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INDEPENDENT REVIEW OF SCOTTISH BUSINESS ENGAGEMENT WITH GOVERNMENT

Independent Review
By Benny Higgins for
the UK and Scottish
Labour Party

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Introduction

This is a significant and timely review. The desired outcomes – purposeful engagement between Government and businesses, with greater exchange of ideas and alignment of interests, to improve the business environment and the results for the country – are at the heart of Prosper’s mission. We strongly welcome the Labour Party’s commitment to enhancing the machinery of Government’s engagement with business as part of its focus on growing the economy. Prosper is firmly committed to fulfilling our non-partisan role in this agenda at both Westminster and Holyrood.

The Scottish Council for Development and Industry (trade name Prosper) was formed by the amalgamation of two organisations which were created to strengthen engagement between Government and businesses to drive an engaged industrial strategy. The Scottish Development Council was established in 1931 by industry leaders and The Convention of Royal Burghs to address the problems of the Great Depression by stimulating industrial development and diversification. The UK Government also set up the Scottish Economic Committee which was formally responsible to the Scottish Development Council but funded by the Scottish Office. Then in 1942 the Secretary of State for Scotland Tom Johnston established the Scottish Council on Industry which brought together business and trade union leaders, including the Scottish Development Council. This addressed concerns that wartime production was being concentrated in the Midlands by successfully attracting businesses and jobs to Scotland. The Scottish Development Council and the Scottish Council for Industry merged in 1946 to form the Scottish Council for Development and Industry, which developed many of the industries and infrastructures which would shape Scotland in the second half of the 20th century, such as the electronics industry, industrial estates, new towns, hydroelectric power in the Highlands, major road bridges and the start of the modern tourism industry.

Today, Prosper’s mission is to convene debate and fresh thinking around the major issues for Scotland’s economy. We do this working in consultation with our diverse and extensive membership, and governed by committees and working groups of expert members in these areas of focus. We are a unique organisation with members from across Scottish society - from micro businesses and multinationals, trade unions, universities and colleges, charities and local authorities. Our shared ambition is to support economic growth and prosperity for all of Scotland. Prosper always considers the big picture and longer term when it comes to Scotland’s future. Our purpose is to create a prosperous Scotland which benefits all its people and places.

1. **EXISTING RELATIONSHIPS**

- What in your experience of business and government relations works most effectively and what approaches do not work well or create barriers to effective relationships?
- How does this differ for policy development, investment and commercial transactions?

The relationship between business and government works most effectively when there is a shared sense that they are engaged in a true joint venture and are equal partners in the co-design of new policies which require compromise on both sides. This can be achieved when there is a well-defined, near term purpose for engagement, such as there was during the COVID-19 pandemic. The challenge is to engender a similar sense of shared purpose and delivery in ongoing relations and in support of long term industrial strategy missions. Clear Terms of Reference, joint industry and government chairs, action-oriented engagement which avoids the repetition of meetings and proliferation of groups, and outcomes that can be tracked and are reported, all support more efficient and effective engagement between business and government. This makes clear where collective efforts are shifting the dial on key issues.

On the other hand, approaches to engagement that lack clarity about intended impacts and timescales and/or which do not demonstrate visible delivery lead to a feeling that they are a tick-box exercise. This quickly disenfranchises those businesses which joined in order to collaborate or co-design a policy.

If businesses feels, after alternative approaches have not been successful, that they can only secure Government's attention when they are at their most vocal, it encourages this behaviour which leads to a cycle of mutual mistrust.

Involving businesses and stakeholders, which have expertise that does not exist in Government and will have to deliver the policies in practice, in policy development from the outset leads to better policy and implementation. There may be points of disagreement and conflicts of interest, but these can and must be recognised and carefully managed through the engagement process.

Representative organisations (Business Representative Organisations, Trade Unions and trade associations) play a highly valuable role in this ecosystem. We have heard a range of feedback on different Industry Leadership Groups in Scotland, much of it positive but with some concerns, including that Government occasionally blocks discussion of issues that are of importance to industry. However, the model of industry leadership, Ministerial engagement and co-production of and co-investment in sectoral priorities is a strong one.

Where Prosper – as an organisation which brings together the private, public and third sectors with Governments at Westminster and Holyrood – adds unique value is in facilitating and focusing cross-sectoral engagement and collaboration on opportunities and challenges, including on key missions, to produce solutions with positive economic, social and environmental outcomes.

A strong example of this fruitful engagement between businesses and Government was Prosper's Business Purpose Commission for Scotland. This was jointly established by Prosper and the Scottish Government following a recommendation in *Making a Good Living*, our most recent Blueprint for the Scottish economy, with Prosper providing the secretariat and the Scottish Government providing funding and being represented on the Commission. Industry leadership of the Commission along with senior members from trade unions, academia, the third sector and civic partners, gave the Commission space and weight to engage with businesses and stakeholders and make credible recommendations to business and the UK and Scottish Governments. These are presented in our responses to later questions in this consultation. One notable outcome was that the report has been widely shared across the Scottish Government to improve understanding among officials of business purpose and its wider policy benefits. Scotland CAN B has been commissioned since then to train Scottish Government policy teams using its Impact Journey.

Similarly, we recently partnered with public sector bodies to produce a report into a new commercial model for investment in Scotland's natural capital that could improve wider economic and social outcomes for rural communities.

Prosper has also worked in partnership with the Scottish Government to develop Peer Works (the new name for Productivity Clubs Scotland) an initiative to support peer-to-peer learning about productivity in businesses. This support from the Scottish Government has been critical in creating the network. However, as funding for initiatives, such as Peer Works, delivered by private and third sector organisations is in some instances only agreed in the week the previous contract has ended, they are often faced by instability and uncertainty for staff with significant wasted time and risks for organisations. Identifying how the machinery of Government can more effectively and timeously engage with stakeholders on funding contracts should be a priority. The ideal solution would be offering multi-year funding to established projects which would give organisations a chance to plan and build on what is working.

To its credit, the new Scottish Government has acted on concerns about the state of its relationship with Scottish businesses. However, the New Deal for Business Group set up by the Scottish Government is government-led with

civil servants leading on stakeholder engagement rather than being jointly conceived and managed with business and industry. A wide cross section of industry and trade bodies have been invited to participate but the timescales and priorities have been government than industry-led. Moreover, major decisions affecting employers and businesses have been taken elsewhere with little space on the agenda to address them. As a result, there is some evidence that participating organisations remain sceptical about the process, but feel the need to devote time to taking part so as to be visible to their members. There are certainly positive outputs which are flowing from the activity, such as new templates for Scottish Government policy papers which include New Deal for Business implications, but there also concerns – most recently in relation to aspects of the Scottish Budget – that commitments to engage with businesses on policies from their inception are not being followed through.

2 STRUCTURE OF ENGAGEMENT

Labour has pledged to engage differently with business should it form the next government, including a policy environment that is sustainable and not short term, a review of business taxation and an engaged industrial strategy.

- What do you think is critical to make the relationship between government and business work effectively?
- Are additional groups or structures needed to make the relationship work?

Prosper would welcome a policy environment that is sustainable and not short term and an engaged industrial strategy. Greater stability of Government portfolios and personnel would help to underpin these pledges. Frequent turnover in Departmental responsibilities, Ministers and officials tends not to be conducive to effective relationships and industrial strategy. The UK Energy portfolio has, for instance, suffered from constant changes.

Prosper members agree on the critical early task for any new Government of establishing clear and consistent channels of communication with business. There should be a cross-Government prioritisation of new policies and regulations to minimise the cumulative impact of consultation and implementation, and this should be flexed according to business pressures. As previously stated, business should be involved as a partner from the outset of policy and regulatory development. Government should seek out and assimilate feedback from critical friends. Ministers should be clear with officials that no policy advice which impacts on businesses will be acceptable without evidence of collaboration with industry. Business and regulatory impact assessments should always be carried out and include industry input.

The scale of the challenges and the opportunities for the Scottish and UK economy, and the genuine and meaningful collaboration necessary in a mission-oriented industrial strategy, calls for organisations which focus in this space, such as Prosper, to respond in kind by informing and inspiring more businesses to grow in ways that are good for society and the environment.

As a rule, Prosper would prefer a focus on strengthening existing groups and structures. Adding to the landscape may create clutter which is confusing for businesses. However, Prosper would support the Labour Party's proposal to establish an Industrial Strategy Council on a statutory footing. There could also be benefits to putting some other key groups and structures on a statutory footing, in part to reduce the regular upheaval in them. This could include trade policy structures such as the Strategic Trade Advisory Group.

It would be worth considering the people dimension to fostering collaboration co-operation, learning and understanding between business and Government. Prosper members have reported contrasting responses from the Scottish Government and its agencies to offers to second expertise from industry. For example, the Scottish Government appointed a secondee from the Scottish Energy Advisory Board while the Scottish Medicines Consortium did not accept an offer from industry to second a health economist. Secondments are an effective way that industry can help to address a shortage of capacity or specific skills in Government to tackle key policy blockages to shared goals. Secondments between business and Government should be fostered.

At one time the Scottish Government had a scheme, in which Prosper participated, to second staff members to external partners with the costs of their salaries being shared equally. This helped to develop the skills, knowledge and understanding of staff which benefited the Scottish Government while providing a skills capacity boost for the external partners. The Scottish Parliament Business Exchange, which worked to offer opportunities to MSPs to improve their understanding of business between 2001 and 2016, is also longer operational. Structures supporting mutual understanding appear to be more available in London. The Whitehall & Industry Group is a charity which brings together leaders from business, Government and the not-for-profit sectors to learn from each other and collaborate. The Scottish Leaders Forum is similar in some ways, but does not include businesses. There could be merit in Government encouraging the creation of and participating in an independent 'Holyrood & Industry Group'.

3. NORTH STAR VISION

Labour has built its vision for business around four key missions: harnessing data, clean power by 2030, caring for the future, and building a resilient

economy.

- What is your view on the relationship between the mission-led vision and the relationship with business?
- How can business relations be embedded across all of government reflecting the intertwined and cross-sectoral nature of business across government departments?

Prosper supports a mission-led vision. Furthermore, we believe that business purpose can play a fundamental role in delivering this North Star vision across these four key missions by harnessing the growth, creativity, entrepreneurship and innovation of businesses and diminishing any detrimental effects. The report by our Business Purpose Commission for Scotland recommended that “Businesses and government should reset and develop new public-private partnership models based on the enhanced potential through business purpose to align objectives and be trusted partners...Purposeful businesses profitably solving problems and not profiting from producing problems should be the basis for resolving the conflicting objectives of profit in the private sector and social benefit in the public sector which have caused difficulties and failures of previous models.”

The report by the Business Purpose Commission for Scotland makes recommendations for businesses, education and training organisations, UK Government, Scottish Government and local government to lead. We have shared and discussed this report with Jonathan Reynolds, Shadow Secretary of State for Business, Energy and Industrial Strategy, and welcome the Labour Party’s interest. The report’s recommendations for the UK Government are:

- The UK Government should amend company law and reporting to require businesses to state and report on their business purpose
- The UK Government should encourage and make it easier for new and existing businesses to adopt purpose-driven business structures
- The UK Government should produce a Tax Framework for Purposeful Business which incentivises purposeful business models and practices

Although a mission-led vision for business when enacted with business purpose can be the foundation for a much more productive partnership, it does not negate the risk of poor engagement with business leading to policy failure. Recent notable cases in Scotland, such as the Deposit Return Scheme, featured agreement between the Scottish Government and businesses on the ultimate policy goal - but poorly designed policies, developed without appropriate early stakeholder input and persevered with despite stakeholder feedback, which failed when their implementation proved to be impractical. These failures underline the critical importance of designing and delivering solutions in collaboration between government, business and stakeholders,

and a culture which accepts and absorbs constructive criticism and feedback.

4. **BUSINESS ECOSYSTEM**

Labour wants to build a business ecosystem that is complementary and that pulls together to achieve better outcomes.

- How could a future Labour government best bring unions and businesses together to reflect its pro-worker, pro-business agenda?
- How do we ensure small and large businesses can both have a voice with government?
- What can we learn from international best practice?

The report by Prosper's Business Purpose Commission for Scotland provides a framework and guide for how businesses of all sizes can go on a business purpose journey. The Commission included members from large and small businesses, trade unions, third sector organisations and government. They proposed a vision that "By 2030, all businesses in Scotland will have become purposeful businesses which profit from finding solutions for people and planet", and a framework to create value for all business stakeholders by:

- Delivering value and service excellence to customers
- Investing in the skills, well-being and pay of employees
- Partnering fairly and ethically with suppliers
- Caring for the environment and the natural world
- Supporting the communities in which they work
- Generating long-term value for shareholders

A business purpose should be appropriate for a business's size, market and stage on its own business purpose journey. Some companies may define their role in relation to customers, society or the world. Smaller businesses may define their role in improving the lives of their customers and communities.

The Commission identified and proposed three themes through which Scotland has opportunities to accelerate purpose across its businesses:

- **OPPORTUNITY 1: Supporting businesses with purpose.** Fostering a world-class corporate governance and business support ecosystem which mainstreams purposeful businesses.
- **OPPORTUNITY 2: Financing purposeful business growth.** Capitalising on Scotland's sustainable finance cluster to stimulate and increase investment in purposeful businesses.
- **OPPORTUNITY 3: Empowering employees to drive purpose.** Creating opportunities through skills development and fair work for everyone in work to help find profitable, sustainable and mutually-beneficial solutions.

Our proposals to amend company law and reporting are the same as those of the UK Better Business Act campaign, with which we have worked. A recent research report by Demos, supported by B Lab UK, found that implementing the Act could boost UK GDP by 7%, increase capital investment in the UK by £86bn and boost wages for the lowest paid of workers by £44 a week.

The Commission recommended that businesses should develop and deliver their purpose through their people strategies. Businesses should be guided by their business purpose in decisions about pay, conditions and employment practices. In the longer-term, the Commission suggested that businesses should appoint worker representation to their Boards. This would help to provide a worker voice in the corporate governance of their business purpose.

The Commission's report identified the positive impact of international best practice for workers, businesses, economies and societies. The Commission and its recommendations have also been attracting attention from governments and businesses in countries including Canada and Singapore.

While this is not a review of policy, Prosper believes that a business ecosystem that brings together unions and businesses and pulls together to achieve better outcomes for workers and businesses cannot solely be achieved through changes to the machinery of government. Policy changes are a precondition of making enhancements to the machinery of government fully effective. As a first step, a future Labour government could bring businesses, unions and other stakeholders together on a Business Purpose Commission to agree the implementation of a UK business purpose agenda.

Prosper also highlights the value of third sector organisations within a complementary ecosystem. The Commission recommended that businesses, public bodies and the third sector should agree a programme of action to create an increased number of active purpose-driven partnerships. Third sector organisations of all sizes must also have a voice with government.

5. DEVOLVED STATUS

Businesses based in Scotland have a unique challenge of engagement via institutions directly linked to the Scottish Government or branches of UK-led organisations.

- Does the existing structure create barriers that could be simplified or changed?
- Could the UK government change or adapt its existing engagement strategy to enhance the attractiveness or competitiveness of Scottish businesses?

Prosper - as a Scottish-based, independent organisation with a clear purpose which works with both Governments – facilitates cooperation to enhance the attractiveness and competitiveness of Scottish businesses. Following the outcome of the UK referendum on membership of the European Union, Prosper reestablished our International Business Committee to focus on trade policy. The Committee is chaired by a Scottish industry leader with majority membership from business sectors, and the Department for Business and Trade (formerly the Department for International Trade), the Scottish Government and Scottish Development International are also members. UK and Scottish Ministers and officials have actively participated, and productive working relationships are evident both in meetings and in their reports of ongoing policy engagement. There are other examples of good practice on which to build, and a respected, neutral convener and industry leadership can help businesses and Governments in Scotland's unique circumstances.

Generally, however, the adversarial dynamic between the UK and Scottish Government is challenging and creates barriers for businesses. Effective coordination of reserved and devolved powers is typically required to enhance the ability of Scottish businesses to attract or compete for business opportunities, and to address challenges for Scottish businesses. However, Prosper members report that Scottish Ministers and officials have declined opportunities to engage with global and UK businesses through key UK Government structures, and vice versa, and occasions when they have actively avoided sharing a joint platform for business engagement. They also report that the Scotland Office and Scottish Government do play constructive roles in supporting Scottish businesses' asks of Governments, but that they can seem to be most ready to intervene when there is a perceived political benefit. Businesses may, therefore, hesitate before asking for their support. Prosper recommends that the UK and Scottish Governments jointly engage with businesses about UK and Scottish structures on which representation by Ministers and officials from the other administration would be beneficial. For example, certain Industry Leadership Groups in Scotland may determine that they would benefit from participation by UK Ministers and/or officials.

Prosper welcomed the creation of Queen Elizabeth House in Edinburgh as a UK Government hub and the increase in the UK Government Departments which have located staff in Scotland to engage with Scottish stakeholders. We have forged working relationships with them, which has also helped to facilitate connections with their colleagues who are based in London. It is important that relationships with Scottish businesses are not perceived in Whitehall as the exclusive purview of Scotland-based stakeholder managers, but are embedded across all the directorates and agencies of Departments.

Maintenance of these relationships can be particularly challenging when there are significant structural changes between and/or within Departments. These create uncertainties about their roles and responsibilities for all officials, but, perhaps, especially for those officials based further from Whitehall. Their location outwith the London milieu also makes it difficult for Scottish businesses to monitor and familiarise themselves with movements. The UK Departmental changes which took place earlier this year were a case in point. Stability in Departmental structures does support engagement, but when changes are judged to be necessary an engagement strategy should be implemented, which recognises the distinctive challenges for Scottish businesses and stakeholders, and rapidly works towards providing clarity.

Prosper has often worked with Scotland-based stakeholder managers to offer platforms for engagement between UK Ministers or officials and Scottish businesses. These may focus on a specific opportunity or policy, and, for example, may be connected to a forthcoming event, a consultation or trade negotiation. These are welcome and useful fora for information sharing, and Prosper always responds to bring together a target group of members. However, it is very seldom the case that the UK Government is able to provide sufficient notice (i.e. four weeks or more) to make best use of the opportunity in terms of participation and preparation by Scottish businesses. For example, despite recent, positive conversations with the Department for Business and Trade on the interest of our members in its Smarter Regulation policy, Prosper was alerted only a week before a consultation event was held in Edinburgh in November. As requested, we shared this information with members. However, the invitation did not give Prosper or our members enough time to rearrange our diaries in order to participate. The challenges with Government calendars are understood, but a longer term engagement strategy shared with external partners such as Prosper and earlier confirmation of visits and meetings would significantly benefit both sides of the relationship. Prosper members who participate in these fora also report that, while they appreciate the chance to hear from UK Ministers and officials and convey their views, they would value greater feedback from Government on the outcomes. The engagement strategy should include clear lines for how the Government will work with partners to communicate the influence of the fora on policies which enhance the competitiveness of Scottish businesses.

Prosper has for many decades called for the UK Government to base some of its policy functions and expertise within Scotland, particularly when Scottish businesses represent a leading or substantial share of a UK industry or when policy development may benefit from a less London-centric view. The UK Government's commitment to relocate roles from across Government Departments and public bodies as part of the Levelling Up agenda is

welcome. This includes the recent announcement that the Department for Energy Security and Net Zero will open a second headquarters in Aberdeen. The Labour Party has also committed to establishing the headquarters of GB Energy, the publicly owned energy company it has proposed, in Scotland. Smaller scale relocations can also be of strategic significance. For example, the Department for International Trade based its Director for Agriculture, Food and Drink in Queen Elizabeth House as part of a joint role covering Scotland. However, following the merger for the Department with the Business functions of the former Department for Business, Energy and Industrial Strategy, this role no longer seems to be located in Scotland. If the Labour Party could ensure that such arrangements are less vulnerable to changes in Whitehall Departments, this would be supported by Scottish businesses, which in this case comprise a large percentage of a key UK export.