

Priorities for sustainable growth through investment in Scotland

FOREWORD

With the continuing impact of the global pandemic these are challenging times for all countries. The situation is further complicated by the UK exit from the EU, and the different approaches to fiscal policy of the Scottish Government and UK Government.

Each of those issues has a major impact on Scotland and its future. Consequently, the upcoming Scottish Parliament Elections are at a critical point and the outcome will clearly be significant. However, it is important for any future Scottish Government, whatever shape that may be, to ensure that the energy and focus remains on the recovery efforts and building a sustainable Scottish economy.

That requires a rational approach and as much 'head' as 'heart' – it is imperative to bring Scotland through a recovery period and lay the foundation for future success. With a detailed focus on areas such as those outlined in Scotland's Inward Investment Plan – where natural and intellectual resources can be leveraged across nine key areas including energy transition, digital, food and drink innovation, etc – there is already an opportunity to implement a sound strategy.

Given the potential impact on society, and with a broad view on the appropriate stakeholders, we believe there are four priorities the Scottish Government should focus on in the next parliamentary period:

- Design devolved taxes to encourage enterprise – consistent, competitive, specific
- Support infrastructure investment – fund innovation, transform infrastructure
- Encourage businesses to take action on climate risk – at the heart of Scotland's strategy
- Skills – supporting remote learning, reinforcing innovation, leveraging the skills base.

These priorities have been prepared with broad support for the findings of the Scottish Government's Advisory Group on Economic Recovery and reflect some of the key themes, calling for the appropriate action to be taken. There will be a significant impact from differing strategies and there is some available analysis, for example as identified by London School

of Economics (LSE) Centre for Economic Performance report on the impact of separation *Disunited Kingdom? Brexit, Trade and Scottish Independence* (February 2021).

One important factor, being consistently demonstrated, is the positive impact that business figures can have on making progress in key issues. Examples of that are Mark Logan's review of the Scottish Technology Eco-system and Kate Bingham's lead on the UK's vaccine procurement strategy. We support this de-politicising and clear-sighted approach to achieving results.

ECONOMIC LANDSCAPE

ICAEW's quarterly Business Confidence Monitor (BCM) is based on 1,000 interviews conducted with ICAEW members, covering a range of economic sectors, regions, and company sizes. In the [BCM for Q1 2021](#) we have identified that companies are confident of a return to growth this year, following a dismal 2020. The past year has seen the largest falls in Scottish businesses' domestic sales and exports since the survey began.

PRIORITIES

DESIGN DEVOLVED TAXES TO ENCOURAGE ENTERPRISE

Aim for certain, simple, and competitive taxes

1. We start with tax as this is one of the levers closest in control for the Scottish Government to influence the economy. As the Scottish Government seeks to develop devolved elements of the tax system and potentially considers new taxes, it is essential that these are designed in a way that fosters rather than holds back economic growth and opportunity.
2. We recommend that the Scottish tax system and any new tax policy measures considered are tested against a benchmark like our [Ten Tenets for a Better Tax System](#).
3. The UK Government has control over VAT, one of the largest sources of government revenue. Were VAT to be included in devolved powers, these considerations about the design of the tax system will be particularly pertinent. Considering them now could help equip the Scottish Government to be most effective as the devolved tax system develops. However, it is worth noting that differentiated VAT across the UK would create several trading and operational complexities.

Consider consistency

4. A particular question is whether and where the Scottish Government should aim for consistency with the rest of the UK in taxes that are devolved and where that defeats the policy objective.
5. For example, one question is whether it is sensible that we have three different forms of general anti-abuse rules across the UK. This seems rather disjointed and unhelpful to taxpayers who value certainty. In this case we understand there may be intended to be a differential policy objective, but it would be worth examining whether that objective is being met and whether there is scope for more consistency.

Engage with business

6. In doing that, and in developing tax policy more generally it is vital that a broader set of stakeholders are included in engagement than those proposed by the Scottish Government in 2019 in its consultation on the policy framework for devolved taxes. For example, the other chartered institutes of accountants and tax advisers should be included as well as other professional bodies and stakeholders that are affected by the legislation. Investment decisions can be affected by tax policy hence it is vital that a broader business representation is included.
7. How the government consults on tax is also important. If it wants to be able to use consultation responses to help improve tax policymaking, then those consulted need to be able to make general comments as well as answer specific questions. One example might be the incentivisation of innovation to boost productivity and make businesses more competitive, which is widely supported.

Reform non-domestic rates

8. The non-domestic rates system needs reform. A significant part of the cost base for some sectors of the economy and a fixed cost that does not flex with business success, non-domestic rates can disincentivise otherwise productive investment decisions. Our report [Business Rates: maintain, demolish, rebuild or refurbish](#) explores the issues and looks at potential solutions.

SUPPORT INFRASTRUCTURE INVESTMENT

9. High quality infrastructure and energy technology brings multiple benefits to business. Government has a key role in supporting its development. Establishment of the new Scottish National Investment Bank is a positive step to help ensure long-term funding flows to Scottish businesses. There will be a role for this institution to ensure proportionate regional and sector support to reduce the risk of recovery being concentrated in parts of Scotland, much as the British Business Bank aims to do, including by engaging with, and attracting, local business and professional communities. Specific investment in broadband capability across Scotland to provide a foundation for competitiveness is one important area.
10. The Scottish National Investment Bank will also have a key role in replacing European Investment Bank funding. That supported £2bn of projects in Scotland between 2016 and 2018 and the Scottish Government will need to consider the scale of funding necessary to replace this. Smart policy making can help supplement public investment with incremental private funds. We submitted written evidence to [HM Treasury and the Infrastructure & Projects Authority's Infrastructure Finance Review \(REP 59/19\)](#), which is pertinent. In that evidence we recommended that:

Finance innovation has the power to transform infrastructure investment in the UK

- An Infrastructure Growth Fund and pooled investment funds would facilitate investment.
- New public-private partnership contractual models are needed now.
- Approved peer-to-peer networks would enable citizens to invest directly.

- The UK should utilise its world-leading professional expertise in infrastructure finance.

Public investment is an enabler

- A new Investment Bank to replace the European Investment Bank as an anchor investor.
- The British Business Bank should support business to deliver infrastructure projects.
- Direct investment by city-regions and local authorities would engage communities.
- Local industrial strategies must make improving infrastructure a top priority.
- Centres of excellence are needed to support investment decisions and in managing risk.

Capital is available, but it needs to be unlocked

- Long-term pricing would provide certainty to investors, taxpayers, and consumers – and the denomination of infrastructure projects might also be a factor in this.
- Tax and other incentives need to be gauged carefully, but then should be stable.
- Reforming balance sheet treatment requirements would remove contracting hurdles.
- Regulatory asset base and concession arrangements could be used more widely.
- Early-stage risks need to be tackled to draw in more seed capital.

ENCOURAGE BUSINESSES TO TAKE ACTION ON CLIMATE RISK

11. We understand that achieving a green recovery is a core objective. Effective climate action relies on businesses making decisions that put people and planet first. Crucially, to put natural capital at the heart of their thinking, businesses need robust systems that provide decision useful information to management and meaningful disclosures to stakeholders.
12. We can expect early action from the Department for Business, Energy and Industrial Strategy (BEIS) to extend sustainability reporting, following 2019's Green Finance Strategy. But government efforts also need to be focused on broader capacity building so companies can act meaningfully.
13. There is an opportunity for Scotland to take the lead and these routes could help to build capacity within businesses to generate this information:
 - Government should consider how business owners and their advisors, including SMEs, will 'see' climate as an issue relevant to them and how it can reach them.
 - Financial Institutions: with an increase in regulation from the Prudential Regulation Authority (PRA) it is likely the implications of this will be passed on to businesses.
 - Governance – in particular internal auditors, audit chairs, non-executives and directors will likely be more conscious of climate risk and how it affects their organisations.
 - Biodiversity loss – this is a similar sort of issue to climate but making it more visible is difficult.

SKILLS

14. As mentioned in [ICAEW Representation 77/19 Treasury Select Committee: Regional Imbalances in the UK Economy](#), skills are paramount to economic growth and recovery through increasing productivity and improving workers' quality of life.
15. An appropriately skilled workforce can be an important driver of business growth, through attracting inward investment and increasing productivity.
16. As a driver for localised economic and social development, members that took part in the Scottish events from this consultation felt that home-grown talent was key. A more sustainable method of funding free university places away from reliance on international students was suggested to free up more spaces for 'home grown' talent to stay in Scotland to study. This is now particularly pertinent when viewed in the lens of COVID-19 and the potential difficulties in attracting international students.
17. Scotland was however named best in class in this consultation with regards to universities' strategic commitment to enterprise and entrepreneurship. With high levels of graduate start-ups, we urge the continuation of support for these sorts of activities given the positive economic benefits of strong entrepreneurial skills – particularly crucial given the importance of innovative thinking for businesses to react to the current pandemic.
18. Remote learning has become more critical, underpinned by a sound broadband platform across the whole of Scotland, if there is the opportunity to leverage both the natural and intellectual resources outlined in the Inward Investment Plan. Allied to that, greater Government support is required on skills, infrastructure, and financial incentives for the key areas of innovation if Scotland is to fulfil its potential.

ABOUT ICAEW

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of sustainable economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports, and regulates more than 150,000 chartered accountant members in over 160 countries. Our members work for and advise businesses across Scotland. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical, and ethical standards.

ICAEW Faculties are responsible for ICAEW policy on technical issues in their areas of expertise and are recognised internationally as a source of expertise on corporate finance and tax issues. The ICAEW Business and Industrial Strategy team is key to putting the voices of Chartered Accountants across all regions and nations at the heart of policy making.

These priorities have been prepared by ICAEW Scotland, using the ICAEW Corporate Finance and Tax Faculties, along with the Business and Industrial Strategy team. With over 1,600 members in Scotland, predominantly operating at a senior level within business, education, and the public sector, we are well positioned to understand the economic and cultural landscape of Scotland, as well as the opportunities moving forward.