

## THE SCOTTISH DEVELOPMENT AGENCY

Dr LEWIS ROBERTSON,  
Deputy Chairman and Chief Executive, SDA

The Scottish Development Agency was established in 1975 under the Scottish Development Agency Act. It has now completed its first full year of operation, and it is opportune to review its purposes, powers, position and potential in the economic and broader life of Scotland.

The Agency is appointed by the Secretary of State for Scotland and responsibility to him; its sponsoring department is the Scottish Economic Planning Department.<sup>1</sup> The Agency consists of a part-time Chairman, a full-time Deputy Chairman who is also Chief Executive, and nine other members, all part-time, drawn from industry, finance, local government and the trades unions.

The Agency's essential purposes are to further economic development; provide, maintain and safeguard employment; promote industrial efficiency and international competitiveness and support environmental improvement — this last particularly in areas of industrial and urban dereliction. For these purposes it has broad powers and substantial resources. The Act provides the sum of £200 million, which may with the agreement of Parliament be increased to £300 million. It is expected that this will be spent over approximately five years. When the money provided by the Act is exhausted, it is likely that further sums will be made available by new legislation, provided that the Agency has demonstrated its usefulness.

The functions by which the Agency is to implement its purposes are partly inherited and partly new. At its inception the Agency absorbed three existing bodies, the activities of which are continued within the Agency, though in each case the Agency has broader scope and powers. The largest of these was the Scottish Industrial Estates Corporation, which had for many years built Government factories in Scotland. As the Corporation's heir, the Agency at once became the largest

industrial landlord in the country, with some twenty-five million square feet of factory space. The second of the pre-existing organisations was the Small Industries Council for the Rural Areas of Scotland (SICRAS) which, like the Industrial Estates Corporation, had an established place in Government regional policy, fostering the development of small businesses in rural areas, in villages and small towns. And the third component was the section of the Scottish Development Department which had been responsible for administering grants to local authorities for the purpose of derelict land clearance, and which, in the Agency, is expanding as a Land Renewal Unit with wider functions.

To these inherited activities were added major new tasks: investment in industry — not only in terms of money, but also by way of advisory services and management improvement; industrial promotion — particularly the attraction of inward investment; and the undertaking or co-ordination of major comprehensive urban development schemes.

At first glance it may not be obvious that these various functions should be combined in one body. In particular, it is arguable (and has from time to time been argued) that the Land Renewal and the related Urban Renewal functions do not necessarily harmonise with the more clearly industry-related functions of industrial investment and factory building. There is, however, a substantial and respectable case for arguing that environmental improvement has an important part to play in attracting and keeping industry and that the landscape and townscape of the older industrial parts of Scotland are so blighted as to deter people and firms from working in them; and this argument has prevailed. The Agency could, it was felt, by bringing together there various functions, concentrate more intently upon the tasks of industrial investment and economic development, of job creation and retention, and on a general uplift of Scottish industrial capability, strength and quality. And experience so far supports the view that these at first sight disparate functions have been rightly brought together to achieve a unified approach.

Each of the Agency's main lines of action is important in its own way. That they are of equal importance is illustrated by the expectation that expenditure respectively on industrial investment, on factory building and on land renewal will be of approximately the same order of magnitude. That said, the function

which is at once potentially the most creative, and possibly the most contentious, is that of industrial investment. It is useful, therefore, to consider this task first and at greatest length though one must remember that it takes place against a continuing background of other activity.

The work of the Agency in making industrial investments has to be related and keyed to the needs of Scottish industry. Some of these are obvious, and are generally recognised; some are more specialised, and less well known, but are not thereby less important.

Scotland has some vigorous and efficient firms in technologically advanced industry but relative to the United Kingdom as a whole, it has a disproportionate share of older industries, some of which are in static and some in declining markets. So we need to improve the balance, and increase the proportion of modern, often science based, industries. Yet we also need to recognise that many of the traditional industries will continue for years to come to play an important part in the Scottish economy, and a vital part in the life of particular areas of the country. We need therefore to strengthen and modernise such industries and help them to improve their share of world markets.

Just as Scotland has somewhat less than its share of modern industry, so it has somewhat less than its due proportion of indigenous industry, of companies whose ownership and management are Scottish-based. The plants or companies that are controlled from bases elsewhere in the United Kingdom or abroad have contributed a great deal to the Scottish economy in employment, in technological advance and in the cultivation of new skills. There is still in Scotland ample room, in every sense, for further inward investment of this kind, and the Agency offers its buildings, its facilities and its services unreservedly to externally owned companies or plants. There are, however, strong arguments for encouraging the further development of indigenous industry and an increase in the proportion of Scottish-based companies. The arguments are not chauvinistic or political, but rest in the fact that the existence of a greater number of decision-making centres in Scotland will encourage and hold men of talent, and strengthen the total Scottish management pool. The Agency will therefore do all it can to assist and support developments that will enhance the indigenous proportion

of Scottish industry, recognising that this must be a process extending over many years.

A fundamental need is finance: it is here that the Agency is expected to help, and can do so; the cases so far examined have given a useful basis for study of the areas in need. The conclusion is that short-term borrowings are in general well provided for, chiefly by the clearing banks, and that it is equity, risk-taking capital in the broadest interpretation of the term, that is the main area of need, and on which the Agency should concentrate. This is attributable to high inflation and interest rates, to awareness of the risks associated with improper debt/equity gearing, and to the impact of high personal taxation, including Capital Transfer Tax. Existing sources meet the needs of some companies and some types of development, but by no means all. The Agency is finding a fruitful field of action in helping to meet the equity needs of Scottish industry.

It is important to stress that though the Agency is expected to give weight to social and longer-term economic considerations, especially the strengthening of employment, it is required by Government (particularly by the "Guidelines" laid down by the Secretary of State) to invest only in projects offering the prospect of long-term viability and of appropriate profit. The Agency accepts and welcomes this requirement, because it holds that long run profitability is an essential of sound business and a necessary and salutary discipline on management; it holds firm to the viability test both because it is required to do so and because it is essential to its aim of fostering sound development.

The Agency's powers of industrial investment are broad and flexible. It can give guarantees. It can make loans, upon which it must charge a commercial rate of interest, but may offer considerable adaptability of repayment and other terms. The Agency can, and this is the core investment activity, acquire share capital in companies. It is to be noted that the Agency has no powers of compulsory purchase of shares or of compulsory action of any kind in its investment capacity, and must offer facilities that respond to the wishes or needs of companies.

The Agency sees it as important that it should operate as part of a financial community, and not in isolation; and believes that in virtually every case there will be a need to co-operate with other financial institutions, particularly the clearing banks. It has been a source of much encouragement and of practical help that the banking and financial world in Scotland has re-

ponded very positively to the Agency's advent; cordial informal relations prevail, and there is ready collaboration in specific cases, many of which have been brought to the Agency by the Scottish clearing banks. Similarly, other organisations providing different types of finance for industry have shown concern to be in touch with the Agency and to work with it. There is close co-operation with other sources of Government support, including particularly the Industrial Development Division of the Scottish Economic Planning Department, which administers selective financial assistance under the Industry Acts; this is strictly subject to confidentiality clearance by the client.

The Agency's criteria reflect its purposes. The creation of employment, and derived employment, is a most important factor in considering any project; attention is focussed on jobs in the medium or longer term, and somewhat less on short term considerations; the Agency is sensitive to immediate employment problems, but believes that its industrial investment policy must look to the future, and must seek to create, safeguard or maintain employment in companies that can demonstrate viability, prospects and growth in the years to come.

But employment is not the only non-financial factor influencing the Agency. Developments offering technological benefit, or the enhancement of the general technical level of Scottish industry, can be of great interest; developments with potential for generating or enhancing derived activity and employment in other Scottish companies are valuable; the particular needs of different areas of Scotland have to be taken into account. The Agency is mindful of the importance of fostering the growth of smaller businesses, important as they are in the social context, in the economic life of small communities, and as the seedlings from which larger enterprises will grow. In its whole investment work, the Agency lays great importance on the quality of management, and on promoting its strength and development.

In the first eighteen months, about one hundred and fifty investment cases have been brought to the Agency. Many of these, especially in the first months, did not give promise of continuing viability, or in one way or another did not fit the criteria. Twenty eight have been completed or definitively committed, and another twenty five are in the assessment pipeline.\* The total finance committed is now approaching £10

\* Details are given in the table overleaf.

| Name  | Location                            | Business  | Investment   |
|---|-------------------------------------|---|--|
| Lothian Electric Machines (formerly Ranco Motors) | Haddington Livingston North Berwick | Electric Motors                                       | £1,275,000 Ordinary Shares<br>£1,250,000 Loan  |
| Thistle Knitwear                                  | Shotts                              | Knitwear  | £24,500 Redeemable Preference Shares<br>£245 Deferred Ordinary Shares                      |
| R. L. Munro                                       | Edinburgh                           | Knitwear  | £100,000 Ordinary Shares   |
| Philcom Electronics                               | Dunfermline                         | Radio/Communications Equipment                        | £6,000 Parent Ordinary Shares<br>£10 Ordinary Shares<br>£42,000 Loan                       |
| Prosper Engineering Stonefield Vehicles           | Kilmarnock Cumnock                  | Engineering Vehicle Manufacture                       | £490,000 Ordinary Shares<br>£245,000 Interest Free Loan<br>£3,000,000 Convertible Loan     |
| Highland Metals                                   | Elgin                               | Galvanising   | £27,499 Ordinary Shares<br>£67,500 Convertible Preference Shares                           |
| Triadynamics                                      | Perth                               | Specialist Nut/Bolt Manufacturers                     | £9,500 Ordinary Share<br>£40,500 Convertible Preference Shares                             |
| Clydecock   | Glasgow                             | Ship Repairs  | £35,000 Ordinary Shares<br>£65,000 Redeemable Preference Shares<br>£90,000 Loan            |
| McCrindle Tooling M.E.S.L.                        | Kilmarnock Newbridge                | Toolmakers and Engineers Components                   | £75,000 Ordinary Shares  |
| James Meikle                                      | Kirkcaldy Dysart Glasgow Cumnock    | Security Systems, Radar Components Carpet Manufacture | £200,000 Ordinary Shares<br>£300,000 Convertible Loan<br>£2,000,000 Convertible Loan Stock |
| British Carpets                                   | Kidderminster Carrongrove Peebles   | Carpet Manufacture Paper                              | £500,000 Redeemable Preference Shares<br>£500,000 Convertible Preference Shares            |
| Inveresk Group                                    | Henry Ballantyne & Son Hawick Ayr   | Paper Knitwear/Textile                                | £750,510 Ordinary Shares<br>£750,000 Loan  |
| Scofisco  | Dalkeith Glasgow Islay Tarbert      | Fish Processing                                       | £575,000 Ordinary Shares<br>£250,000 Loan  |

million. Over and above these investment division cases, there is the steady activity of the Small Business Division applied to its larger number of individually small clients, many of them supported by loans under the specific rules for that sector.

As the last paragraph implies, the Agency's investment work so far has been largely reactive, in the sense of considering and deciding upon proposals brought to it. The Agency is now into a different phase, that of innovation. This is starting from a survey of the employment needs of the various parts of Scotland, and the structural needs of different parts of Scottish industry, and of opportunities available; the Agency's Strategic Planning Unit is drawing on work already done in the Universities and elsewhere, and adding its own immediate focus. As possible developments are identified, the Agency's Industry Directorate will be able to take initiatives, either by setting up companies itself to manufacturing particular products or to provide services, or alternatively (and more probably) by approaching existing firms and discussing possible developments with them, offering financial, factory and other facilities by way of help. This ability to take the initiative is an important and novel characteristic of the Agency, for Government regional policy in Britain has hitherto been restricted to the assistance of projects formulated by industry itself. This originating action will not be easy, neither will it be quick, for it will depend above all on care and deliberate scrutiny; but the innovative role may prove to be the ultimate expression of the principles underlying the Agency.

As investments are made, they must be monitored; it would be neither proper nor sensible to invest public money without reasonable accountability. The Agency takes an active and sympathetic interest in firms in which it invests; it is careful to avoid interference in the day-to-day management of companies, which are expected to operate at arm's length from the Agency, but it stands ready to give help and guidance when required. This is sometimes to be achieved by appointing a non-executive director; such an appointment, if an interested and suitably experienced person can be found, can contribute much to a company. The non-executive director is not, however, seen as the Agency's principal monitoring channel; key indicators of progress are reported by companies on a monthly basis, and the Agency's executive watches these, ready to give advice when necessary, against a background of fully discussed long-term plans. There is a general encouragement of modernisation and re-equipment,

always provided that plans are supported by comprehensive market and other research.

The investment function is crucial to the Agency's pursuit of its purposes. It was believed, and it has been confirmed by experience, that there is in Scottish industry a great need for intelligent, critical but constructive support by way of equity capitalisation in particular. The Agency is finding very great scope, and its further studies and investigations will uncover additional important fields for this work.

In parallel with its investment function, and with converging purposes, the Agency gives careful attention to "industry promotion", that is the encouragement of development and the attraction of inward investment. This is a field assiduously cultivated by others — the New Towns, the Regions, some Districts, the Highlands and Islands Development Board, and, with a more general remit, the Scottish Council (Development and Industry). There has however not hitherto been a body with such broad responsibilities and powers as the Agency, able and expected to play a leading part in attracting inward investment; and it has been agreed with the Scottish Council that, during a two year period from April 1977, the Agency will develop and the Scottish Council will reduce responsibility for the promotion of Scotland as a whole. Care is being taken to ensure that the extra effort from the Agency is carefully directed and usefully focussed.

The Agency has also taken over from the Scottish Council the responsibility for co-ordinating the promotional activities of the various different authorities involved. The Agency will continue the effort to minimise duplication, without diminishing the efforts of local promotional bodies; the aim will be to provide an effective and attractive promotional umbrella, under and alongside which the work of the others concerned will be enhanced.

The Agency's substantial factory building task continues. Its advance and purpose-built factories represent an important aid to industrial development in Scotland. The building effort has already expanded and will continue, influenced and guided by the needs of the time. The former Scottish Industrial Estates Corporation had much experience in the design and location of factories; the Agency continues this, and brings greater financial resources and an important enlargement of powers of independent decision, both as to the placing of factories and as to the choice of tenants.

Part of the effort of the Strategic Planning Unit is being

applied to a study of the considerations that should influence the factory building programme, taking account of local needs and of the permutations of sizes and types of factories. The experience of many years has demonstrated the efficacy of an advance programme of state-owned factories in attracting and encouraging industrial development; the Agency is clear that this should continue and be strengthened and enlarged.

Responsibility for supervising and paying for the derelict land clearance programme in Scotland, formerly resting with the Scottish Development Department, has been transferred to the Agency. It is possible to take an enlarged view of suitable schemes, broadening the work within the wider compass of the Act; much is already in hand, and more remains to be done, to remove industrial dereliction and to make Scotland a better location for industry in the future. A great deal of this work is carried out in close co-operation with local authorities, some of which have contributed greatly to what has been achieved so far.

Land renewal projects differ greatly in size, in area and in nature. The Agency is dealing with — among others — the slate quarries at Ballachulish, an old colliery at Brora, redundant industrial buildings in Dundee, a riverside walkway at Govan, and the removal of landscaping of bings (slag heaps) all over central Scotland; the number of schemes already approved is approaching three hundred. The actual and potential impact of this work, both physical and psychological, is very great.

Urban renewal is a matter of general concern, and the Agency's powers are proving appropriate to the planning, implementation and co-ordination of major environmental schemes of this kind. By far the most important such scheme so far is "GEAR", the Glasgow Eastern Area Renewal scheme where the Agency has been asked to undertake the "co-ordinating management" of the work of Glasgow District Council, Strathclyde Regional Council and the Scottish Special Housing Association, along with the Agency's own factory building and land renewal functions, to produce a substantial impact on the long-enduring and hitherto intractable problems of Glasgow's East End. The principle of selecting an area to be the target for priority action by the various bodies having the power to make a real and lasting improvement, and the concept of a "co-ordinating management" exercised by the Agency, are new

features which, it is expected, will make possible a more positive approach to the revitalisation of inner urban areas.

During the Agency's first year, pursuit of its purposes went on alongside the creation of its structures and the appointment of its staffs. Those structures are now in existence, and those staffs almost all in post. Responsible to the Chief Executive are four Directors (of Industry, Finance, Environment and Urban Renewal) and three Heads of Unit (Strategic Planning, Promotion and Information, and the Secretariat). The machine is set up and running; it has already begun to make an impression on the tasks assigned to it; and its effectiveness will increase greatly in its second full year.

It has been a source of great encouragement that the Agency has met with a generally favourable response in Scotland. Press and public have increasingly understood the Agency's plans and purposes; and the industrial and financial world has co-operated particularly well. There is evidence of much goodwill towards the Agency in Scotland, and this must be maintained if the best impact is to be achieved.

Another encouraging feature, and an important one, has been the helpful attitude of Government departments and other agencies, and the care taken by Ministers to protect the Agency's operating autonomy within the guidelines set. This general atmosphere has contributed appreciably to the Agency's progress.

It is sometimes suggested that the Agency's resources are too small for its purposes. Thus far they have not been a serious constraint on action, and no worth while project has been rejected for want of funds. The Agency will continue vigorously with its work, hoping and expecting that, as it successfully meets a demonstrated and continuing need, Government will consider it right to provide further resources.

The purposes for which the Agency was created are well conceived to relate to deep and undoubted needs in Scotland and in its economy. Unemployment is too high, and for many years has run above the level of the rest of the United Kingdom. Many parts of industrial Scotland bear the wounds and scars of earlier periods of development. The balance of new to traditional industry requires to be altered. Management talent tends to drain from Scotland towards greater opportunities, and we must create a climate and a structure in which such talent will find scope for growth. These and other such issues abundantly demonstrate the need for a unified effort such as that

applied by the Agency. We encounter pressures; these are inevitable in a public body, publicly financed, on which great expectations are reposed; they are natural, they are highly stimulating and instructive, and they give a peculiar dimension of urgency and excitement to the Agency's work.

But we also have policies, policies which have been thought out, which attempt to relate to Scotland's needs. There is a long way to go; there will be difficulties from time to time; there will, no doubt, be some unsuccesses. But we have much public goodwill, respectable resources, clear tasks, reasonable independence, and strong resolve. The Agency's essential thrust will be continued; there is a very big job to be done, and we mean to go forward with it.

#### REFERENCE

1. See Appendix for summary of responsibilities of The Scottish Economic Planning Department within the Scottish Office.