

REGIONAL ECONOMIC STRATEGY

Securing the future of the north east economy

A 20-year vision for the well-being of the place and our people





Contents

Foreword	4
Introduction	6
The Place	8
Economic & Policy Environment	10
Policy Context	13
Key Sector Approach	15
Our Challenges	18
Our Vision	21
Key Programmes – Achieving our Vision	22
A. Investment in Infrastructure	22
B. Innovation	24
C. Inclusive Economic Growth	26
D. Internationalisation	28
Leadership	30
Measuring Our Performance	31



Foreword

This Strategy has been written at a challenging time for the economy of the North East of Scotland. The recent downturn in the oil and gas sector due to a downward trend in oil prices and cost pressures, the backdrop of cuts in public sector expenditure and recovery from the wider economic downturn provide context for our work.

However, the North East Region is a high performing regional economy. Our success has been driven largely by the opportunities in the oil and gas sector, and by a number of other strong-performing sectors, and significant investment by the private sector in these. However, the level of investment in the public infrastructure has struggled to keep pace with the demands being placed on it by a fast growing economy and industry investment.

Infrastructure is critical if the Aberdeen City and Aberdeenshire areas are to remain an internationally competitive business environment and are to secure a long term economic future - transport connectivity, information and communications technologies, business land and property and housing are key.

A key element of our Strategy is to invest in an infrastructure that caters for the needs of a high performing international city region economy and a growing rural hinterland – roads with capacity to cope with the demands of business; extensive air and sea links, digital connectivity to develop competitive business, and a competitive and accessible public transport system

We have a reputation as an international offshore oil and gas operations base. Using the expertise that has already been developed in sub-sea technology, our ambition is to become an internationally recognised offshore technology base achieving maximum economic recovery in priority areas of undeveloped small pool discoveries, well construction efficiency, integrity and inspection of assets and decommissioning. This represents a transition within the main industry sector in the north east very much in line with achieving Maximising Economic Recovery.

Similarly we want to capitalise on our existing strengths and support a broadening of our economy across other industries – within the energy sector itself, tourism, food, drink, fisheries and agriculture, creative industries and life sciences.

We are now at a point where we need to accelerate investment plans to help us realise these economic ambitions and create the best conditions for the private sector to invest. Working

with our universities, we will also transform our regional oil & gas innovation resources to a world class centre of excellence so that we secure international skills, expertise and investment, grow our export of high-value, internationally-demanded services, and in doing so, anchor supply chain activity in Scotland and the UK.

We have seen significant population growth over the last 40 years. Our economy, and the unique and distinct quality of life we have is fundamental to attracting talent and retaining skills here. As well as the investment in infrastructure, this Strategy provides a framework for transforming city centre living and regeneration, ensuring we remain a great place to live, visit and work and creating a new 'feel' to the region.

A new economic leadership group, Opportunity North East (ONE), reflects our 'triple helix' concept of productive relationships across all levels of government and their agencies, with industry, and with universities. It is in all of our interests to deliver this strategy and we will collaborate with business, public sector agencies and the third sector – all of us involved in the wellbeing of our place and our people.

ONE, led by the private sector, will develop new ways of investing in our long-term future, focused significantly on key industry sectors, combining the strengths of the private and public sectors. We will continue to work with the UK and Scottish governments to support our economic objectives to negotiate a City Region Deal that capitalises on an opportunity we have for a truly transformational impact on Aberdeen and Aberdeenshire for generations to come.

We will continue to work together towards realising our ambition and delivering what is rightly expected of us – that the North East remains a major economic driver of the Scotland and UK economies.

Councillor Jenny Laing
Leader
Aberdeen City Council

Sir Ian Wood
Chair
Opportunity North East (ONE)

Councillor Richard Thomson
Co-Leader
Aberdeenshire Council

December 2015

Introduction

This document provides a vision and strategy for the future of the North East of Scotland's economy. It will act jointly as an economic strategy for the region and ensure a long term commitment to a range of priorities and objectives across partner organisations to maintain and grow our economy.

There are four key strands: Investment in Infrastructure, Innovation, Inclusive Economic Growth and Internationalisation. Focusing on these areas, the Strategy outlines a long-term plan for investment to boost the economic development of the North East.

It is rooted in making the North East region a more attractive place in which to live, work and invest, along with building on the outstanding quality of life already enjoyed by those who live in this area as well as the workers who will continue to relocate here over the next 10-15 years. This strategy is closely aligned to current strategic and local development plans and transport strategy, and will provide a framework for these plans in future.

Economic activity in the region is already very high, principally based on North Sea oil and there are still significant opportunities to sustain and grow activity in both the short and longer term.

For the key sector of oil and gas, the immediate focus is on maximising economic recovery from remaining oil and gas reserves in the UK Continental Shelf. The strategy sets out to ensure that in the longer term, we identify ways to anchor expertise and activity here in the Aberdeen region post the North Sea while diversifying the economy through emerging opportunities in other sectors.

Key to this transition is the retention of the talent and transferable skills that currently exist within our businesses and educational institutions.

It is also important that expertise continues to be retained and developed within our schools, colleges and universities to encourage, grow and attract more world-leading innovation in this region.

Further investment in people and training will strengthen the workforce, create more jobs and contribute to the region's international competitiveness and sustainability.

Aberdeen and Aberdeenshire has established itself as a global player in oil and gas, with strong business links with established and emerging energy cities internationally.

The impact that North East businesses have made on international markets provides a solid foundation from which to leverage our global expertise into existing and new supply chains. There is, however, the need to significantly enhance Aberdeen's role as an Offshore Technology Capital alongside its very strong operations presence. This will make an important contribution to Maximising Economic Recovery (MER) UK.

The public sector, meanwhile, also has a vital role in helping to provide the best possible conditions to accommodate the current and future growth of the region – both in terms of prosperity and quality of life.

Investment in infrastructure is essential in areas like digital connectivity, affordable housing, significantly enhancing the city centre, regenerating our towns and reducing transport constraints. This will have results and benefits not only in the region, but throughout Scotland and the UK.





The Place

As one of the most prosperous UK and Scottish regions, and as a result of this and consequent population growth, the place has now reached a key stage in its economic history. There have been a number of constraints on accommodating this growth historically and in looking at the region's economic development, Aberdeen and Aberdeenshire needs to be a city region that competes with international city regions and not just with others in Scotland or the UK.

The North East of Scotland is a functional economic geography. Within this functioning economic geography, labour, business, housing and connectivity are key elements of the future success of the region. While the Aberdeen Housing Market Area (Aberdeen City and travel to work area in Aberdeenshire) is the focal point of much of the business activity, Aberdeenshire accommodates significant supply chain activity across energy, food, drink, fishing, agriculture and tourism. The strong relationship between the two council administrative areas is more established than in other regions as a result of these economic linkages.

Two leading research universities are located in the region and provide a highly skilled workforce in applied sciences, technology and engineering. In 2013 Aberdeen was ranked 4th among the UK's 63 largest cities in terms of the number of patents per 1,000 population. It is home to a variety of internationally significant research centres such as the National Subsea Research Institute, the Rowett, the Marine Lab and the James Hutton Institute.

As such, the 'supply-side' issues constraining place and international competitiveness must be addressed: improving the attractiveness of the city centre, providing good connectivity, investing in a renowned culture/arts offer and visitor attractions, and providing housing that is affordable for all.

The average house price in the region is around 30% more than the Scottish national average - £216,191 in Aberdeen and £224,805 in Aberdeenshire compared to the Scottish average price of £169,397. As well as the high cost of property ownership, private sector rentals in the area are the most expensive in Scotland an average of 34% above the Scottish average, with average rent in the Aberdeen Housing Market Area standing at £1,043, significantly above the national rent of £762.

The region, our people and business need to embrace the potential of the region and play a part in improving the quality of the place – if we fail to do so, it will deteriorate and decline.

This ambition in turn will improve the quality of life and retain and attract high quality human capital in the region and increase graduate/ research retention rates in the North East.

Due to the reliance on the oil and gas sector, the North East of Scotland, and the future place, is particularly affected by a number of global factors including the oil price, competing labour markets, transport connectivity and digital infrastructure.

Economic and Policy Environment

The North East of Scotland encompasses the local authority administrative areas of Aberdeen City and Aberdeenshire councils. It is already an economic powerhouse - the Energy Capital of Europe and the economic success story for Scotland and the UK. Aberdeen is the third largest city region in Scotland and home to 489,940 people. The region contributes substantially to both the Scottish and wider UK economy with GVA of £18bn and 284,000 jobs (2013), and it has consistently exceeded its own economic growth target of 2.5% per annum.

This has been achieved through a strong and entrepreneurial economic base, predominantly but not exclusively concentrated on the oil and gas sector.

Largely due to the revenues from the oil and gas industry, the region remains a significant contributor to the UK Exchequer. The top seven combined authorities for 'tax take per worker' last year were all in the South East of England. The Aberdeen City region is ranked

eight using this measure, which places the area above all the other Scottish city regions.

With a globally successful energy sector the region has built up knowledge and skills that are in demand across the world. The region has 415 oil and gas companies per 100,000 people, and it remains a key location for oil and gas investment. While the North Sea oil and gas sector dominates the regional economy, and accounts for much of its economic performance, there are other key industries which already contribute substantially, including the food and drink and agriculture sectors.

The figure below indicates the wide spread of employment by sector. While this indicates the large numbers of people directly employed in mining & quarrying (the category within which 'direct' oil and gas jobs would be accounted), a lot of the wider supply chain jobs in the sector are counted in the "professional, science and technical activities" category.

Employment in the North East of Scotland – By Sector

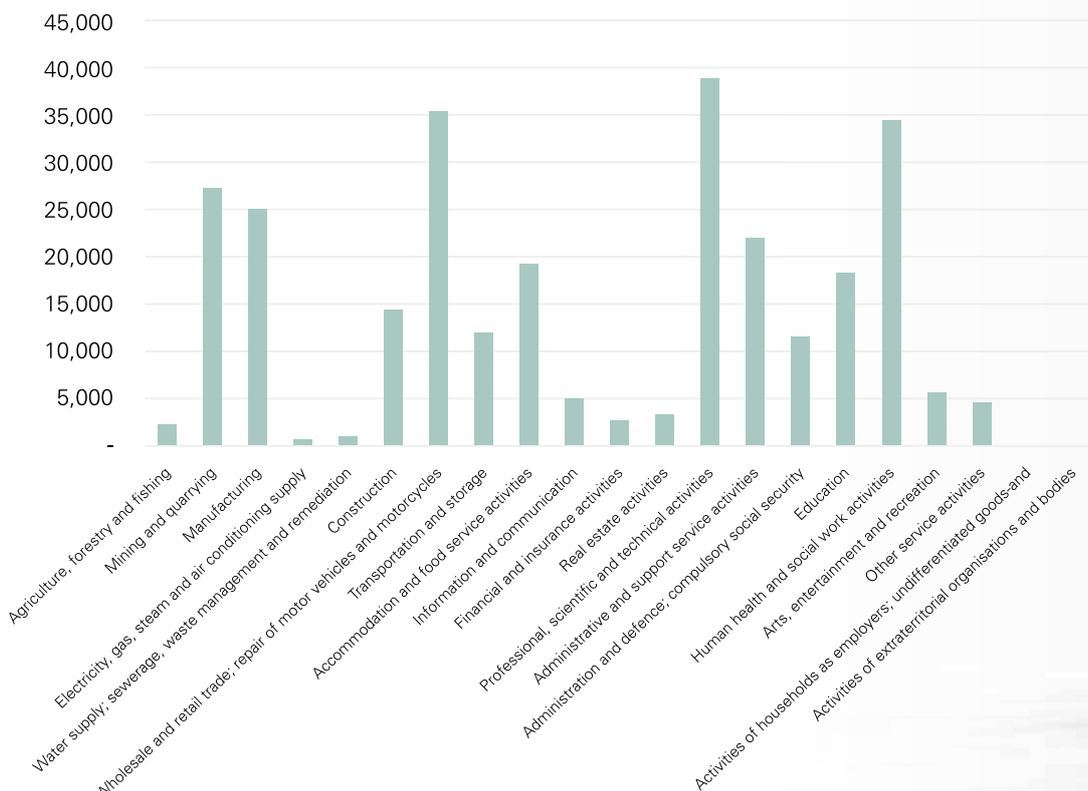


Table: How Our Economy Performs

Measure of Success	North East (Aberdeen City & Aberdeenshire)	Scotland	UK
Gross Value Added (per head)	£36,242	£21,982	£23,755
Population	489,490	5,347,600	64,596,700
Aberdeen relative to		9%	1%
2000-2014 Population Growth	11%	6%	10%
Economic Activity/Working population as %age of total population (2014)*	64.0%	61.8%	60.8%
Employment Rate (2013/14)	78.4%	72.5%	72.3%
Unemployment (2013/14)	4.7%	6.6%	6.6%
Business Starts (2013)	2,600	21,540	346,485
Business Survival Rates (2013) – 5 year	52%	44%	41%
Registered Enterprises – growth sectors (2014)**	13,165	74,440	
Registered Enterprises Growth (2008-14)	16%	4%	-1%
Population (2014)	489,490	5,347,600	64,596,752
WA Population (13/14)	313,200	3,392,000	40,235,700
Harbour Growth (2003-14, shipping movements)	31%	Data not available	-9%
Airport Growth (2003-14, passengers)	37%	Data not available	19%

Sources: *Nomis **Scottish Government – Scotland's Economic Strategy – Growth Sector statistics), ACSEF/ AGCC Databook

These data indicate that the economic contribution of the North East of Scotland is disproportionately large relative to the resident population of the region. As a result, GVA per head in 2015 (£36,242) was 65% above the average for Scotland. GVA growth has outstripped Scotland and the UK consistently since 2008.

In recent years the region has experienced a tight labour market, due to the success of the oil and gas sector. The price of a barrel of Brent crude has fallen significantly in the last year and that has led to job losses in the oil and gas sector. Historically, unemployment and inactivity rates have been significantly below Scottish and UK rates and the employment rate remains higher. However we have seen other sectors of the economy struggle to recruit and retain workers, and this has been particularly acute in public and health services.

Despite this economic success, 10% and 7% respectively of the Working Age Population in Aberdeen and Aberdeenshire's most deprived places are 'employment deprived'. While this is below the Scotland level (13%), in some multi-member ward areas, there is twice the rate of employment and income deprivation than the city average. In the 20% most deprived neighbourhoods in Aberdeen and Aberdeenshire, 20% and 15% respectively of the total population are 'income deprived' and 21% and 14% of the working age (aged 16-64) population are 'employment deprived' in the respective council areas.

In our least deprived places the corresponding rates are just under 2% and 3% in the respective areas. In the most deprived places, two-thirds of the number of people enter positive destinations compared to more affluent places, and there is significantly higher levels of crime and emergency hospital admissions.

Therefore sustaining economic growth while tackling inequality will be a major challenge for the North East. Just as this strategy is focused on maintaining the economic success to date, a key strand will be to provide those who are furthest removed from the local labour market opportunities with access to jobs and reduce the inequities between rich and poor.



Policy Context

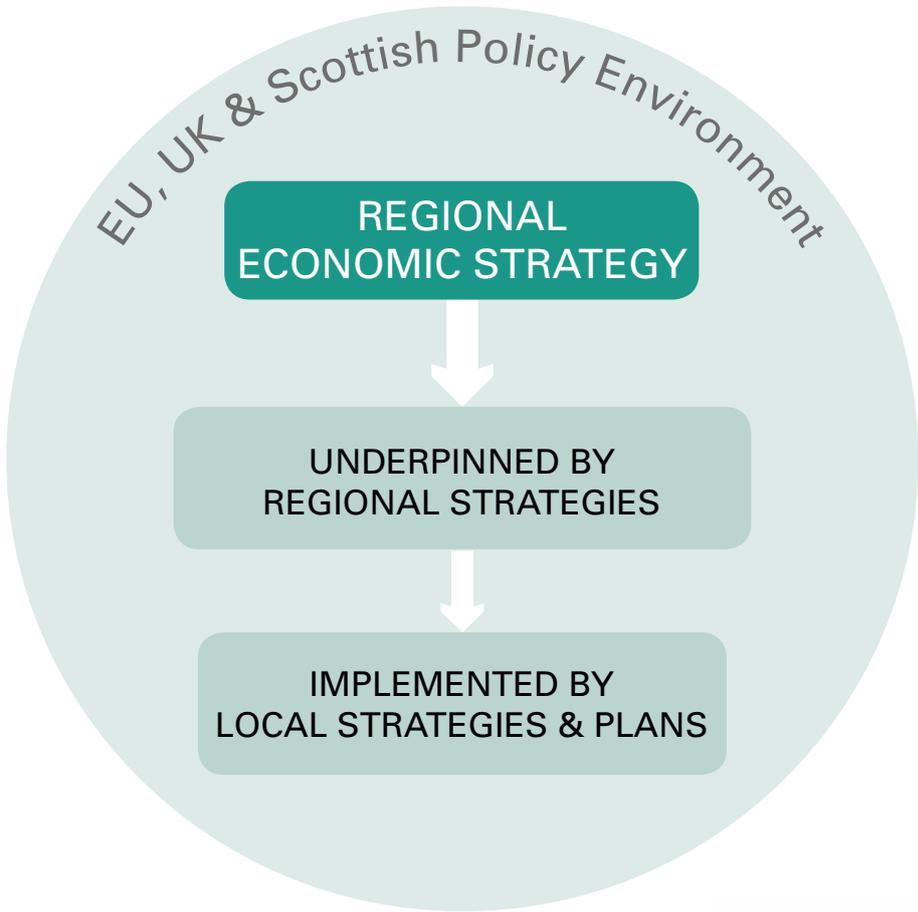
At the Scottish level, the Scottish Economic Strategy 2015 sets out a framework for the development of the Scottish economy, and Developing the Young Workforce and the International Strategy bring the economic development policy objectives together.

These national priorities are underpinned by a number of public sector plans, including a regional skills strategy, a regional transport strategy and sector strategies in food and drink and tourism, along with ambitions for City Centre and town centre regeneration. There are also development planning frameworks, as outlined in local development plans adopted by both councils and the Aberdeen City and Shire Strategic Development Plan.

In a wider context we need to ensure we mitigate against climate change emissions and adapt to impacts. There is an EU target of 20% of energy coming from renewable sources, including community and micro-renewable sources. The Scottish Government has a target of 100% of our electricity from renewables by 2020 and at least 11% of heat also coming from renewable sources.

In addition there are other relevant targets such as decarbonisation on road transport by 2050 (10% of transport fuel from renewables by 2020) and the Scottish Government's Low Carbon Economic Strategy is a key element of Scotland's Economic Strategy to secure sustainable economic growth.

Where the strategy sits



However, a major challenge for Scotland over the next decade is to improve the performance of the economy against a backdrop of continued reductions in public spending, continuing low oil prices and resulting declining North Sea activity. For the Aberdeen City region, this presents a number of fiscal challenges.

Despite the significant contribution to the UK Treasury, at an estimated £330bn in taxes since the 1970s, Aberdeen city region councils remain lower funded than other local authorities in Scotland across a number of 'per capita' measures. As a result, they have not been able to keep pace with the rapid growth in the economy and maintain the level of service provision and capital investment rightly expected in a globally competitive place and by people living, working and visiting the region.

With higher productivity levels, the Aberdeen City region generates a considerable level of employment tax and business rates and has delivered a consistently higher level of economic growth than elsewhere in Scotland. However, investment in public infrastructure has not kept pace with the rapid expansion of the region and increase in population.

Economic development delivery will be influenced by a number of policy drivers at national level including the further devolution of powers to Scotland. The Scotland Bill means the Scottish Parliament will have control over around £11bn of income tax revenues and responsibility over welfare benefits worth approximately £2.7 billion (by 2014-15 figures). More than 50% of the Scottish Parliament's budget will be funded from revenues raised in Scotland.

City Deals were put into effect by the Westminster government in 2010/11 as part of a strategy to rebalance the UK economy away from London. City Deals are premised on the notion that local authority leaders should have the tools and resources to make decisions around investments and services while taking on some risk. Consequently Aberdeen City Council and Aberdeenshire Council are currently developing a submission for a 'City Region Deal' that will seek to develop infrastructure, digital and housing plans in support of this strategy.



Key Sector Approach

This Regional Economic Strategy aims to capitalise on the foundations of our economy and focuses on developing activity in the sectors, diversifying within them and into new markets.



Oil & Gas

The UK Continental Shelf (UKCS) has benefitted from a wave of investment over many decades. This peaked at just under £15bn in 2013, and although the future is less certain due to changes in oil and gas prices, and the efficiency of production in a maturing basin, estimates of annual investment in the short term range between £4bn-£11bn. Sustaining investment during the downturn is crucial to maximising the recovery of the remaining reserves in the UK Continental Shelf and the financial value to the UK. Estimates vary from between 11bn and 22bn BOE (barrels of oil equivalent) over the next 30-40 years.

The UK supply chain, meanwhile, generated more than £39bn in sales in 2014, with £16bn to export markets. Currently it is estimated that the region supports around 370,000 jobs across the UK, with about one in four supported by the energy sector. The Scottish offshore Oil and Gas Industry Leadership Group (ILG) published an oil and gas strategy and significant progress has been made in its delivery. It highlights working with the industry to increase production efficiency in order to grow total supply chain and international sales further by 2020. Key to achieving this will be increased investment in research and development to maximise economic recovery and maintain our position as one of the world's leading centres of oil and gas expertise.

We are one of the world's leading centres of excellence initially in oil and gas exploration and field development, and now in the mature phase. The focus now is on developing smaller fields in less prospective regions, maximising the recovery from mature fields and looking at cost effective

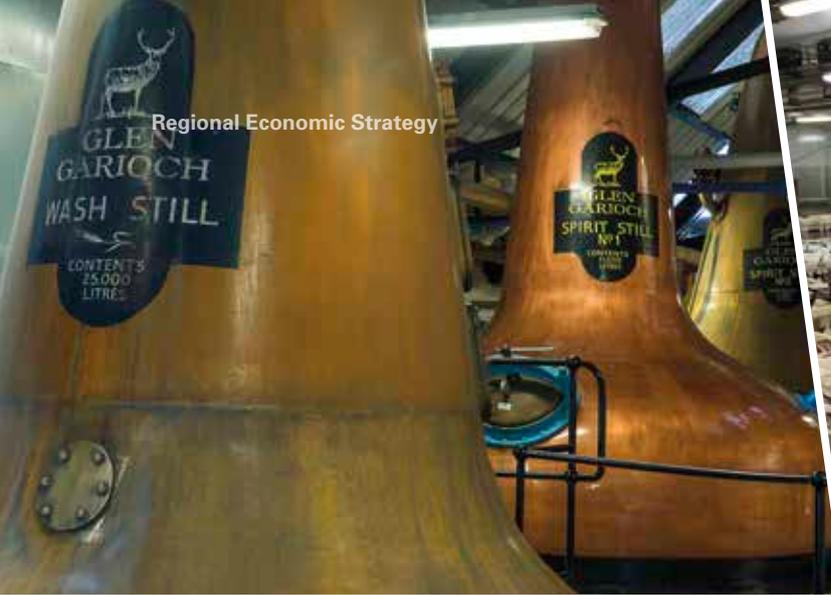
decommissioning, in this sense, Aberdeen City Region is the gateway to success in this sector for Scotland and the UK.

The success of our global supply chain will be reliant on extending the life of the UKCS and the subsequent economic impact for as long as possible while continuing to internationalise and export our expertise, innovation and technology.

The North East of Scotland has tremendous capacity for renewable energy generation but is constrained by energy storage issues and grid capacity. Further diversification into alternative energy technologies must be accelerated to complement work already being undertaken in hard to reach oil and gas reserves, hydrogen fuel cell supply chain opportunities, renewable energy and carbon capture and storage and decarbonising food production.

Decommissioning will become an increasingly significant market. Its overall value has been estimated at £46bn until 2040 and Oil and Gas UK report that over £1bn was spent last year in this area, the highest to date. Despite the recent downturn in oil prices, the aim is firstly to avoid premature cessation of production and extend field life whilst also ensuring that the decommissioning process is managed effectively and that the existing supply chain can capitalise on the value that decommissioning of projects will offer.

Although we want to avoid the risk of a 'domino' scenario where the early closure of a production facility leads to others linked to that facility closing before the end of their economic life it is clear that there will be increasing demand and opportunity for services related to decommissioning.



Food, drink and primary industries

The North East of Scotland Food & Drink sector (manufacturing, agriculture and fishing) is estimated to account for 10% of Scotland sector GVA and 14% of Scottish sector employment. The area maintains a strong production and processing base in traditional sectors such as agriculture, fisheries and forestry, underpinning significant growth in food and drink and supporting high levels of employment and GVA (Gross Value Added). Primary industries generated £2bn GVA in 2013.

Drawing upon high quality local produce from land and sea the region is home to over 3,150 food and drink processing companies, generating over £1bn in revenues and accounting for a quarter of Scotland's total food and drink exports including internationally recognised brands of whisky, beer, meat and fish products.

Extending to 518,000 ha, Aberdeenshire has been described as the largest contiguous block of arable land north of Yorkshire and is renowned for its high quality livestock and beef industry. The region produces 60% of Scotland's pigmeat. It also accounts for over 40% of Scotland's malting barley and oil seed rape and an increasing share of national soft fruit and vegetable production.

The region hosts two of Europe's largest fish landing ports – Peterhead and Fraserburgh. Landings in 2014 were valued at over £170m and £40m respectively. In turn this supports 78 seafood processing businesses in the region, including the UK's only fish canning factory and four other large scale value-adding companies generating a sectoral total of over 3,900 full time jobs - the region has overtaken Humberside as the most important centre for seafood processing in the UK.

At present, there are an estimated 16,000 jobs supported by the food and drink industry which is working to continue its expansion into new UK and international markets. Key to this is innovation and collaboration with the world-renowned local research bases at the University of Aberdeen, Robert Gordon University, the James Hutton Institute and the Rowett Institute.

At the Scottish level, the food and drink sector generated £14 billion turnover and employed around 118,000 people. The North East made a disproportionately large contribution to this, supporting 18% of employment and generating 17% of GVA despite being home to just 11% of the Scottish population. The success of the Scottish food and drink sector is therefore critically dependent on the success of the sector in the North East.

The North East of Scotland Food and Drink Strategy was developed and endorsed by industry in 2015, under which the sector will build on its strengths and focus on: expansion of non-local markets across the UK and export markets, collaboration with academia to innovate - particularly around nutrition and health - and to further develop links with local tourism and energy sectors to create additional benefits by having a distinctive food and drink proposition.

Tourism

Tourism is another key sector of our economy. The North East is home to 1,200 related companies and supports 20,000 jobs, around one in ten of Scottish tourism jobs. In 2014 1.48m tourists visited the region, with an estimated expenditure of over £400m.

The exceptional performance of the business tourism market has put substantial pressure on hotel capacity in the region. However, there has been an increase in the supply of accommodation in the last twelve months, with further developments in the pipeline.

The Aberdeen City and Shire Tourism Partnership Strategy aims to increase visitor spend from £340 million in 2013 to £440-510 million by 2020. Growing national and international leisure and business visitors

presents a huge market to build on our immediately accessible and outstanding coastal and mountain scenery, including the Cairngorm National Park, historic, arts and cultural venues, outdoor activities and sports, events, and golf. Significant opportunities exist to grow the sector including converting business visitors to leisure visitors, extending overnight stays and capitalising on the direct flights to the rest of the UK and Europe.

A Tourism Strategy for the Region was developed and adopted in 2013. Delivery of the strategy is being led by the Aberdeen City and Shire Tourism Partnership and significant changes are due in 2016, with the creation of a combined Destination Management Organisation to deliver a new marketing strategy for the whole region.



Life Sciences

The North East of Scotland has a well-established life sciences sector which has the potential to expand substantially. It supports more than 2,500 jobs in companies and academic research, and more than £160m in GVA.

The region is already home to a significant and world-class research base, incorporating the University of Aberdeen's Institute of Medical Sciences and Rowett Institute of Nutrition and Health, The Robert Gordon University School of Pharmacy and Life Sciences and NHS Grampian. 80% of the companies undertaking therapeutics in the

advanced stages of clinical trials in Scotland are also located here.

A total of 22% of Scottish employment in biotechnology R&D is in the region and the cluster has attracted research funding of almost £250million in recent years in the areas of medicine, health and biological and food sciences.

Building on this specialism, a key focus for the future is a £40m investment in the expansion of the existing biopharmaceutical hub on the Foresterhill site in Aberdeen, which could facilitate the creation and commercialisation of more new products.

Our Challenges

The competitive advantage of the North East of Scotland is a result of the exceptional rapid growth and economic success over the last 30-40 years with a high level of jobs created and wealth generated for businesses and the UK Exchequer.

This rapid growth has put significant pressure on public services and local housing and transport infrastructure. Public investment in these areas has not kept pace with the demands placed on it due to the growth in the private sector, resulting in constraints on the supply of affordable housing and relatively poor transport links and ICT infrastructure and services compared with other cities in Scotland, the UK and, international city regions and energy capitals. The high cost of living here, and a lack of affordable housing, and particularly for key workers such as teachers, police officers and NHS staff, acts as a deterrent to remaining in or moving to the region.

The 2014 Regional Skills Assessment by SDS identifies a need to increase the number and supply of people with teaching and health/social care skills and in public service delivery which will support us in meeting known

and predicted demand in the medium term. These problems mean that the North East of Scotland struggles to attract talent and retain the required skills base and expertise that other energy cities including Houston, Calgary and Stavanger are also competing for. As oil prices have declined, it is crucial the downturn does not trigger a 'domino effect' as people and businesses, and the wider supply chain, consider relocation in the next 5-10 years.

The reality here is that the public sector, including both Councils and NHS Grampian, have over the last few years been unable to recruit and retain sufficient numbers of people to cover high levels of vacancies in teaching, registered staff groups (nursing, allied health professionals, social workers), key medical, carer and social work posts, as well as ancillary roles and in the administrative and management functions.

The implications are that not only is the delivery of essential local services compromised, but our 'investor readiness' is also undermined as attractiveness of the place is reduced to businesses, investors, employers and relocating families.



Summary of the Strengths, Weaknesses, Opportunities & Threats for the North East

		Positive	Negative		
INTERNAL TO THE REGIONAL ECONOMY					
Strengths		<ul style="list-style-type: none"> • A strong skill set in applied sciences, technology and engineering • Two strong research universities • Up to the current oil price downturn, a prosperous and growing economy with low unemployment • Global excellence and cluster in energy including world-leading subsea expertise, drilling and offshore technologies • Other leading economic sectors such as life sciences, food and drink, and tourism • A dynamic, innovative and enterprising private sector with a strong export focus • A strong private sector voice and motivation to develop the region • Excellent quality of life, environment and some attractions • Strong economic contributor to Scotland/UK • High number of registered businesses and start-ups • Agriculture and primary industries (malting, brewing, distilling etc) • Student Population 	<ul style="list-style-type: none"> • Economic dominance of the oil and gas sector and difficulty in attracting skilled workers in other sectors • A historic deficit in infrastructure • Poor connectivity to markets • Inadequate digital infrastructure and high cost of connections • Prohibitively high cost of housing and lack of affordable housing • High cost of doing business in the city and beyond • Lack of awareness outside the area of the opportunities and quality of life on offer • Vibrancy and image of city centre and some towns make it harder to attract people to live and work here 	Weaknesses	
	Opportunities		<ul style="list-style-type: none"> • A strong private sector voice and motivation to develop the region • New technologies and tradable services will come out of expertise in harsh subsea environments • Up to 22bn barrels of oil equivalent potentially recoverable in the UK Continental Shelf • Global future for oil and gas exploration and production and decommissioning • Potential job growth in wind, wave and tidal, biomass, geothermal, hydro and photovoltaic energy generation and low carbon technologies • Developing world leading technology centres of excellence in oil and gas and expertise in energy and energy-related disciplines • Further growing our exports/internationalisation • Planned investment (e.g. new conference centre, Aberdeen harbour development, new major by-pass) • Realising the potential of the Aberdeen city centre (masterplan delivery) and Peterhead, Fraserburgh, Banff and Macduff regeneration • Investment via City Region Deal • Growth in Food, Drink & Agriculture, Life Sciences and International & national Tourism • Growth in key sectors, finance and business services and creative industries • Realising the potential of Energetica • Growth of alternative energy and other emerging technologies • Shortening journey times in and out of region 		<ul style="list-style-type: none"> • Population – critical mass • High operating costs in the North Sea basin • Skills, expertise and employment leaving the region as UKCS production declines in longer term • Perceptions of remoteness • Failure to embrace and deliver Wood Review recommendations • Cost and availability of housing contributes to labour shortages • Intense global competition from other energy cities • Other locations innovating in new and growing sectors as we focus on oil and gas • Costs of providing health & social care • Ageing population trends • Poor digital connectivity • Stranded assets from global repositioning of oil and gas exploration in order to reduce climate risks • Flood risk of critical national infrastructure and inability to deliver services to customers as a result of extreme weather events • Reduction in access to EU funding for primary industries
EXTERNAL TO THE REGIONAL ECONOMY					
		Positive	Negative		

We are now faced with an opportunity to consolidate and grow the economic success that the North East of Scotland has delivered over recent decades and to change how the region functions in the decades ahead. Alongside this, there is the opportunity to contribute significantly to the UK and Scottish Economy by maximising the potential of Offshore Oil & Gas Technology Centre opportunities and the recovery of our oil and gas reserves.

Our economic planning is based on two scenarios:

The Museum Scenario

Under this scenario there is a faster run down in the oil and gas sector. We will only recover towards the 11 billion boe lower estimate with significant implications for the UK economy balance of payments through a failure to discover and produce new fields and recover UKCS reserves, and a domino effect as Aberdeen's international base status and global profile deteriorates. Divestment from oil and gas is accelerated as existing estimates of reserves are stranded. This is exacerbated by a lack of investment in infrastructure to both enhance the competitiveness of our key economic sectors and R&D but also facilitate diversification into new areas and retain skills and expertise in the North East of Scotland. As a result, the region will experience significantly higher unemployment and out-migration of people and business, and experience a physical deterioration of our city and towns.

The Renaissance Scenario

Under this scenario, the region has maximised the economic recovery of the UK resource, extending North Sea and Atlantic oil production and secured Aberdeen's long term international position as an oil and gas centre for technology development and global operations.

Collaborative and innovative investment will help develop the region's infrastructure and housing capacity to attract a broader labour supply. The region becomes an even more appealing place, attracting international business and expertise, and maintains and enhances its economic impact on the Scottish and UK economies.

The region has broadened its economy. Having secured the transfer of knowledge, intellectual assets and expertise into other sectors including energy (renewables), tourism, food, drink and agriculture, life sciences and the creative sector, and retained the global talent in the North East, we are more resilient to the shocks from oil and gas.

At the same time we have significantly improved employment and income levels in more deprived places in the region, improved our city centre environment, and regenerated towns, ensuring sustained economic performance is more evenly distributed.

This Strategy focuses on continuing the development of the region as an Energy Capital of Europe, and a plan to prevent a museum scenario and a significant loss of jobs to Scotland and the UK in 30-40 years. Our vision seeks to maximise the opportunities from the renaissance scenario and outlines our plans to sustain, diversify and grow our regional economic base and achieve an equitable distribution of economic success.



Our Vision

Based on the evidence from the previous analysis, this Strategy will provide a plan for investment in the economic development of the Aberdeen area up to 2035. Our vision is that:

Aberdeen City and Aberdeenshire will be known globally as having a strategic advantage from oil and gas and related industries in the UK, Scotland and the region.

In the short-term, we will have maximised economic recovery and stimulated exploration activity in the UKCS, underpinned by world-class innovation and technology development and improvements to our infrastructure.

We will capitalise on our natural heritage and quality of life, and broaden our economic base by growing and developing our food and drink, agriculture and fishing, tourism, life sciences, business, financial and professional services, creative industries and new energy technologies.

So that in the longer term, we will have sustained and secured the well-being of the city, region and its people, delivering a more balanced and resilient economy and achieved inclusive economic growth that benefits all.



Key Programmes – Achieving our Vision

The strategy is not just the economic strategy for the region, it is a 20-year plan to deliver a range of activities that maintain and grow our economy. There are four programme areas under which we have developed a number of key interventions:

- A. Investment in Infrastructure
- B. Innovation
- C. Inclusive Economic Growth
- D. Internationalisation

A. Investment in Infrastructure –

The North East of Scotland is a robust and resilient economy providing a vibrant built environment and attractive place for residents, students, business and tourists

Current Position

The economic success story of the North East of Scotland has occurred despite declining physical infrastructure. Transportation and digital connectivity, as well as utilities infrastructure, all have a major bearing on our future international competitiveness.

The oil and gas industry consistently reports that if it is to overcome problems of operating in a mature basin in a very high cost environment, and to compete internationally in a period of declining oil prices, solutions to these infrastructure challenges need to be prioritised.

This is compounded by the above-average population and business growth, and the resulting traffic flows – on road/ rail, through Aberdeen International Airport and at Aberdeen and Peterhead Harbours.

Simply put, the future economic development of the region depends on investment in infrastructure – it is critical to attract inward investment and recruit and retain talent in an increasingly competitive and internationally mobile labour market.

While some progress has been made (such as the construction of the Aberdeen Western Peripheral Route), better road, rail, sea and air connections across the region are needed to improve accessibility and reduce congestion. Upgrades in these areas would also impact significantly on the cost of doing business in the area, as would a vastly improved and competitive ICT infrastructure fit for 21st century economic development.

In its 2015 Cities Factbook, the Centre for Cities ranks 63 UK cities across a number

of performance measures including digital connectivity. Looking at the proportion of postcodes with superfast broadband access, at 55%, the Aberdeen city region is ranked 61st. The productivity of our key sectors and businesses is influenced by digital connectivity both on and offshore and it is crucial that this infrastructure is also overhauled.

Improvements here will also help to attract people to live and work in the North East of Scotland and incentivise those who are based here for educational purposes to remain. Around Aberdeen International Airport, a new link road between the A96/AWPR and the access to the airport is under construction with completion currently projected for the autumn of 2016. This three lane dual carriageway will improve access to the airport and will be complemented with the construction of a new 1,000 space Park and Choose facility supporting sustainable transport movements on this strategic development corridor which links Aberdeen to Inverness on this trunk route.

Investment in infrastructure will also help to solve other issues that are constraining economic development. If we are to free up the required housing and business land, investment in the regional utilities infrastructure - and in particular water, gas and electricity supply has to be a priority.

Aberdeen City Council through its Strategic Infrastructure Plan, and Aberdeenshire Council through its Capital Programmes have prioritised affordable housing, digital and transport connectivity infrastructure improvements and regeneration.

Our Objectives:

- To regenerate our city centre and towns to become vibrant and attractive places to live, work and invest in;
- To unlock development potential and connectivity to international markets and allow the UK to maximise economic recovery while improving quality of life and attracting and retaining talent in the region;
- To develop infrastructure for commuter, visitor and freight transportation – nationally and internationally;
- To improve deployment of low carbon transport in the city and urban areas, through active travel networks;
- To modernise our utilities infrastructure to support the economic growth ambitions;
- To provide business and public sector organisations with a level playing field in current and next generation information and communications technology;
- To improve access to/ around Aberdeen International Airport;
- To enable Aberdeen to realise the development opportunities in the City Centre Masterplan and beyond
- To regenerate our northern towns and overcome rural peripherality.

In response, we will:

i. Submit a City Region Deal to the UK and Scottish Governments to fast track development of infrastructure	ii. Develop an Investment Plan that looks at how alternative financial models which can be used to invest in/deliver regional priorities of housing, broadband, etc.
iii. Form a Strategic Utilities Group that coordinates and plans investment in the region's utilities infrastructure	iv. Informed by assessment of 'cross-city connections', prioritise development of those transport and other intervention areas in the Aberdeen City Centre Masterplan that deliver the biggest economic impact
v. Develop a plan to incentivise bringing underused space above shops and long term empty retail units into residential use in our town centres	vi. Prioritise the feasibility and appraisal of A96 Corridor Improvements and other key arteries
vii. Regeneration of a 2Ha in East Tullos exploring delivery of a potential £150m energy from waste facility in 2021 to supports low carbon power targets and development of new process industries in the region.	viii. Ensure all procurement includes supplier engagement activity so that our businesses are aware of all potential opportunities to tender for projects
ix. Support the findings of the A90 all-modes transport study and develop proposals to improve transport connections between Aberdeen, Peterhead and Fraserburgh	x. Ensure that there is land and infrastructure available to support and grow decommissioning and Carbon Capture and Storage industries
xi. Work with the new EU & National Funding programmes to access opportunities under its Low Carbon Infrastructure Transition Programme to increase the level of renewable energy infrastructure	xii. Secure significant improvements in the city's green / active travel (walking, cycling) network
xiii. Implement the Regeneration Strategy for the four Northern towns of Aberdeenshire – Fraserburgh, Peterhead, Banff and Macduff	xiv. Ensure businesses in the region have access to a variety of immediately available and affordable premises (commercial, industrial sites, incubation) and new use of existing brownfield

B. Innovation –

The North East of Scotland has a reputation for enterprise, innovation and world class solutions

Current Position

The region's success in oil and gas has relied on world-class innovation. The UKCS is one of the most mature offshore basins in the world, and, as such, is at the frontier of new techniques in production in challenging subsea environments. Regardless of the recent downturn in oil prices, operators and suppliers face continuing challenges as pools are generally smaller, and more expensive to explore and produce from. But as new discoveries are made and exploration has extended the life of the UKCS, it is important that the region provides the best onshore facilities and support for the development of these skills.

The status quo is not an option as North Sea fields mature, with investment required to maximise the economic recovery of remaining reserves and consolidate the North East Region as a global centre of expertise in oil and gas. The region must plan in the long term for reduced production from the UKCS and the impact on our domestic supply chain. In the short-medium term we must continue to develop and grow our sales in our international markets.

R&D, development of advanced technologies and the supporting innovation

infrastructure within industry and the two universities will underpin the potential of exploration, development and production, the future decommissioning market, and the international export of these skills and expertise.

Building on our expertise in energy technology, a significant opportunity exists for the North East of Scotland to become a leading European region in the early deployment of hydrogen fuel cell vehicles, as well as becoming the hub for hydrogen technologies in Scotland. Today the city boasts Europe's largest fuel cell bus fleet and Scotland's first facility for hydrogen production and has developed a regional strategy to support these activities, in line with national low carbon economy.

The availability of people with advanced skills that support innovation is an important asset from which to pursue our economic priorities – the two universities and the North East of Scotland College will support the innovation agenda through the continuing development, on a demand-led basis, of courses and programmes that strengthen the capacity for high value R&D and the creation and retention of skills-intensive jobs.



Our Objectives:

- To develop the technology essential to achieve MER;
- To access the maximum estimate of 22bn boe recovery through MER in the UKCS;
- To enhance the transformation of our position as a major offshore operations centre in oil and gas to an international innovation and technology base;
- To accelerate this transition to a more balanced economy by maximising new technologies and growing clusters within oil and gas industry (for example, small pool development, well construction, asset integrity and decommissioning), the wider energy sector, and also food, drink and agriculture, health and life sciences;
- To provide the R&D infrastructure to support development of these advanced technologies and innovation in other sectors by strengthening the interaction between research and business;
- To maximise the potential of hydrogen, energy from waste and other renewables technologies to develop a medium-long terms demand for the transferable skills in the oil and gas sector;
- To provide business and innovation support to entrepreneurs/ business start-ups and existing businesses, and support access to capital;
- To increase the diversity of funding options through an increase in accessibility of international investment (eg, Venture Capital, loans funds, 'business angel').

In response, we will:

i. Deliver an Oil and Gas Technology Centre to address the technical challenges and extends the life of the UKCS by strengthening interaction between the research and innovation players and business	ii. Develop an Oil & Gas Energy & Learning Teaching Centre of Expertise
iii. Develop the existing Biopharmaceutical Hub that would provide R&D infrastructure for creation and commercialisation of products	iv. Develop an Agri Food & Innovation Hub that provides R&D infrastructure and expertise for regional primary producers, processors and manufacturers
v. Develop a Big Data Science Lab devoted to complex research to support industrial and government decision making	vi. Provide access to finance through the SE Innovation Support, Business Angel Venture Capital and/ or Scottish Local Authorities Loan Fund in Aberdeen City and Aberdeenshire.
vii. Deliver the supply chain development activities in the Renewables/Hydrogen Action Plan and its focus on developing these emerging fuel cell technologies	viii. Deliver Aberdeen's Sustainable Energy Action Plan (commitment to reduce emissions and promote alternative energy technologies through regional collaboration with and across all sectors) and extend to Aberdeenshire, Moray and Angus

C. Inclusive Economic Growth –

A skilled workforce for the future that provides opportunities for all our people and a skills system that delivers the economic vision for the North East of Scotland. Barriers to employability and jobs are lowered

Current Position

The North East of Scotland has consistently performed above Scottish and UK levels of economic growth, working-age population growth and wages. It has the greatest projected growth of Scotland's strategic development plan areas with a forecast 35% increase in households to 2035. While the high wages and salaries on offer in the oil and gas sector have attracted people into the region, this has caused recruitment challenges in other sectors, while a lack of affordable housing and income inequalities has led to people living away from key employment centres in the city and larger towns. This in itself puts further pressure on local transport networks, and compromises

the vibrancy of our urban centres. At the same time, the spine of the regional economy, the global supply chains around oil and gas, food and drink and agriculture, the attractiveness of our universities to students and researchers and non-business tourism growth all rely on that vibrant environment.

Access to housing has meant that certain groups of people have been unable to benefit from the region's economic success, and for those in lower paid careers it is not an attractive proposition. This is compounded by pockets of employment and income deprivation across the region with some communities becoming removed from accessing jobs.

Our Objectives:

- To develop the people and skills necessary to deliver the economic development of the region and as a result to support diversification of businesses and economy;
- To ensure that the North East of Scotland is a great place to be – as a visitor, worker, entrepreneur or resident;
- To significantly improve the city centre and enhance leisure and recreation facilities and regenerate our towns and communities, ensuring a vibrant rural economy;
- To attract the best possible range of incoming exhibitions and showcase the city and region's internationally recognised arts and culture offer.
- To invest in our workforce, particularly our young people, develop our future workforce and ensure all of our people benefit from economic activity
- To ensure there is access for all employers to qualified labour;
- To maximise growth opportunities that capitalise on outstanding assets in golf; nature, culture and heritage and support growth of our indigenous industries;
- To ensure housing that is affordable, across markets, is widely available, and in particular to support vital key workers in the education, care and health sectors;
- To empower communities to help themselves by working with the Third Sector.

In response, we will:

i. Develop a regional housing strategy and action plan that matches demand to supply of housing and different pricing mechanisms	ii. Consider viability of expanding Places for People a joint venture model to deliver 'private rented sector' homes regionally
iii. Implement Developing the Young Workforce - working with training providers, schools, colleges, universities and business, strengthening vocational skills attainment levels and encouraging more apprenticeships	iv. Address skills shortages in key sectors including public services and health sectors as identified in the Regional Skills Strategy
v. By investing in our schools, we are investing in the region's economic growth delivering high attainment levels and positive destinations for our young people and providing a future supply of skills for employers, inward investors and future entrepreneurs	vi. Working with the Employers Training Forum, embed the use of targeted recruitment and training clauses in our procurement strategies to ensure those areas with higher levels of economic inactivity can access skills/ training opportunities from public sector investments
vii. Deliver £2.2m ESF Employability Pipeline Project to increase economic activity through training and work experience placement	viii. Increase the take up of SE support to businesses and grow the number of account managed companies based in the region
ix. Delivery of Business Gateway to provide business start-up and development support, that is available to all businesses (including social enterprise in key health and social care sector)	x. Support the implementation of the 2015 North East Fish Processing Study to safeguard fisheries sectors as a landing and processing hub for the UK
xi. Support implementation of key actions from the emerging/ existing industry-led sector strategies for oil & gas, food & drink, tourism and life sciences	xii. Support the promotion and marketing of the place through the emerging proposals for a regional DMO
xiii. Develop an iconic tourism attractions to capitalise on non-business tourism and leisure markets and stimulates diverse culture, creative offerings of a national and international standard	xiv. Develop and implement the Regeneration Plans for Tillydrone, Middlefield, Northfield and Torry (in Aberdeen City), and the towns of Peterhead, Fraserburgh, Macduff and Banff to support inclusion, sustainability and entrepreneurship, building on the Sistema Programme
xv. Deliver a £30m refurbishment of Aberdeen Art Gallery in 2017	xvi. Lobby for and access EU structural funds and ensure delivery of the LEADER and European Fisheries Fund local development projects, including fish processing
xvii. Continue to support the development of the Energetica corridor as a location to invest, work, and live in	xviii. Help communities to support themselves by developing successful community enterprise and not for profit companies

D. Internationalisation –

The North East of Scotland is a location of choice for investment, high value business activity and skills

Current Position

Internationalisation supports growth, innovation and productivity and is a key characteristic of successful regional economies. Internationalisation is already at the heart of the Aberdeen City Region, and is actually a driving force for the internationalisation strategy for the whole of Scotland. It has a long and successful history of exporting goods, expertise and talented people as well as being the home for large scale and sustained investment in sectors such as food and drink and oil and gas and energy. We want to build on our track record as one of the most international regions in the UK.

There is an estimated 1.2 trillion boe to be developed across the world in the next 20 years which provides a continuing opportunity for export-oriented growth in the sector. By anchoring an international supply chain in Aberdeen and the North East of Scotland, as North Sea oil winds down, our role as an international oil base continues.

Capitalising on this solid foundation remains a key priority and at the same time we aim to significantly build up our reputation as an internationally-attractive oil and gas technology base. As well as trade in goods and services, our ambition is to expand collaborative international activity in research and development and innovation and supporting skills.

This Strategy highlights the importance of maintaining these global connections and growing the trade and investment links to those countries and regions that provide meaningful benefits to businesses operating in key sectors of the North East economy. The aspiration to broaden the economic base, and transition the economy into new areas and markets is predicated on maintaining success in international markets and identifying new trade opportunities so that the region retains its international competitiveness.



Our Objectives:

- To improve the attractiveness for international trade and investment;
- To attract global talent to support the growing research in our universities and research institutes and attract international students;
- To support companies in the oil and gas supply chain to internationalise in key global markets;
- To support companies in all key sectors to identify market opportunities and develop products and services to grow sales in international markets;
- To collaborate with UK and Scottish agencies and business in prioritising international business support ensuring that businesses benefit from international trade and investment opportunities;
- To strengthen the region's network of international relationships and partnerships to attract EU funds in areas of research and policy that support economic growth.

In response, we will:

i. Support the development of our ports and harbours (Aberdeen, Peterhead, Fraserburgh and Macduff) and the Aberdeen Harbour expansion	ii. Work with Aberdeen International Airport in supporting its development plans
iii. Support NESTG (North East of Scotland Trade Group) to develop and enhance international trade and investment support	iv. Develop an International Events Strategy for the region targeting international, UK and regional events and support
v. Explore feasibility of securing a UKTI/ SDI Oil and Gas presence in the region	vi. Maximise the opportunity from Offshore Europe 2017 and 2019 and develop a programme of ancillary activity that broadens the appeal of the region to a global audience
vii. Provide internationalisation support to businesses in existing priority and new markets linking existing innovation and R&D capability, in both the private sector and academia	viii. Support the promotion and marketing of the place through the emerging proposals for a regional DMO
ix. Promote the 'investor readiness' of the region to international institutional investors/ sovereign wealth funds	x. Develop the £330m new Aberdeen Exhibition and Conference Centre to anchor existing international events and compete nationally and internationally for new events
xi. Lobby and participate in key international, EU and national networks that can support delivery of our economic priorities	

Leadership

Successful delivery of the Regional Economic Strategy can only be assured if each of the elements of the strategy are implemented, and in a coordinated way. This will require strong, effective leadership and governance across the public and private sectors.

Aberdeen City Council and Aberdeenshire Council will work with Opportunity North East (ONE), a new private sector led economic leadership initiative, and Scottish Enterprise to develop and update this strategy and implement growth in ONE's four sector initiatives – oil & gas; food, drink and agriculture; life sciences and tourism (providing funding and support for the new Aberdeen and Aberdeenshire DMO). ONE will also act as the Regional Advisory Board and Economic Forum for Aberdeen City Council, Aberdeenshire Council and Scottish Enterprise.

A new Coordination Group comprising representatives of Aberdeen City Council, Aberdeenshire Council, ONE, SE, Skills Development Scotland, VisitScotland and other public and third sector agencies as appropriate will coordinate the communications, action plans and resources in support of the delivery of this economic strategy, as well as inputting to the respective Community Planning Partnerships in both Council areas.

This Group will also monitor progress towards the strategy objectives as follows:

- Tracking the performance of the North East of Scotland economy against the benchmark outcome measures used by the Scottish Government and SLAED (Scottish Local Authorities Economic Development).
- Tracking the performance of activities and projects against appropriate output and intermediate outcome measures used by SLAED and the public sector partners.
- Consulting with businesses and industry groups on the impact of changes to the economy and gauging how these are affecting business.

Next Steps

Our next steps are to develop Action Plans to deliver each of the Programme Area objectives highlighting the organisations and partnerships contributing to delivery – the stakeholders, enabling organisations, timescale, with clear measures and target output and outcome measures.

Measuring Our Performance

Aberdeen City Council will accommodate a 'regional observatory' that will act as a resource for the North East of Scotland to provide up-to-date evidence to inform both delivery and decision-making. This will be a partnership resource to develop a dashboard to monitor performance of the City and regional economy and the impact of the interventions being delivered through this Strategy. Indicative measures are provided below.

Programme Area	Measure
Investment in Infrastructure	<ul style="list-style-type: none"> - Supply of available employment land - House building starts/completions - Travel – journey times/modal shift - Air/Shipping/ Rail movements - Commuting flows - Population change, age distribution, migration flows - Green space (% of urban greenspace) - Flooding impact - Air quality - Waste (landfill, recycling, energy from waste) - Carbon emissions
Innovation	<ul style="list-style-type: none"> - Business Stock levels - Business Start Up Levels (birth & survival) - Business Gateway Start Up and Growth data - Business Expenditure on R&D - 'Centre of Excellence Specialisms' eg OGTC - Key sector jobs, Turnover, GVA - Educational attainment rates - Vocational qualification attainment rates - Patent registrations - Sector Turnover and exports - SE Account Managed Companies
Inclusive Economic Growth	<ul style="list-style-type: none"> - GVA/ per fte - Regional employment rate - Employment by sector - Average Wages - Qualification Profiles of the Workforce - School Leaver Destination data - Student FE/HE numbers - Unemployment – LFS; JSA (and youth and target groups) - Graduate retention in emerging/desired sectors - Reduction in pay gap between richest and poorest/% increase in people paid living wage (income and employment deprivation) - Life expectancy rates and gaps - Housing affordability – purchase and rental prices - Commercial rents/occupancy - Rate of youth unemployment to WA unemployment - MA (Modern Apprenticeships at level 3 or above) - Uptake of wider achievement opportunities by school leavers
Internationalisation	<ul style="list-style-type: none"> - Exports - FDI - Institutional Investment - Tourism volumes/spend - Air passenger volumes - Students in FE/HE - Shipping movements at key ports - Rail passengers - % of post codes with access to superfast broadband - SE Account Managed Companies

