in Aberdeen was vacant. This represents an increase of 3.9 percentage points between Q1 2017 and Q1 2019. Similarly, commercial office rents in Aberdeen have also fallen from £22.39 per square foot in 2015 Q3 to £18.70 in 2019 Q1²¹.

¹⁹ Citylets

²⁰ UK House Price Index

²¹ Costar

These declines should also be considered in the context of greatly increased supply in the Aberdeen commercial office market, particularly in Grade A premises. Between 2007 and 2019, commercial office stock in Aberdeen increased from approximately 10.1 million square feet to 13 million square feet.

And city centre footfall continues to decline

Footfall in Aberdeen city centre has been in consistent decline since 2016. In April 2019, footfall in Aberdeen city centre was 1.9 million compared to 2.3 million in April 2016. This trend is indicative not only of regional economic trends, but of a broader decline of retail trade within city centres. In the UK city centre footfall data has declined every year since data started being collected in 2009²².

There is high churn in the business sector

The Aberdeen City Region has traditionally been a highly entrepreneurial area with business registration rates and business survival rates among the highest in Scotland. Business registrations in the region fell significantly during the oil and gas downturn but have since recovered in 2017. The enterprise registration rate (enterprise registration per 10,000 adult population) for Aberdeen in 2017 was 100; 53 in Aberdeenshire; and 48 for Scotland as a whole. Aberdeen continues to have the highest business registration rate in Scotland.

In 2017, the enterprise deregistration rate (enterprise deregistration per 10,000 adults) for Aberdeen was 84 compared to 77 in 2016 and 63 in 2015. The enterprise deregistration rate for Aberdeenshire in 2017 was 56 compared to the Scottish national average of 45. In 2017, Aberdeen had the highest business deregistration rate of any Scottish local authority area.

One to five-year business survival rates are still holding up well in the region and remain above the UK and Scottish average. Between 2016 and 2017, one-year business survival rates were 92.2% and 92.4% in Aberdeen and Aberdeenshire compared with 91.8% and 91.3% in Scotland and UK respectively²³.

Feedback from industry representatives is that the increases in non-domestic rates from the 2017 revaluation has been a key challenge for many businesses across all sectors. The timing of the revaluation, just as the downturn in oil and gas hit, has meant that many firms face increased bills alongside a squeeze on their profitability. There is a general consensus that bringing the next revaluation forward from 2022 to 2021 would be welcomed.

Exports, innovation, research and development and inward investment have fallen but still perform relatively well

The North East continues to provide among the highest value of exports of all local economies in Scotland. In 2017, the total value of international exports was £6.2bn from the Aberdeen City Region, which was 19.3% of the total Scottish value, although the figure had fallen from £7.0bn in 2016²⁴.

Aberdeen has consistently figured among the UK cities with the highest patent registrations per head in recent years. This trend has continued despite the downturn. In 2017, there were 55.4 patent application registrations per 100,000 population in Aberdeen, more than three times higher

²² Springboard UK footfall data

²³ ONS

²⁴ Scottish Government Export Statistics

than the UK average. Aberdeen had the fifth highest rate of patent applications of all UK cities in 2017²⁵. This has decreased slightly from 60.1 patent application registrations per 100,000 population in 2016.

Given the nature of its economy, the North East has consistently had among the highest levels of business expenditure on research and development of local economies in Scotland and this trend has continued. In 2017, nearly 13% (£160.5m) of business expenditure on research and development in Scotland occurred in the region which has under 10% of the population. This has fallen from the peak of £188.8m in 2016 (17.6% of all such expenditure in Scotland)²⁶.

Inward investment levels in the North East have historically been high, with Aberdeen being consistently ranked in the top 10 FDI cities in the UK in recent years, including 2018. However, the city reported a decline in the number of investments in 2018 to nine FDI projects, compared to 14 projects in 2017 and 16 in 2016²⁷.

Figures for companies assisted/supported by Scottish Development International (SDI) for 2018/19 in the table below demonstrate that the North East continues to compare well in Scottish terms in the number of companies assisted, confirmed inward investments and jobs created. Between 15%-20% of all assistance, confirmed investments and jobs created in Scotland are delivered in the North East.

Companies assisted/supported by Scottish Development International in 2018/19

Activity	Scotland	North East
Companies Assisted by SDI	1,921	386
Confirmed Inward Investments	68	13
Planned New Jobs	5,279	1,278
Planned Safeguarded Jobs	3,229	335
Planned High Value Jobs	2,550	1,274
Planned Living Wage Jobs	8,211	1,586

And there are some signs of growth and stability in other sectors

Alongside diversification within the energy sector, key to the Aberdeen City Region’s economic future will be the growth and development of a broader set of high value sectors to complement the region’s rich history in energy.

Key areas for growth identified in the Regional Economic Strategy include tourism, food and drink as well as the ‘knowledge’ economy – an area that Aberdeen has potential in, given its skilled workforce and higher and further education establishments.

Hotel occupancy rates in the North East prior to the oil and gas sector downturn were around 70%-75% in summer 2013. These fell dramatically to the 53% recorded in 2017 at the height of the oil and

²⁵ Centre for Cities, Cities Outlook 2019

²⁶ Scottish Government, Business Expenditure on Research and Development

²⁷ Ernst and Young Scottish Attractiveness Survey

gas downturn. Since then occupancy rates have risen slightly and stabilised at 60% in the summer of 2019. The average revenue per available room was around £40 to £45 in summer 2013. This fell to £25-£26 range recorded in summer 2017. However, in recent years the revenue per available room has stabilised at around £30²⁸. Feedback from industry representatives is that revenue per available room remains a key concern for the sector.

The North East is estimated to account for a fifth of the country's food and drink industry output and almost a quarter of its primary agricultural output²⁹. 18% of the registered enterprises of the Scottish food and drink sector are based in the North East. The number of these businesses fell slightly between 2012 and 2015 but has since risen slightly by 0.8% to 3,140 in 2018 from 3,115 in 2017. Employment also rose to 17,250 in 2017, up from 16,250 in 2016.

In 2017, 1,075 people were employed in life sciences industries in Aberdeen and Aberdeenshire (6.3% of the total life sciences employment in Scotland), having increased from 700 in 2010³⁰.

6. Recent trend of emigration continues

Since 2015 there has been a net outflow of migration from the North East. In 2018 there was a net outflow of 1,920 people from the region compared with a peak inflow of 3,450 in 2014. Prior to 2015 there was a net inflow from the rest of Scotland, the rest of the UK and overseas. Since then emigration to all three destinations has increased.

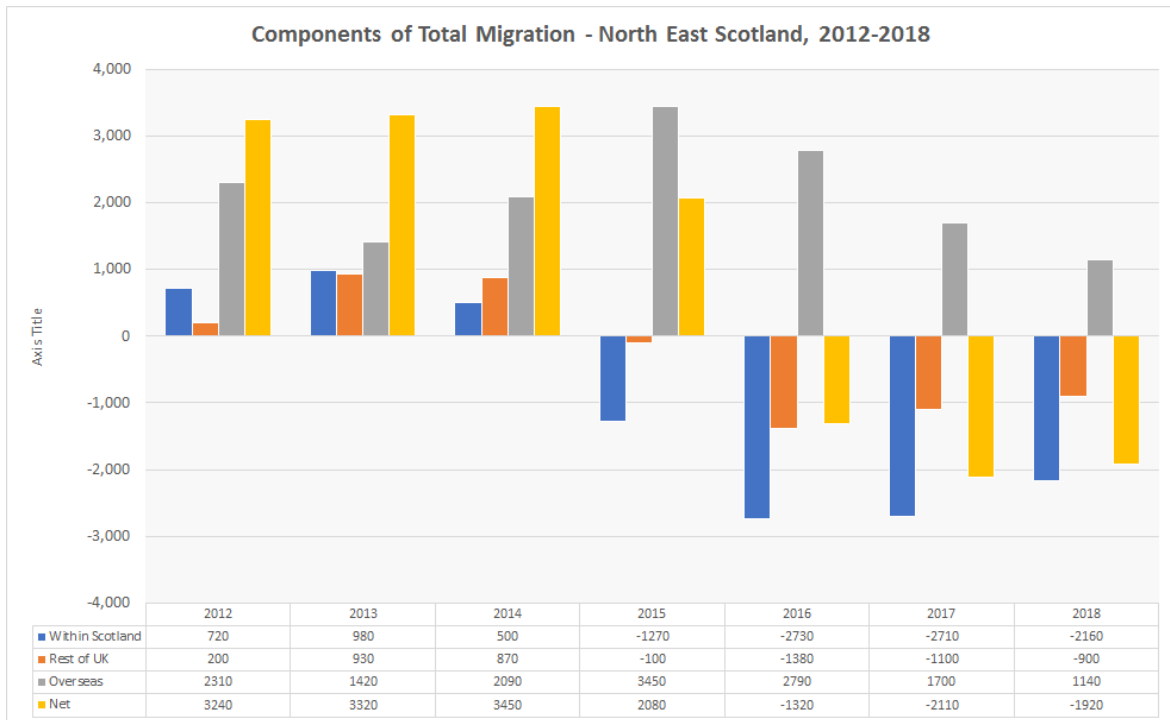
The chart shows the changing patterns of different components and highlights the increased levels of negative net migration from the Aberdeen City Region to other areas of Scotland in recent years³¹. It also shows that net immigration from overseas, while still positive, has more than halved since 2015.

²⁸ Visit Aberdeenshire

²⁹ Opportunity North East

³⁰ Scottish Government Growth Sector Statistics

³¹ National Records for Scotland

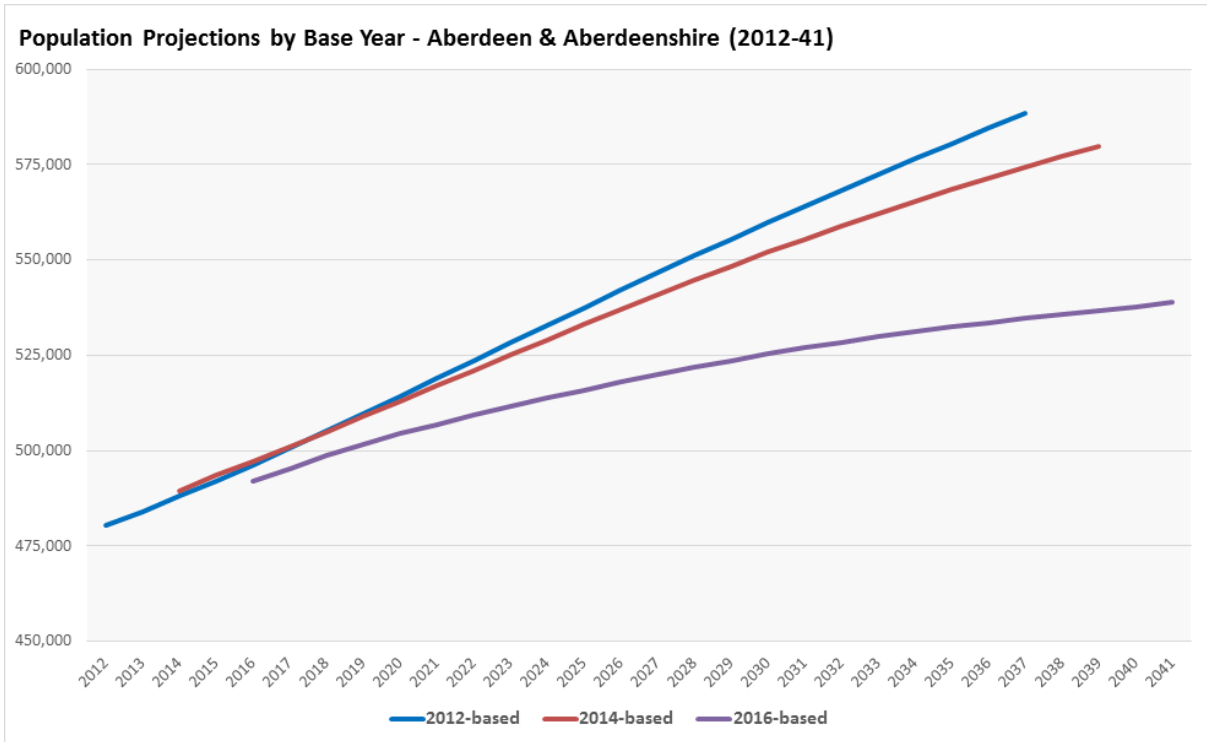


As a result, the population is projected to grow more slowly

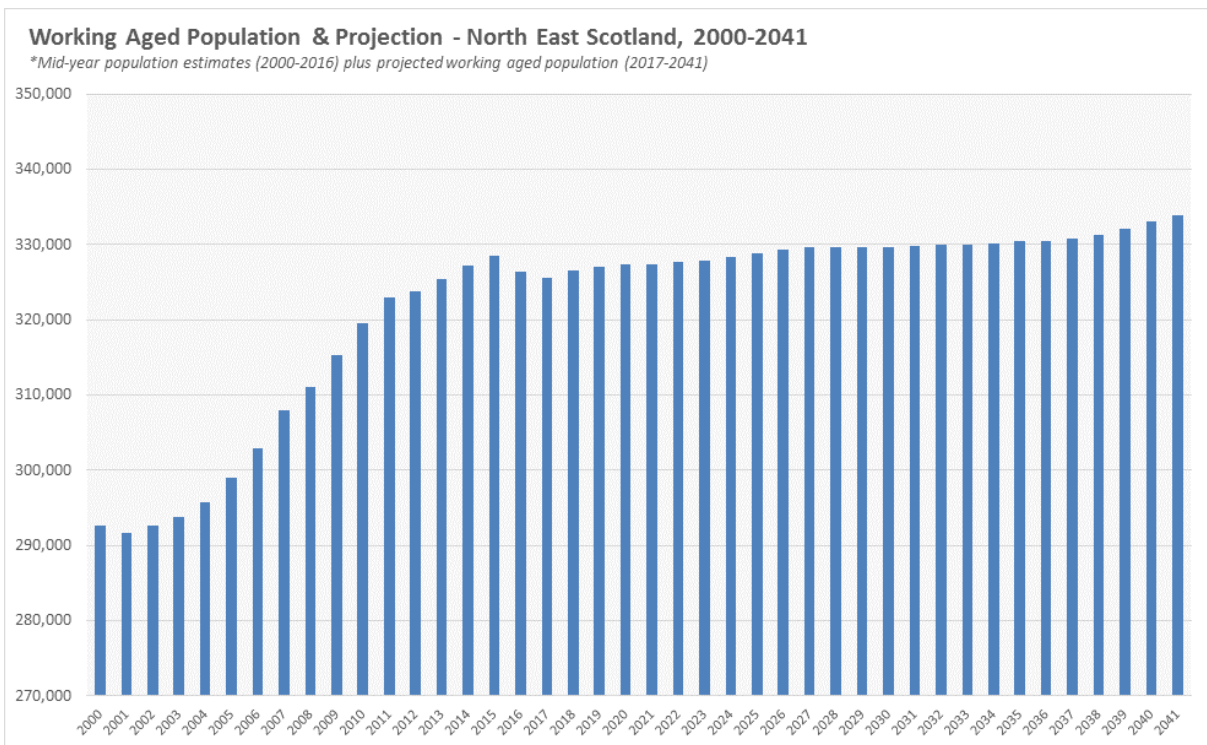
The overall population of the region in 2018 was 489,030, down slightly from the 2015 peak of 492,310. Prior to 2015, the population had been rising consistently from 440,000 in 2000 (a growth rate of 0.8% a year between 2000 and 2015).

The next chart shows the North East population is still projected to grow to 539,000 in 2041 based on 2016 projections (0.38% per year growth)³². However, population projections for the region have been revised down substantially since 2012-based projections (0.9% per year growth), with emigration from the region a substantial contributing factor to this trend.

³² National Records for Scotland



The projected growth in the working age population is particularly low as shown in the chart below. 2016 projections forecast a working age population of 335,835 by 2041 compared with 327,591 in 2017, an average rise of just 2.4% (0.1% per year). Compared with actual numbers of working age people, between 2000 and 2018 the working age population grew nearly four times faster by 9.3% (0.38% per year)³³.



³³ National Records for Scotland

7. Reskilling and upskilling remain a challenge in the region

Technological change and the need for reskilling and upskilling will affect all developed economies including the Aberdeen City Region. This provides challenges but also major opportunities, particularly for a vibrant economy like the North East's.

It is estimated that one in five jobs in cities across the UK and in Aberdeen is in an occupation that is very likely to shrink by 2030³⁴. In Aberdeen, almost half of all jobs at risk are in retail and public sector occupations³⁵. Oxford Economics forecast that there will be greater demand for professional and technical workers as well as care workers in the region and an increase in administrative and support services for knowledge-based activities, digital businesses or tourism.

Ensuring that the local economy can help support the transition of workers likely to be displaced into new work will be crucial, particularly to avoid widening inequalities. At the same time, the region needs to focus upon not just adapting to the new technologies as they emerge, so that new jobs can be created, but also leading the development of these new technologies themselves. The growth of the Knowledge Based economy provides a significant opportunity for the Aberdeen City Region.

Skills challenges are emerging as the economy recovers. In 2017, 11% of Aberdeen City and Aberdeenshire employers reported a skills gap, down from 24% in 2016, but up from 7% in 2015, with 73% of such employers reporting an impact on how their business performs. Nearly two-thirds (64%) of employers in the region anticipate the need to upskill employees with complex analytical skills, digital skills and operational skills being the areas most often cited³⁶.

8. The contribution of the energy sector to the North East economy

As highlighted above, oil and gas will remain a crucial source of growth and prosperity for the North East and Scottish economies for years to come.

GVA of extraction of crude petroleum and natural gas in the UK was £20.5bn in 2018, up from £15.9bn in 2017 but down from a high of £26.6bn in 2011³⁷. GVA associated with *off-shore* activity, under ONS UK regional accounts procedures, is normally allocated to a separate 'Extra Regio' – in others words it is not allocated to a region within the UK.

However, Scottish Government statistics do include all offshore oil and gas activity. In 2017, GVA in the energy sector (at basic prices) in Scotland amounted to £18.4bn, representing a £4.2bn (or 30%) increase on 2016 and the first rise in the energy sector GVA since 2014. The GVA of the energy sector in the North East, of which the oil and gas sector represents the vast majority, was 70% of the total and at £13.0bn up 47% from £8.8bn in 2016, the first rise since 2014³⁸.

Productivity, as measured by GVA per head, across growth sectors in the region is very different. While energy sector GVA per head of employment is several times higher than the other sectors (in the range of £200,000-£600,000 GVA per head depending on the oil price), the food and drink and tourism sectors and other North East growth sectors have a GVA per head of employment below the

³⁴ Oxford Economics

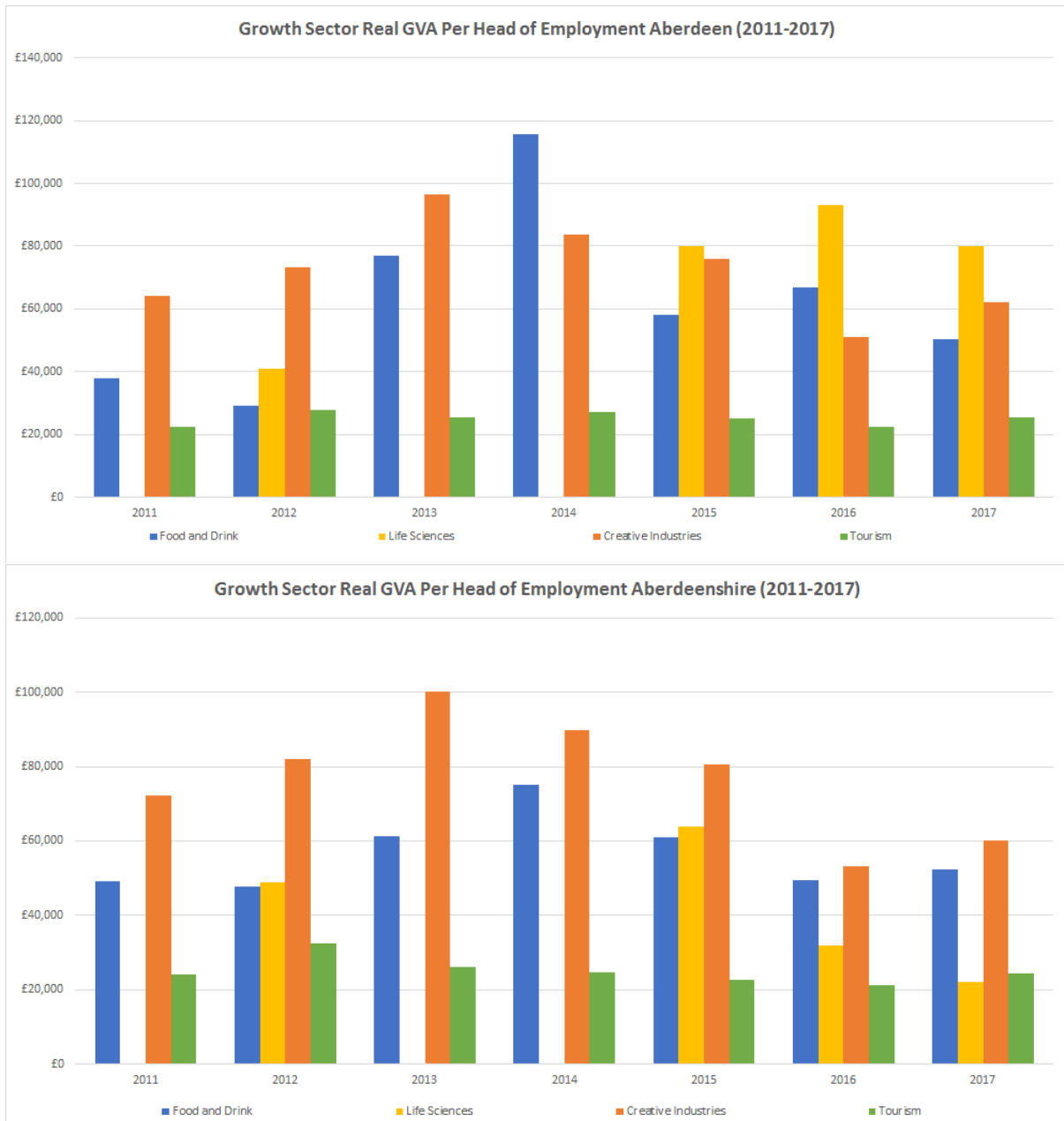
³⁵ <https://www.centreforcities.org/wp-content/uploads/2018/01/18-01-12-Final-Full-Cities-Outlook-2018.pdf>

³⁶ UKCES Employer Skills Survey 2017

³⁷ ONS

³⁸ Scottish Government growth sector statistics

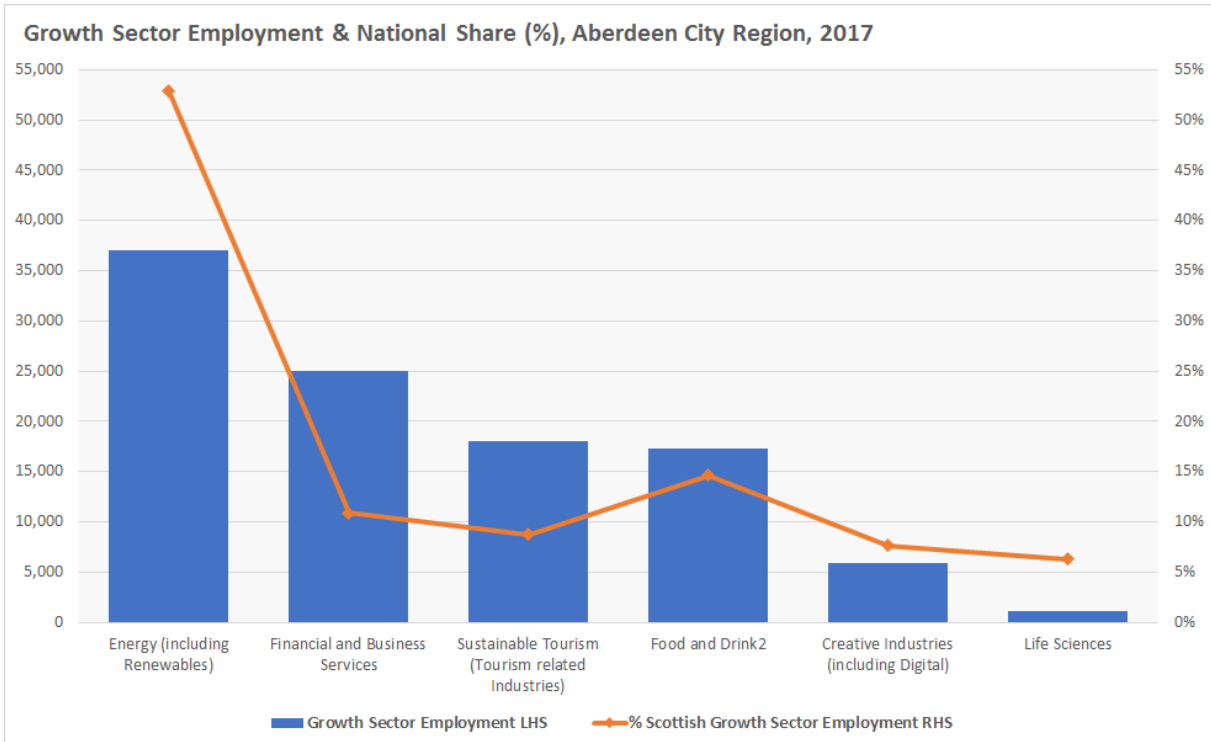
regional average. The general trend in real GVA per head of employment across all growth sectors has seen it falling in both Aberdeen and Aberdeenshire from around 2013 onwards but levelling out in the most recent year of data. This is illustrated in the two charts below for Aberdeen and Aberdeenshire³⁹.



Note: There is not data available for some growth sectors in particular years

The chart below shows the absolute numbers working in each of the growth sectors in the North East and their percentage of the total Scottish employment working in these sectors. This shows, for example, that around 53% of all Scottish jobs in energy are located in the North East.

³⁹ Scottish Government Growth Sector Statistics



9. Challenges

The Panel has considered some of the key challenges and opportunities facing the region and the long-term preparations that have been and will need to be put in place to address and take advantage of these.

Diversification and growth

The ambition of the Regional Economic Strategy is to ultimately diversify the North East economy away from oil and gas in particular and towards the North East growth sectors.

This will not be easy. But if the Aberdeen economy is to diversify successfully in the long-term, in a way that supports productivity improvements and economic growth, then it will be critical that new activity in the growth sectors and/or other sectors is focused on both high value and sustainable economic activity. There is only limited evidence that the scale and pace of change needed is being recognised within the business and policy community.

All this will need to take place against a backdrop where UK and Scottish growth has been well below trend.

Any cyclical improvement in the oil and gas sector should not divert attention from much wider questions about how policymakers and business leaders can take the bold decisions now to support growth and prosperity in the region in the decades to come.

Brexit

In 2017 around 1/7th of the value of all EU destined exports from Scotland come from the North East⁴⁰. Similarly, much of the inward investment into the North East comes from the EU. The overall impact of Brexit is uncertain, but the general consensus is that growth will be slower as a result over the long-term.

The National Institute of Economic and Social Research (NIESR) estimate the North East will be the worst hit region in the UK with Brexit forecast to impact negatively GDP growth by 6.3% between 2019 and 2029 (for a no deal Brexit). The Scottish Government forecast the negative GDP impact on Scotland of Brexit between 2.7% and 8.5% by 2030 depending upon the nature of any final deal. HMT predict the 10-year negative impact of 3.8% on GDP growth for both Scotland and the UK in a soft Brexit scenario.

The Scottish Government has produced research that identifies areas most vulnerable to Brexit⁴¹. 24,000 people in Aberdeen and 79,000 people in Aberdeenshire live in the 20% most vulnerable datazones to Brexit in Scotland. The research found that:

- Communities with high levels of employment in Brexit-sensitive sectors may be particularly vulnerable – this includes areas important to the North East economy such as Life Sciences, High Value Manufacturing, Chemicals; Logistics; and Food and Drink.
- Rural and semi-rural areas may be more vulnerable in terms of access to services – particularly if logistics are disrupted, impacting upon imports and exports.
- Communities which face pre-existing demographic challenges, including on working-age populations, and sectors which rely upon EU migrants, are likely to experience a proportionately greater impact should Brexit lead to lower levels of migration.

Aberdeen City Council has undertaken a risk assessment and mitigation exercise considering the impact of Brexit across all of the Council's activities and its impact on the wider economy, including key skills. The exercise is reviewed on a fortnightly basis.

Scotland's enterprise and skills agencies are working together to help businesses across Scotland overcome the challenges posed by Brexit. Scottish Enterprise has developed a Prepare for Brexit toolkit on its website⁴².

Inequalities

Despite the relative wealth of the region, not everyone fully gains from such prosperity.

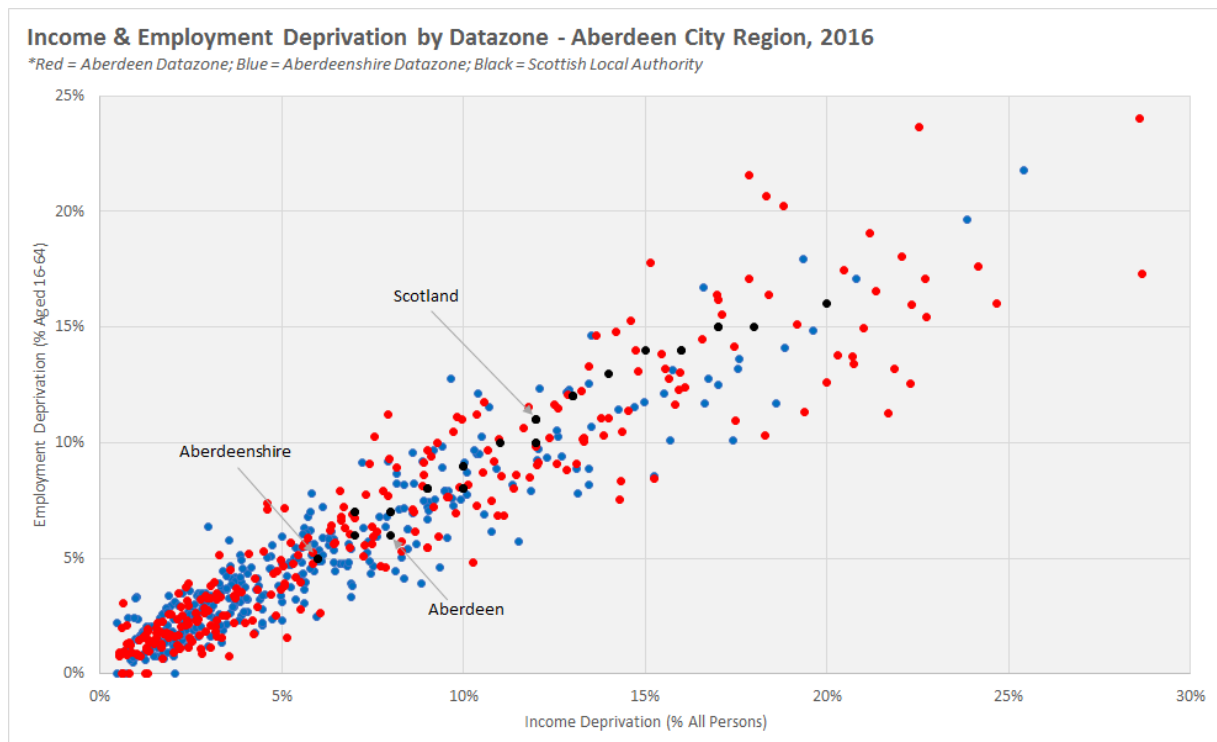
In the long-run, there is a growing recognition that tackling inequalities is not just an important objective in its own right, but that doing so is crucial for promoting sustainable economic growth.

Poverty and its consequences can act as a major barrier to people being able to fulfil their full economic potential.

⁴⁰ Scottish Government Export Statistics

⁴² <https://www.scottish-enterprise.com/prepare-for-brexit>

The chart below shows levels of income and employment deprivation across Aberdeen and Aberdeenshire datazones (the red and blue dots respectively) and the same measures at a local authority level (the black dots)⁴³. Aberdeen and Aberdeenshire local authorities are labelled and are relatively less income and employment deprived than the Scottish average.



Employment deprivation is calculated by using data on indicators such as the claimant count and the number of people receiving employment support allowance and disability allowance. Income deprivation is determined by factors such as the number of recipients of job seekers allowance and universal credit, and the number of adults and children dependent on adults in receipt of tax credits.

The chart highlights how within the region, and particularly in Aberdeen, there are datazones that face much greater income and employment deprivation than the average level of deprivation in Scotland's most deprived local authorities.

Aberdeen City Council has engaged with the Scottish Centre for Regional Inclusive Growth in developing their inclusive diagnostic tool to identify their inclusive economic growth challenges. Aberdeen's Local Outcome Improvement Plan has also been refreshed and there are improvement projects around employers paying the living wage and business start-ups in deprived areas that are being developed.

Fiscal risks

There has been significant pressure on local government finances in the post-financial crisis period, as government spending has been squeezed to address the budget deficit and high levels of public debt. The Institute for Fiscal Studies stated in their October 2019 Green Budget that a decade after the financial crisis, the fiscal deficit has returned to normal levels, but public debt is at a historical high. They have also highlighted that over a 50-year period age-related public spending would

⁴³ Scottish Index of Multiple Deprivation 2016

increase by almost 9% of GDP. This will mean if progress is to continue on reducing the public debt burden then there is likely to be further pressure to cut spending in other areas and/or raise taxes.

Under such circumstances it would be wise for the Council to build on the long-term financial analysis already undertaken and consider further long run sensitivity analysis of how the Council's financial position varies under different assumptions about trends in both revenue and expenditure. For example, how different assumptions about grant funding and age-related expenditure impact on the ability to finance the Council's bond.

Population changes

The North East has historically been an area that has had an inflow of migrants particularly from the EU and the rest of the world, to work in the energy, food and drink and tourism sectors. Since the oil and gas downturn however, this trend has been reversed and the region now has a net outflow of migrants. Working age migrants in the North East are particularly important to supply labour for businesses across the economy and there is a risk that emigration from the region could continue as a result of leaving the EU. It is important to be able to continually attract people to live and work in the region to achieve the necessary diversification and to mitigate against some of the negative consequences of the region's predicted ageing population. An increasing working age population, through either immigration or retention of people already in the North East, is essential to deliver the City Centre Living Strategy, support the higher education institutions and help the economy prosper.

The region is forecast to have a long run slow growth of its working age population and a larger increase in its pension age population (see section 6). This trend coupled with recent emigration from the region and potentially compounded by Brexit could see a significant worsening of the dependency ratio, with significant implications for adult social care costs, that have already risen sharply in the last 20 years from 37% of day to day devolved spending in 1999/00 to 48% in 2019/20, and is set to continue on this trajectory into the medium term⁴⁴.

But as with any challenge, there are opportunities:

- The region will need to actively consider new ways of engaging people in the economy as they get older;
- It will need to continue to re-think the role that local infrastructure and amenities play as a place to live and enjoy at all stages in life; and,
- The importance of attracting new talent – particularly in the digital age – provides an opportunity to help turnaround some of the more challenging population dynamics we see in the local area. Attracting skilled people with young families through high-quality housing, first-class education, vibrant city centres and excellent outdoor leisure and recreation can act as a counterbalance to an ageing population.

⁴⁴Fraser of Allander

10. Opportunities

Transition to Low Carbon

Energy demand has increased globally by more than 60% in the last 25 years⁴⁵ and this is forecast to continue in the years to come.

The Scottish Government has adopted a net zero greenhouse gas emissions target by 2045 and a target to deliver a 75% reduction in emissions by 2030. This will affect the behaviour of all industries and all households, as well profoundly affecting the UK's energy provision, so much of which comes from the North East.

The oil and gas industries role in supporting economic growth in the region while contributing to a Scottish and UK net zero future through technological change, diversification into renewable forms of energy and skills retention, will be crucial.

As accessible oil and gas reserves decline and momentum continues to build behind the need to move to low carbon and renewable energy sources, the local economy will need to diversify into new activities.

Part of the solution will be about diversifying into new sources of energy or related activities, such as carbon capture. Part of it will also be about using the skills, expertise and technologies from oil and gas into other sectors – such as advanced manufacturing. And a further key element will be supporting the growth of other sectors in the economy where the North East has a comparative advantage.

Economic partners across the region are looking to develop a number of projects to support the energy transition cluster. This builds on the investment to date in the Aberdeen City Region Deal, and in particular the Oil & Gas Technology Centre (OGTC). The OGTC has been developing the National Decommissioning Centre, the National Subsea Centre and, most recently, proposals for a Net Zero Solutions Centre which aims to reduce offshore emissions to deliver a net zero basin while supporting the development of Carbon Capture Utilisation and Storage at scale as well as a hydrogen economy.

Of course, the transition to a low carbon future goes far beyond the industrial make-up of the North East.

It will require initiatives to develop supply chains in a 'circular economy' focused upon more local production, low waste and recycling.

But will also require radical changes in day-to-day local policies. Housing will have to be transformed to cope with construction and refurbishment in low carbon design. The heating of homes, schools and offices will need to shift to shared forms of renewable heat.

Advice for businesses and households to improve resource efficiency, reduce energy costs and develop more sustainable business practices – whilst perhaps a more indirect approach – will, over time, help to deliver the step-change in behaviours that are required.

Connectivity – between Aberdeen and the rest of Scotland and the UK and *within* the region – will also have to change. Relying on increases in the number of electric vehicles will not be sufficient on its

⁴⁵ BP Statistical Review of World Energy, 2019

own. Ongoing investment in a well-run public transport system that link people to jobs and their communities will be key.

Through the Scottish Cities Alliance, Aberdeen will be responding to Scottish Cities Alliance Cities Outlook report on how Aberdeen currently delivers 'Clean and Fair Growth', how Scottish Cities could collaborate in the future to deliver 'Clean and Fair Growth' and developing an Action Plan on how Scottish Cities will continue to develop Clean and Fair Growth in the future to be finalised in November 2019.

Technological change

Technological change will involve a huge increase in evidence-based market decisions, increased entry and exit into new markets, and a huge change in the sort of jobs that will be available and required in the future.

Even in the last decade, we have seen major changes in sectors from retail to banking. Market access is becoming easier with more automated and tracking systems.

There are generally thought to be three major trends that will shape growth in the future:

- Rapidly increasing capability of data-driven decision making;
- Major disruption – or potential for disruption – of business models by asset-light new entrants; and,
- An overhauling of the traditional way of connecting businesses to each other and consumers to markets.

This poses both a challenge and opportunity. Making an audit of the business make-up, skills-base and overall environment that will support growth in the technological age needs to be a key focus for the region.

For a highly productive economy such as the Aberdeen City Region, there are likely to be two sources of opportunity:

- An opportunity to position the Aberdeen City Region to take advantage of new innovations and technologies as they emerge; and,
- Potential for businesses and higher and further education institutions to lead the development of new technology directly.

It will be important however to be clear about the areas of technological change where the Aberdeen City Region has a clear opportunity to succeed. Every city in the world is looking at ways to take advantage of the 4th Industrial Revolution, so prioritisation and coordination of key local assets will be key.

The Panel previously commended the partnership approach among all stakeholders, harnessing the skills of the workforce – at all ages – with collaboration from educational institutions and the business community and it will be important that this continues on the journey ahead.

Infrastructure investment

The region has been and will be benefitting from a range of infrastructure investment. There is an estimated £10 billion pipeline of infrastructure investment according to the newly released AGCC

Investment Tracker 2019. Significant investments have already been delivered through a range of projects such as £333m of investment in The Event Complex Aberdeen (TECA).

The completion of the Marischal Square development, along with other commercial office investments at The Capitol and Silver Fin, were key redevelopments of brownfield sites. Other investments in the city centre are the revamped Aberdeen Music Hall (£9million) and Aberdeen Art Gallery (£34.6million). More recently brownfield redevelopment proposals have moved forward for city centre living projects such as The Point and more recently concepts for the redevelopment of Greyfriars House close to Marischal Square.

The Aberdeen Western Peripheral Route was opened in December 2018, reducing travel times and congestion. The new Aberdeen South Harbour project due to be completed in 2021 is expected to deliver thousands of cruise passengers to the region, providing further new economic opportunities. The digital strand of the City Region Deal is delivering digital infrastructure and enhancement projects to meet future connectivity demand.

This investment is welcome but needs to be delivered and should not be seen as the end, with ongoing investment needed over a number of years to deliver the transport and wider infrastructure needed for the future. Further, in planning future infrastructure investment, a robust framework of appraisal and evaluation of each project is required. Each project should have a post-implementation review to assess the actual impacts and whether they were as planned.

Supply chain and global markets

The Aberdeen City Region has a globally successful energy sector and has built up knowledge and skills that are in demand across the world. It has the opportunity to become a globally recognised hub for innovation and technology development with a strong, diversified and internationally-focused oil, gas and energy supply chain anchored in the region for the long term and playing a key role in energy transition towards a lower carbon energy system⁴⁶.

11. The policy context

It is clear that the policy context in which this report is published is now even more uncertain than it was 12 months ago.

We still do not know the exact timing or nature of the UK's exit from the EU. Last month, the UK Government agreed a new exit deal with the EU. Whilst this deal shared many similarities with the previous deal agreed by Prime Minister Theresa May, it did point to looser economic ties between the UK and the EU in the long-run.

Of course, even though this pointed to a new agreement with the EU over the terms of exit from the EU, the UK's future economic relationship with the EU – and crucially the form of a future free trade agreement – is yet to be agreed. As a highly open economy, with significant trading links internationally, the nature of this deal will have significant implications for the North East economy.

We have already touched on some of the key challenges of Brexit. However, it is important the region is prepared to take advantage of new opportunities that will emerge in the years ahead – whether that be in the form of import substitution (for example, in food and drink) or in accessing new markets, should the UK secure new trade deals with other countries.

⁴⁶ Regional Economic Strategy 2018-2023 Action Plan

The policy context is further complicated by the recent announcement that there will be a UK General Election on the 12th December. This will have significant implications for the future path of economic and fiscal policy across the UK and therefore the Aberdeen City Region economy. On top of this, the prospects of a 2nd Scottish independence referendum continue to be debated.

Away from the national agenda, the local policy landscape will be equally important to the short and long-term prospects of the North East economy.

From our discussions, it is clear that – amongst the business community – there is a sense that the policy landscape to support local economic growth is ‘cluttered’. There are a large number of local and national agencies involved in supporting growth, whether that be through infrastructure, the skills-agenda, business growth etc. This can cause confusion and lead to delay in effective decision making. The level of coordination could be improved.

Engagement between local policymakers and the business community is generally viewed as being positive, and better than in other parts of the country. The quality of interaction between local and national policymaking is mixed.

Whilst the Panel does not take a policy view on the future of local government funding or the relative balance of funding across Scotland, the demand for greater local financial and economic autonomy is clearly widely supported across the community. A review of local powers has the potential to open up new opportunities to take decisions where best suited to the unique characteristics of the local economy. Recent developments around a Transient Visitor Levy or Workplace parking levy – whilst each having their strengths and weaknesses – are at the very least a positive signal at a possible future direction of travel that will give greater power to local policymakers.

A key message received during our engagement with key members of the local economic community was of the importance of bold decision-making. The future challenges and scale of opportunities that the Aberdeen City Region faces in the future means that modest changes are unlikely to work. Big ideas, a clarity of focus and leadership – all backed-up by a coordinated approach across national policymakers, local policymakers, universities and business leaders – will be crucial if the Aberdeen City Region is to prosper in the future.

12. Panel’s assessment of 2018 recommendations

Assessing progress on the Panel’s previous recommendations there have been a number of positive developments:

- The launch of version one of North East Performs on the Aberdeen City Council website and the intention to further develop North East of Scotland Performs after its launch in response to feedback from users. North East Performs includes key economic indicators against which progress can be assessed covering economic, productivity, inclusive and sustainable growth.
- Progress of the Aberdeen City Local Housing Strategy is monitored and evaluated on an annual basis.

- The production of a scoping paper to deliver Scottish Government Economic Action Plan proposals for piloting Productivity Clubs⁴⁷ are implemented in the Aberdeen City Region is welcomed and the Panel urges that is taken forward into an actual pilot.
- Aberdeen City Council continues to focus on ensuring that the impact of Brexit on the flow of key skills to the North East is minimised through its fortnightly Brexit risk assessment and mitigation exercise across the Council's activities and its impact on the wider economy.

Some progress has been made on a number of other recommendations but there is still scope to make further progress:

- The commitment in principle to proceed with creating an all-new Regional Export Partnership including private and public sector is welcome. However, getting the right people and resources in place remain barriers to progress.
- While endorsing the overall approach of the Regional Economic Strategy, the challenge remains to ensure robust monitoring of progress and implementation. A strategy is an essential tool but without the right implementation and detailed action plans they can become ineffective.
- While there has been progress on engaging with the Scottish Centre for Regional Inclusive Growth and identifying inclusive growth monitoring measures and improvement projects, Aberdeen still needs to be clear about what its version of sustainable inclusive growth is, particularly in the context of the climate emergency and with net zero targets. The Panel notes Aberdeen's future input into an action plan on how Scottish Cities will continue to develop Clean and Fair Growth and encourages Aberdeen to lead on how this is done at the regional level.
- The Invest Aberdeen approach is welcome. This includes the development of a monitoring framework against which to assess inward investment performance with a range of KPIs around targeting and engagement measures. However, greater clarity is required around existing measures of performance to demonstrate the actual number and total amount of investment in the region.
- There has been some progress around the devolution of powers to allow Aberdeen to adjust policy at the local level with the transient visitor levy, congestion charge, workplace parking levy and a potential infrastructure levy. However, the inability to adjust business rates and collect revenues locally remains a concern raised by stakeholders.

There are a number of areas where progress has been less clear:

- RES partners are reprioritising the actions from the RES Action Plan refresh in 2018 to reflect new drivers around energy transition with more clearly defined actions and timescales. However, the deadline for this work of 5th December 2019 and means that no progress has been made since the Panel's last report, although the announcement of the climate emergency and new emissions targets at least partly explain why progress may have been held up.
- The RES recognises that the region's natural assets and clean environment must be safeguarded to support key sectors such as tourism, food and drink, agriculture and fisheries. There is little evidence that the region has made progress here. There is an opportunity for Aberdeen to take a lead by developing key actions for applying these principles at the regional level and monitoring them through the proposed The North East Economy Performs Framework.

⁴⁷ Productivity Clubs are intended to be a forum for networking, peer to peer learning and will provide signposting for business resources for members who will support one another to focus on continuous improvement and organisational capacity. See: <https://www.productivity.scot/about/>

- In 2018 the Panel welcomed the potential for a strategic infrastructure group comprised of national and local infrastructure partners that is tasked with planning the city's infrastructure needs, and securing investment for new projects. In response Council officers did consider an Infrastructure Group within the governance of the Multi Agency Transformation Management Group but this does not appear to have been formalised. In addition, the Panel highlights the importance of building on such an approach to ensure a clear process for appraising the benefits and prioritising the correct projects.
- The Panel previously recommended that consideration was given to how the combination of existing services from Scottish Enterprise, Business Gateway (Elevator) and ONE could also focus support on young businesses with high growth potential across all business sectors. There are many positive collaborations amongst these partners but these interventions may not be specifically responding to the priority of supporting productive and high growth businesses.

13. Panel's 2019 Recommendations

In assessing the latest economic conditions, the challenges and opportunities facing the regional economy and progress on the Panel's previous recommendations the Panel makes the following recommendations:

Recommendations

- 1. Policy needs to move faster and identify regional strategy for net zero.** The Panel remains supportive of the overall strategic direction set out in the Regional Economic Strategy (RES). However, the pace of economic and political developments since the last report require the need to move further and faster given the scale of structural change facing the Aberdeen economy and the new policy context of the climate emergency and net zero emission targets. The recent economic improvements highlighted in this report should not mask the need or urgency for change. The city needs to develop its own strategy for the net zero transition, which distinguishes itself from other Scottish cities and is supported by a clear plan of action.
- 2. Greater focus on implementation and monitoring.** The overall approach in the RES mirrors that of the national economic strategy with the focus on the 4 i's of investment in infrastructure, innovation, inclusive economic growth and internationalisation. They should not overshadow a 5th i of implementation which requires equal attention and needs to be supported by clear SMART (Specific, Measurable, Achievable, Realistic and Time Bounded) objectives across all elements of the RES and supporting strategies. More public information on milestones – including detailing progress toward such milestones – is needed. The RES Operational Group is best placed to do this, and detail on progress towards implementation should be provided to relevant local or regional strategic groups.
- 3. Opportunity to take lead by defining the North East's approach to Wellbeing.** Aberdeen needs to be clearer about what its version of sustainable, inclusive growth looks like and how it differentiates itself from the other cities in Scotland and elsewhere. This is vital in terms of attracting the people, skills and investment that will be needed to drive the change across the economy in the challenging years ahead. The transition away from oil and gas and the policy drive to deliver new emissions targets require Aberdeen to be clear how it will address these challenges and distinguish itself. There is growing recognition that traditional economic metrics such as GDP and GVA need to be supplemented with wider measures that indicate overall Wellbeing in the economy. Aberdeen should look to take the lead in Scotland of how this could be achieved at the regional level and in particular during the transition to net zero.
- 4. Co-creation of regional economic priorities is a strength to build on.** Collaboration between political, business, academic institutions and policy makers is a strength in Aberdeen. But there remains a strong belief that the policy landscape is 'cluttered' and not as coordinated as it should be. This can lead to unnecessary delay and lost opportunities. This is not simply a local issue, but also a recognition that national institutions and agencies must take a keen interest in helping to deliver local priorities even if this requires moving away from a 'one-size-fits-all' approach. Addressing this will be important, particularly with regard to the policies needed to facilitate the transition ahead within the city. The Panel encourages the continued fostering of a co-creation approach to governance across city region strategic economic priorities.
- 5. Develop new strategic approach to infrastructure with clearer prioritisation.** The establishment of the Multi-Agency Transformation Management Group and the more strategic approach to infrastructure investment that this brings is welcome. The Group is focused on the transformation of service delivery across multi-agency and city centre regeneration. This should be supported by a clear process for identifying priorities, evaluating projects and measuring their impacts, and the Council should rethink the governance and leadership needed around delivery strategic infrastructure in the city.



Recommendations

6. **National infrastructure plans must support region's transition to net zero.** Infrastructure investment at the national and regional level is recognised as a key driver of economic growth and must be coordinated across both levels. The Infrastructure Commission for Scotland will publish its advice on priorities by the end of this year and further advice next year on what should be in the next Infrastructure Plan. It is critical that this advice recognises the different nature of the challenges facing the regions in Scotland and prioritises infrastructure investment that can help address them. For Aberdeen this means recognising the challenges it faces from its geographic position, the transition away from oil and gas and the move to a low carbon economy. National infrastructure plans need to support the new direction of policy and assist regions with the transition to net zero.
7. **Regional support must be based on more than just economic performance.** Other regional support such as the proposed UK Shared Prosperity Fund also need to be tailored to the new challenges local economies face from the changing policy context. Funding decisions cannot be made solely on past or expected future economic performance or deprivation, and all 3 tiers of government will need to work together to deliver the transition to net zero.
8. **Aberdeen can take regional lead on managing natural assets in the transition to net zero.** The RES recognises that the region's natural assets and clean environment must be safeguarded to support key sectors but more must be done to ensure that Aberdeen leads on applying these principles at the regional level and developing a strong response to the transition to net zero. This will be a key part of ensuring that Aberdeen can build on its reputation as a good place to live, work, invest and do business, continue to develop its offering and keep ahead of the competition. The Borderlands Growth Deal for example, includes consideration of a Natural Capital Innovation Zone across the region.
9. **Wider discussion needed on how more autonomy can be devolved to the regional level.** In last year's report the Panel emphasised the need for greater flexibility to allow local authorities and other stakeholders to adjust policy at the local level to meet different economic trends, priorities and challenges. This is critical to achieve both national and local economic objectives. There has been some progress with plans for the transient visitor levy, the congestion charge, workplace parking levy and the potential of infrastructure levy. However, the inflexibility of business rates as economic trends diverge at the local level highlights there is still a lack of flexibility and autonomy. The Panel continues to encourage a wider discussion of how more autonomy can be devolved to the regional level in both a UK and Scottish context. This will be essential to support the transition ahead and address its different implications for different cities and regions.
10. **Annual fiscal risks report would strengthen strategic planning.** There has been significant pressure on local government finances in the post-financial crisis period, as UK government spending has been squeezed to address the budget deficit and high levels of public debt. Whilst the short-term fiscal outlook looks more positive than it has for some time, the long-term pressure on budgets – most notably through increased pressures on health and social care budgets – means that there are considerable pressures in the years ahead. Under such circumstances the Panel recommends that the Council build on the long-term financial analysis already undertaken. An annual fiscal risks report should be produced that undertakes further long run sensitivity analysis of how the Council's financial position varies under different assumptions about trends in both revenue and expenditure. This will be important, not just for future planning, but ensuring that there is widespread public buy-in for the tough choices that will be required in the future.

