



**Department for Business, Energy and
Industrial Strategy**

Consultation response

**Economic Recovery and Levelling Up
the UK**

The Scottish Council for Development and Industry (SCDI) is Scotland's Economic and Social Forum. We are an independent and inclusive economic development network representing all sectors and all geographies of the Scottish economy. Our mission is to convene our members, partners and stakeholders across the private, public and third sectors to deliver inclusive and sustainable economic growth for Scotland.

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ECONOMIC RECOVERY AND LEVELLING UP THE UK

Introduction

SCDI was delighted to be invited to join the advisory group on 'levelling up' economic performance across the UK to Alok Sharma MP, Secretary of State for Business, Energy and Industrial Strategy, at such a critical time for our economy and our society as we look to build a strong recovery from the COVID-19 crisis.

The COVID-19 pandemic has created both a public health crisis and an economic crisis. The crisis is unprecedented in its complexity. It presents significant challenges for government, employers, workers and communities. As we move from responding to the immediate challenges to recovery the importance of partnerships across public, private and third sectors, and across local, regional national boundaries, has never been greater.

SCDI members have highlighted the strengths and opportunities Scotland has before it. They remain ambitious for Scotland and believe in an economy and a society for the benefit of all. Our ambition for Scotland is to build a recovery which creates the most inclusive, sustainable and competitive economy of any small nation in the world.

The need to address the significant and long-standing challenges faced by the Scottish economy before the COVID-19 crisis is urgent and clear. Government investment and intervention must be shaped by the harsh realities of subdued growth, weak productivity, rising inequality, skills gaps, labour shortages and concerns about fair work, which are likely to be exacerbated by the crisis.

Building a strong recovery will require evidence-based policy interventions and investments by government to be delivered at pace and at scale in partnership with business, industry, academia, trade unions and workers.

Action to build back better needs to ensure we are fit for a future of technological, environmental and social disruption and transformation. It will also require a vision for clean growth which both increases prosperity and reduces emissions on Scotland's road to net-zero by 2045.

This submission reflects the reflections and priorities of our diverse membership across all sectors and all geographies of the Scottish economy on the issues on levelling up raised in the consultation.

What are the key barriers to private sector investment in Scotland?

A key barrier to business innovation, growth and scale-up in Scotland is a lack of access to patient or venture capital. We need to bridge the funding gap between an innovative idea and an investable asset to support start-ups and high-growth firms. SCDI strongly supported the creation of the Scottish National Investment Bank by the Scottish Government which will launch later this year to help Scottish businesses access the patient capital and innovation funding they need. It will be vital for the Bank to work closely with and complement the activities of the British Business Bank, the UK Industrial Strategy, InnovateUK, commercial lenders and other existing institutions or programmes in this space to crowd in private sector investment. The Bank could play a critical role in supporting Scotland's recovery by prioritising investments in high-growth, future-proof sectors, such as technological and clean growth innovation, to support Scottish products and services from invention through to commercialisation and internationalisation.

A key opportunity for Scotland is building on our successful track record of inward investment as the most attractive part of the UK outside of London to maximise job creation, productivity gains and inclusive and sustainable economic growth. Scotland is recognised as a green global leader, especially in renewable energy generation. Glasgow will be the proud host of COP26 in November 2021 with the eyes of the world upon it. Scotland needs to deepen this competitive advantage by becoming a living lab for green innovation and the home of sustainable business. Decision-making by business, industry and investors about where to locate or invest will be increasingly influenced by environmental factors as they look where emissions can be minimised or eliminated. Developing a net zero proposition for Scotland could be leveraged to attract manufacturing industries and other sectors to invest in and relocate production to Scotland.

Levels of business investment have more than halved since the beginning of the crisis. Government and the public sector will need to take the lead in generating new demand, or supporting innovation, which stimulates private sector investment and business activity. A key priority is infrastructure, which increases private sector investment through improved connectivity, productivity and quality of life, and acts as a substantial economic multiplier through the construction and manufacturing sectors and their supply chains. The UK Government and the Scottish Government should jointly identify infrastructure projects in Scotland which are 'shovel-ready' or strategically important and can be accelerated in their delivery to kick-start economic activity and boost the recovery. The UK Government, the Scottish Governments, utility regulators and the wider public sector should adopt a new approach to valuing investment in infrastructure and the built environment across the full life cycle of the asset which takes full account of its social value and natural value as well as its financial value and economic value.

Other priority areas should be low- and zero-carbon transport infrastructure such as active travel, particularly in urban areas, and digital connectivity, particularly in rural communities. Increased investment in active travel infrastructure is required to stimulate modal shift, restart key sectors of the economy and reopen key parts of our towns and cities. Active travel brings the advantage of facilitating social distancing during commuting, shopping or socialising for the foreseeable future as lockdown eases. There is scope to capitalise on rapid, temporary interventions by making them permanent to lock-in behaviour change and reduce car travel and wider transport emissions. Nevertheless, a number of ongoing or potential road improvements projects are particularly critical for connectivity and road safety in Scotland's rural communities, such as A96 dualling, A9 dualling and a potential A77 upgrade. Agreed funding for City Region Deals and Growth Deals should also be released quickly. Deals still in negotiations should be accelerated with a focus on economic resilience and recovery in the context of COVID-19 and our net-zero ambitions.

In April, with all non-essential workplaces closed down, nearly half of Scotland's workforce was working from home, up from just 4% in January. Scotland's workforce proved to be highly adaptable and resilient in the face of unprecedented disruption. The way we work and learn may never be the same again, at least for the foreseeable future as social distancing measures remain. It is unlikely that we will return to a world where 'the 9-to-5' in a physical office space is as dominant in our working lives. More people will work or learn from home more often, commuting or traveling for work less often and communicating or collaborating with technology more readily. We will move to a hybrid online-offline model of working and learning. The transition to this hybrid model of work will require significant further investment in our digital infrastructure across Scotland, which has been put under pressure in some areas due to the level of demand from an unprecedentedly large workforce of remote workers.

This is particularly true in many rural communities, for whom digital connectivity is now more important than ever and will be a key lifeline to recovery in protecting jobs and improving

productivity. SCDI's Rural Commission report – *An Economy for All of Scotland: Harnessing Our Potential for Everyone, Everywhere (2019)* – highlighted the distinct needs of rural employers, workers and communities in relation to infrastructure. Prioritising the rollout of physical digital infrastructure to the hardest to reach communities and tackling mobile not-spots would help reduce the gap between urban and rural Scotland, creating jobs and boosting economic activity in some of the worst-affected, tourism-dependent areas of the country.

Another key barrier to private sector investment in Scotland is continued uncertainty around the UK's future relationship with the EU. Business needs clarity and reassurance. The future relationship between the UK and the EU, including the terms of a new trading relationship, needs to be agreed, ratified and implemented before 31 December 2020 to prevent a highly disruptive exit on WTO terms. This create significantly higher costs and longer timelines for the inward and outward flow of goods, services, capital and people. Preparing for and managing the transition to a new relationship or to WTO terms will be extremely challenging for most businesses and organisations in the midst of a global pandemic. It would seriously undermine Scotland's recovery and threaten jobs in some of our key export-orientated, outward-looking sectors, including Food & Drink, Energy and Further & Higher Education. Most employers will have very limited capacity and resources to do so as they deal with the aftermath and the ongoing effects of the COVID-19 crisis on their operations, people, customers and communities. Scottish business needs urgent clarity on the details of a smooth transition to, an agreed future relationship which protects jobs, trade, investment and growth. The UK and the EU should negotiate and agree a comprehensive Free Trade Agreement which will sustain a strong future partnership based on free, fair and frictionless trade and maintaining key standards which protect consumers, workers and the environment, and which underpin reciprocal access to markets.

What could be the single most meaningful priority for business and government to work towards in order to level up?

Investing in people and planet to deliver social, economic and environmental prosperity should be the priorities of business and government in order to level-up as we build a strong recovery and continue our journey to net-zero.

Firstly, planet – in the face of the threat of severe damage to employment, productivity and growth during a potentially prolonged and deep downturn, and at a time of record low interest rates and borrowing costs and with business investment halved, macroeconomic and monetary conditions are ripe for the government and wider public sector to deliver an investment-led green recovery. The latest evidence indicates that fiscal stimulus packages focused on investment in green infrastructure and innovation will accelerate the recovery and deliver with higher levels of economic impact, such as creating more and better jobs with greater long-term returns, than more conventional interventions lacking a net-zero or sustainability focus.¹ Green investment programmes focused on renewable energy, retrofit and energy efficiency or natural capital solutions are estimated to create nearly 3 times as many jobs as alternative, high carbon spending.²

Secondly, people – access to labour, skills and talent is a key challenge for the levelling up agenda. Scotland has a highly educated workforce, world-class universities and a strong learning ecosystem. However, new and emerging technologies from automation to AI to Big Data are transforming and disrupting our society and our economy on an unprecedented

¹ www.ox.ac.uk/news/2020-05-05-building-back-better-green-covid-19-recovery-packages-will-boost-economic-growth-and

² www.mckinsey.com/business-functions/sustainability/our-insights/how-a-post-pandemic-stimulus-can-both-create-jobs-and-help-the-climate

scale. The crisis and the lockdown have only accelerated this transition and deepened its disruptive impact on employers, educators, learners and workers, as many of us adapt to remote working or home learning via digital technologies.

We are asking our workforce to be more resilient and adaptable than ever. The way we live and work has changed and will continue to change. This will mean that workers will need to continue to develop skills which empower them, and the businesses they work for in Scotland, to compete and thrive on the global stage. We therefore need a paradigm shift in how we think about and invest in learning to keep pace with change and maximise gains for productivity and fair work, as machines are deployed to improve the level and quality of life and work for people. Harnessing the talent and perspectives of all of our people, valuing diversity and inclusion, is key to improving Scotland's performance. There is much more to be done to ensure everyone's skills are recognised.

Committing to flexible, bitesize learning for everyone at all stages of their lives and careers would accelerate reskilling and upskilling across the workforce. Our Skills & Employability Leadership Group report – *Upskilling Scotland: The Future of Skills and the Fourth Industrial Revolution (2020)* – recommended the creation of an Upskilling & Lifelong Learning Fund to deliver a universal and lifelong entitlement to learning. Such a fund would empower every Scottish adult to partly or wholly fund reskilling or upskilling opportunities at any stage of their life or career. Access to learning and funding is often a significant barrier to reskilling, upskilling and lifelong learning. A fund which removes these barriers would empower workers and learners to become more resilient and productive in the face of changes in technology or the labour market, especially in the recovery from the COVID-19 crisis. The report also highlighted the need for a particular focus on supporting green reskilling and upskilling on the road to net-zero.

Unemployment is likely to have a severe and disproportionate impact on some groups, especially women and young people, and on some sectors, especially tourism & hospitality, retail and energy. There will be a need for tailored interventions to prevent mass unemployment, create new jobs and support laid-off workers to reskill and upskill into new roles or sectors. Funded or subsidised apprenticeship and employment programmes for young people should be a priority, supported by greater investment in reskilling, upskilling and lifelong learning.

How can government and businesses work together to identify meaningful opportunities to invest across Scotland? / How can government work with business to strengthen local business networks and ecosystems? / How can government strengthen the support provided by publicly funded economic development institutions?

In the recovery, key economic levers will be devolved to the Scottish Government, local authorities and others, while many others will be reserved to the UK Government. This creates complex interdependencies which can only be overcome with close cooperation and communication, common purpose and coordinated action. Powers need to be devolved to the optimal level. Different nations and regions of the UK face different challenges and opportunities, so will require different solutions and approaches to build a strong recovery that levels up the UK. Our members believe that both governments and their agencies should work together constructively to build a recovery for the benefit of all.

The COVID-19 crisis has shown us the very best of this spirit. Government has reacted quickly to the needs of employers and workers to protect jobs and livelihoods. Businesses, organisations and individuals have shown leadership by responding innovatively and compassionately to the crisis to help our NHS, their people and their communities. Many

innovated in a matter of days to keep key sectors of the economy open safely; others quickly repurposed their factories or workplaces to produce supplies of PPE or other vital equipment for key workers; many continue to provide help to the most vulnerable in their communities; new partnerships and collaborations have flowered between competitors or across sectoral silos.

Government and its agencies will need to continue to emulate this in the recovery with a focus on collaboration rather than competition, sharing or learning from expertise and best practice, coordinating or aligning investments and working together to maximise assets and resources. City Region Deals and Growth Deals are an example of this which needs to be deepened and replicated at pace. This will require and begin with political leadership in Edinburgh and in London.

The Scottish Government's limited borrowing powers under devolution's Fiscal Framework, which constrain its ability to deliver substantially higher levels of capital and resource spending in short order, will have to be substantially increased to maximise capacity to deliver economic stimulus with real economic impact in terms of jobs, productivity and inclusive and sustainable economic growth.

We have welcomed the creation of the new South of Scotland Enterprise (SOSE) which, as an economic development agency for Dumfries & Galloway and the Scottish Borders, will play an important role in building a strong recovery for the region and as a partner in the delivery of the Borderland Growth Deal. There is an opportunity for the UK Government and English local authorities to work with SOSE to maintain and enhance access by Scottish firms to markets and opportunities in key English regions.