



Rebalance and grow -
an agenda for
Scotland's economy

Scottish Parliamentary
Elections 2011

IoD Scotland Manifesto

Introduction

The purpose of the Institute of Directors (IoD) through its operation in Scotland is to support, help and advise directors and develop them in their role in practical and representational ways. Positioned as “the Business Leaders”, the IoD is focused on developing and improving corporate leadership – both individually and in companies – for the wider benefit of the country. The work we do in Scotland, helping strengthen organisational leadership, supporting directors and giving a strong voice for the business community, is having a beneficial impact on the nation's economy.

This reason for existence colours our view of which Scottish Government policies should be developed and implemented. The new Scottish Government should be focused on building a more prosperous nation delivered through a more successful economy – so producing an even better Scotland to live and work in.

Right now there is a rare opportunity – lead by necessity – to restructure our economy more towards the private and third sector. Public sector reductions and restructuring are needed and the new Scottish Government will have an exciting challenge to make a real difference to Scotland for years to come.

Key aspirations

Scotland needs:

- People with the key skills sets, expertise and emotional drivers to deliver success
- A physical infrastructure and the finance which support business
- A low-tax economy with a support regime to encourage investment
- A culture where things get done quickly and which applauds achievement
- World-class connectivity



The IoD also advocates, develops and supports strong leadership in all aspects of the nation's life. This includes politics as well as other public sector areas in addition to the private and third sectors. Regardless of the outcome of the election we would look for visionary and inspirational leadership for Scotland and its economy, and trust that the elected leadership would work even more closely with organisations like the IoD to improve the nation's economic performance.



The business message

A wide range of specific issues are covered below but for the IoD the key considerations are:

- 1. Moving resources into wealth creation and reducing barriers to business**
- 2. Stimulating higher levels of business enterprise to create more sustainable jobs and produce tax revenues to support key public services**
- 3. Committing more energy, thought, planning and resources to economic development**
- 4. Examining different ways of delivering necessary public services**
- 5. Improving corporate and organisational leadership to help drive the Scottish economy forward – economic growth must be the number one priority of any Scottish government**
- 6. Focusing on supporting the key industries of the present, such as oil and gas, and of the future, such as renewable energy.**

The Institute of Directors supports Scotland's business leadership. Our emphasis is on encouraging dynamism and vision in the commercial sector. For businesses to do well, they need to operate in a public policy framework that shares that sense of ambition.

Our ambition for Scotland is for a high-growth economy in which business can flourish and spread wealth and prosperity to all Scots. We believe that building a low-cost environment which allows business to flourish and engenders high growth is vital to our prosperity and that, right now, we have a unique opportunity to do that.

The IoD in Scotland has been largely supportive of the Calman proposals leading to the current Scotland Bill; seeing it as adding to the quality of the funding debate and leading towards more fiscal accountability. It will not be some type of magical step-change, however. The only significant concerns remain over the tax implementation and possible additional cost for business.

This document outlines the key issues and actions to improve Scotland's economic performance. It will be the basis of our discussion with politicians, the media and other policy makers and opinion formers in the run up to the Holyrood election in May 2011 and, importantly, with the new Scottish Government as they move into power subsequently.

It concentrates on policy that is controlled by the devolved institutions. IoD Scotland believes that the current powers of the Scottish Parliament are already far reaching, sufficient to make a big difference to Scotland's economic prospects, and they should be used to the full to achieve improvements.

This document puts forward some innovative, pro-business ideas for delivering improved economic growth set out under four main headings:

- Economic Foundations
- Tools of Success
- Reforming the State
- Business and Society.

Economic foundations

Overall, our aspiration is that:

The Scottish Government should aim for the country's economic growth to be above the EU average in any year.

Any Holyrood administration serious about improving our nation's health and wealth must commit more funds to economic development – regardless of how that is implemented and delivered. While the mechanisms for delivery may alter, this budget must rise if we are to make the necessary dramatic changes in key areas such as business start-up and survival rates, R&D, internationalisation and innovation.

Scotland has a unique heritage in the area of economic development and we should be building on that heritage, along with our strengths as a well-networked country and people.

Politicians in the Scottish Parliament and their supporting officials must continue to be vigilant over EU and Westminster issues to ensure that the specific economic development needs of Scotland are recognised and provided for. They should work with UK officials and structures and not resist initiatives for the sake of dogma when the Scottish economy can benefit.

The budget decisions of the next few years will be some of the most important for a generation in laying an economic foundation for the country's long-term future. We are concerned that, so far, many of the hard decisions have been delayed.

The IoD is not seeking wholesale 'blind' cuts but rather an examination of the services we all want and need, and consideration of how they might best be delivered – sometimes by the private or third sector. Efficiency and creativity can lead to spending less but remaining effective.

Crucially, capital spending must be sustained and indeed rise as soon as possible and the temptation to penalise it at the expense of revenue avoided.

Inevitably we face some years of public sector real terms growth reduction and we would fervently hope that this time is used constructively for a radical reshaping of service delivery.



Focus on Infrastructure

- A successful economy relies on strong, flexible structural foundations that allow business to grow by transporting goods, service and ideas, accessing utilities efficiently, and developing new physical premises, plant and housing.
 - The IoD in Scotland believes that even in these straitened times money should be moved to capital spend from revenue to help offset implied UK capital cuts because of the fiscal multiplier it brings.
 - We believe that this key infrastructure spend is the only area of public spending which should be ring fenced.
 - Any Scottish government must work actively to prevent any further cuts to the military presence in Scotland.

The Planning System

The IoD fully supports the need to maintain a balance between development and the visual environment, as well as to retain a cohesive society, but the planning system is insufficiently flexible to promote economic growth.

There is little evidence that the recent legislative changes to the planning system have improved matters enough. It is important that, as we recover from the economic downturn, the system is further reformed to allow growth.

We strongly support the recently announced suggestion by the Chancellor to prioritise planning approval for projects which grow the economy and produce jobs – a model which should be followed in Scotland

- Local authorities need new incentives so that they benefit financially from development. There are at least two options for this:
 - Non Domestic Rates, though centrally set, should be reallocated so there is an incentive to the authority where they are raised.
 - Advance council tax receipts should be awarded to local authorities from new housing developments.
- Section 75 developer contributions should be abolished. Instead, compensation for any environmental impact of development should be negotiated with local communities based on an objective impact assessment.
- Developers should continue to pay for infrastructure connections where appropriate but should be able to choose between competing suppliers for connections to utility networks.
- Other agencies with a role in the planning process (such as Scottish Water, SNH and SEPA) should be funded in part according to their input, with payments related to timelines and effectiveness.
 - The Government needs to examine ways to get involved in housing market funding e.g. guaranteeing mortgage deposits, to help re-invigorate the construction industry.
 - The Scottish budget decision for 2011-12 was a cut of two-thirds to planning capital, £0.6mn to £0.2mn, and a cut of 17% to planning resource budget, £4.7mn to £3.9mn. This should be reversed as soon as possible and start to increase again post 2011-12.

Transport

Historical underinvestment in transport has been particularly damaging to areas further removed from markets. This trend must be reversed to allow areas like the Highlands and the North East to fully exploit their potential.

- If necessary, the Scottish Government should consider road pricing franchises in different transport corridors in Scotland. This would have a number of features which need to be revenue neutral:

- The additional costs to the road user would be recouped in an equivalent reduction in council tax or income tax.

- Income would be ring fenced and recycled into road maintenance and upgrade.

- The pricing mechanism would allow more effective analysis of demand and usage, with resources being directed to where they were needed most, such as dualling the A9, the A96, finally starting on the Aberdeen Western Peripheral Route and improving the central motorway network.

- It would encourage more efficient road usage by the consumer, with commensurate economic and environmental advantages in terms of fuel consumption.

- The Air Route Development Fund should be re-established and expanded

- The Scottish Government should lobby against Air Passenger Duty

- especially any increase – as it is a tax which particularly penalises Scots doing business abroad.

- The Scottish Government needs to conduct an effective and transparent cost/benefit analysis on new transport projects.

- The Scottish Government should encourage diversity of rail service provision, for example, the provision of 3G and wireless internet access.

- The Scottish Government should take an active role in ensuring a successful and settled outcome to the provision of rail services on the main East Coast line from Aberdeen to London.

'We are pleased to see the Scottish Government press ahead with the vital Forth Replacement Crossing...'



- The Scottish Government should take a leading role in the development of plans for a visionary High Speed Rail network plan which includes Scotland from the outset.
- The state-owned ferry services to the Northern and Western Isles would benefit from more competition. Asset-holding companies and operators should be privatised (or at least restructured as public interest companies) so that they can access finance from the capital markets. Ferry services and routes should be commissioned from competing operators, with subsidies available on a per ticket basis to maintain lifeline routes where appropriate.
- We are pleased to see the Scottish Government press ahead with the vital Forth Replacement Crossing.
- There is an on-going business cost of congestion in Scotland, particularly around our cities. More work must be done to alleviate this.
 - The IoD also supports a drive towards more home and flexible working and believes that the public sector should show a more dynamic lead in this area.

Energy

Reliable, sustainable and cost-effective energy is an essential prerequisite for a successful economy. We need to encourage and support an efficient, competitive market in the production and retail of energy.

There is considerable scope for the North Sea oil and gas industry to grow and sustain its enormous contribution to the Scottish and UK economies (given a sensible tax regime). The Scottish Government must take every opportunity to promote and develop Aberdeen's role as the world's "number two" upstream oil and gas centre and a global technology hub.

IoD supports the UK-wide market in energy production, distribution and retail. The Scottish Government should avoid measures that interfere with the proper functioning of this market by adding distortive subsidies of its own. Instead it should work closely with the UK Government on issues such as energy security and sources of supply. In addition:

- The Scottish Government must expand its support for the development of innovative products and services that support changes in the way consumers use energy, cutting individual domestic as well as commercial consumption is vital.
- The planning system should not provide special advantages or disadvantages to particular types of energy production. The environmental impact is already taken into account by the Renewable Obligations system and UK safety regulations. Therefore, the possibility of nuclear energy should be allowed.
 - The UK distribution charging mechanism should be adjusted to encourage and facilitate remote production.
 - The importance of the North Sea energy production to the UK and Scottish economy should be recognised and the emphasis should be on a stable tax regime - the opposite of that dictated by the Chancellor in the recent UK budget.
 - The Scottish Government must take a lead in transitioning from oil and gas to offshore renewable.

- A body to co-ordinate and promote Scotland's energy activities should be formed - 'Energy Scotland' (or another appropriate title) to put the emphasis on the importance of the whole industry should be encapsulated in its role. It should be industry led – a good example is Scotland Food and Drink.

Water

The continued use of increasingly scarce Government funds to support Scottish Water's investment activities now looks worthy of challenge. There are a number of options open to Scottish Water that would allow it access to external funding:

- (i) make greater use of PPP arrangements,
- (ii) establishment as a mutual company, a non-profit distributing company limited by guarantee or,
- (iii) privatise, in part or in its entirety, as is the case in England and Wales.

- The decision on which may be the best option depends not only on what would allow Scottish Water access to adequate sources of funding but also what secures affordable water charges and value for money for the public purse.

- The future of the Scottish Water Industry must be examined. We need to extend the liberalisation of the industry to allow market entry for new competitors and allow Scottish Water itself to access private capital. There are perfectly acceptable water supply models elsewhere in the UK and Scotland should consider these and free-up public funds.

This was well-exemplified in the Budget 2011-12 decision to reduce capital budget to zero. This is not sustainable in later years and exemplifies why public funding puts at risk an efficient funding profile for water.

- The introduction of water meters may now be a necessary requirement to change usage patterns. Such metering and a charging regime that more closely reflects use appear to have been important factors in reducing business consumption.

- At over 40%, leakages in the system remain the biggest consumer of water and the big issue is how this can be best addressed.



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Infrastructure - Finance & Procurement

Successive administrations have put significant efforts into these areas but continued progress is needed in both to help grow our economy and in particular strengthen opportunities for Scottish SMEs.

The Scottish Government (through the Scottish Futures Trust or equivalent vehicle) must develop a much simpler model for facilitating private sector infrastructure procurement. The chosen vehicle must strengthen its role in co-ordinating procurement across Government to maximise value for money, with a specific brief to encourage local suppliers.

- The Government should enable private companies or consortia to build and own new assets on the basis of Government guaranteeing a certain level of user / access charges, but with the owning company being encouraged to supplement this with other sources of income.
- The Government's procurement group needs to be more active and more powerful and all public bodies must be given a timescale to move on to the central system.
- Local economic impact must weigh alongside value for money.
- If the Economic Development agencies (currently Scottish Enterprise and Highlands & Islands Enterprise) are to remain as the chosen tool for economic development then they must be properly funded. Considerably less than one per cent of the Scottish Government budget is not in any way adequate.
- Access to finance continues to be a massive issue standing in the way of economic growth and the new Scottish Government must continue and strengthen the Co-investment Fund (Scottish Investment Bank) and the Scottish Loan Fund as well as bringing its weight to bear on the commercial banks to improve their offering.
- If local economic development is to reside with local authorities then it must be made a statutory obligation to ensure it is not first to suffer from any spending reductions.
- There is strong feeling in areas such as the North East of Scotland that the allocation of central funds has been inequitable. At very least this issue must be examined closely to redress any imbalance in future funding.

Broadband and the use of technology

The availability of high-speed internet connectivity is an essential element of Scotland's infrastructure. It should be viewed as the fifth infrastructure; equal in importance and impact to the road, rail, sea and air services.

High-speed broadband must be delivered to Scotland's businesses and citizens as a matter of urgency. Allied to a talented and skilled workforce, it will enable the design, development, production and application of clever technologies and services which will address and solve a wide range of business, government and social challenges.

Given Scotland's geography, the impact of this service is disproportionate to

the simple population numbers. Superfast broadband will allow a revolution in Scotland's rural economy, which will benefit not only the existing rural population, but also our city dwellers, our returning talent, as well as the many new skills and expertise which will be attracted to come and live in a country which not only offers a high quality of life; but also the modern technology infrastructure to carry out any role in any business.



The smart use of technology enables every other industry sector to thrive, and potentially allows them to differentiate themselves in a competitive marketplace. The technology sector requires forceful support and advocacy going forward. With a high-speed technology infrastructure, Scotland can become the natural choice for global businesses, as a place to solve their business problems and challenges. At home, a higher focus on, for example, e-commerce, could fuel significant growth in many Scottish companies.

Technology is Scotland's fifth infrastructure and has the potential to deliver large returns on any investment made in it. It is one of the most important keys to Scotland's future economic growth and prosperity.

Scotland needs to become its own internet hub – both in name and in practice, and build direct links to Europe to prevent the necessity of going through London. It is well documented that many large organisations are reluctant to put more and more internet traffic through London and are looking for an alternative route to Europe from the rest of the world.

Scotland has the right ingredients (if we have direct connectivity to Europe) to become a major base for global data centres. We have the space, the climate and renewable energy levels, which are attractive to many global organisations.

Other issues include:

- The encouragement in all sectors of home and flexible working would be facilitated by faster broadband provision. This would have a positive impact on cost savings, reduced congestion and lowered environmental impact
- We require at the very least, the implementation of the Digital Scotland Report proposals, ensuring Scotland has universally available, internationally competitive connectivity with a minimum standard of 16mb by 2015.
- The re-establishment of a Scottish Internet Exchange.
- The installation of a direct telecoms connection to mainland Europe, providing resilience to Scotland's national communications network which currently is over reliant on London for connectivity to Europe and the rest of the world.

'The availability of high-speed internet connectivity is an essential element of Scotland's infrastructure..'

- Further investment in telecommunications engineering R&D to 'expand' the capabilities of existing broadband infrastructure. The development of 'lean' mobile applications has demonstrated new ways of delivering services, using thin edge access technologies.
- We should explore how these new technologies might translate to support other fields such as broadcast media and games.

The Tools of Success

A world-class workforce and enterprise culture for a growing economy

Government in Scotland's key intervention in the economy which supports business in promoting economic development and enterprise is helping to prepare a skilled workforce.

This intervention is vital as it brings significant benefits, particularly in the promotion of innovation and creativity linked to an entrepreneurial spirit and increasing the nation's knowledge based assets, as well as up-skilling and preparing people of all ages for the workplace.

Early Years Investment

- The Government must force greater collaboration and accompanying funding into all the agencies involved in early years learning. The case for early years investment is already very strong and further supported by findings like that of the recent PISA report which found that 16 per cent of 15-year-olds are struggling with reading.



'Government must force greater collaboration and accompanying funding into all the agencies involved in early years learning...'

- There is strong evidence that boosting both education quality and equality, with respect to being able to attend Higher Education (H.E.), are much better achieved through early years investment than subsidising students.
- Many organisations (like the OECD) put forward compelling arguments in favour of such investment as more effective and more rewarding than alternative public sector funding of post school age training (ie, remedial investment) or of Higher Education funding.
 - Different models need to be looked at, as funds are limited. However, a greater commitment is needed to improving the pre-school experience of children growing up in environments which currently leave them at a disadvantage when first entering school. Eventually this will also help reduce the current social inequality of those who attend Higher Education, but even where this is not attained it will help assist those who currently fail at school and at work to achieve a standard that improves both their own lives and the economic potential of the country.

Schools

We welcome the Curriculum for Excellence as a “once-in-a-generation” opportunity to refocus education on the learner and their capacities, including a more entrepreneurial attitude.

As the OECD pointed out in recent reports, it is the quality of teachers that is most important, not class sizes. Government should recognise this and act on it by implementing the recommendations of the Donaldson Review.

In addition:

- Teachers need to be more empowered to make decisions on staffing, budgeting and the curriculum.
- Any system that allows basic qualities to be missing in its pupils needs to be reformed. At present, 16 per cent of 15-year-olds struggle with reading. As a comparison, Finland has an equivalent rate of eight per cent, half that of Scotland’s.
- To improve teacher quality we need to see how other countries achieve such good results in attracting high-quality trainees without pay prospects much beyond those currently available.

Post-school education

IoD proposes that all post-school education, training and qualifications should have parity of esteem and funding, so that resources flow to skills and qualifications that are demanded by the economy.

- Artificial targets of a certain percentage of the population in Higher Education, for example, do not help with workplace realities.
- The whole area of Research and Development and its funding needs careful and constant attention as it is so important to our economy. There is, for example, an on-going debate between purely academic and spin-off potential.



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- Bursaries, supplied by the Scottish Funding Council or private institutions must still be used so that further and higher education remains available to those from low income backgrounds.

- We believe that it is possible to shorten the time of study for many degree and other courses given the assistance of modern technology.

- The IoD also believes that the cost of maintaining so many universities and colleges must be scrutinised. It should be possible to retain student numbers in fewer structures while being relevant to their and the country's needs.

- We need to examine the models of Intermediate education – alternative to current Further Education (F.E.) system – seen in other countries. Innovative “Technology Centres”, for example, may have a place to play.

Skills

Skills are a primary area for the Scottish Government to work on to improve economic potential.

Both Highlands and Islands Enterprise (HIE) and Scottish Enterprise (SE) should act as encourager and introducer of a wide range of training courses and business development programmes. They should source these services from a wider range of existing independent providers in a more open way in response to customer demand.

- The activities and delivery of Skills Development Scotland need to be sharpened and link more closely with the business customer.

- Skills delivery in support of industry needs must be encouraged, eg, Adam Smith College in engineering.

- All citizens should be entitled to a ‘lifelong learning credit’ to part-fund further or higher education or training. This credit could be used to access training or education from accredited private providers, including employers.

- In these difficult economic times we realise that some form of graduate payment seems inevitable and it does seem fair that

Reforming the State

Transforming public sector performance in an age of austerity

The financial crisis has placed severe strain on Government budgets at all levels throughout the UK. The Scottish Government will have to implement significant reductions in spending over the next few years.

IoD Scotland believes that this should be regarded positively, as a major opportunity to reform public service delivery systems and restructure the economy to give more space to the wealth creating and the third sectors.

Scotland has a major advantage as we enter this age of austerity: Public spending is already considerably higher than the UK average as a result of the Barnett Formula generated block grant.

However, at the same time, outputs in the Scottish public sector are not significantly higher than in England. In the key sectors of healthcare and education there is no evidence that the additional money leads to superior performance in terms of medical interventions or exam results (which have now fallen behind English levels). Scottish Government needs to be much more robust in ascertaining why certain services cost so much more to deliver in Scotland and in some cases with poorer results.



If we can improve productivity even to UK average levels, then public spending can be reduced in the medium term with no impact on front-line services. A reduction in spending to UK average levels would save the Scottish Government around £3.5bn annually based on the GERS figures. This does mean that health and education services cannot be excluded from productivity checks and the need for savings.

At the same time, greater efficiency in the public sector could mean that future increases in spending lead to greater benefits. The reduction in public spending overall would allow higher growth in the private sector as fewer resources and labour would be deployed by the state.

Government

The Scottish Government should aim to improve public sector productivity to English levels or greater, allowing spending reductions and tax cuts over time, while improving public sector delivery through improved performance management and serious examination of alternative forms of service delivery.

The key sectors of health and education should be reformed to encourage productivity improvement. In other OECD countries, as well as in developing economies which are building welfare provision, the trend is towards independent provision of services backed by Government funding to ensure equity. This allows competition and greater accountability to the consumer.

The Scottish Government has established a commission to study the most effective systems for delivering public services – the Christie Commission. Hopefully it will encourage new practices and experimentation in the delivery of public services, for example, putting leisure services provision into a trust.

Additionally:

- The Scottish Government needs to be much more rigorous about measuring performance compared to public sector delivery in other jurisdictions. Audit Scotland and HMIE should be asked to provide annual comparisons of the performance of the health, education, economic development and other parts of the public sector compared to global standards.
- Public sector pensions are becoming increasingly unaffordable, are out of step with private sector norms and costing nine per cent of Scottish budget each year. This makes it harder for private and third sector businesses to compete in the labour market. The annual cost of the teachers and NHS schemes alone doubled from £1.36bn to £2.65bn between 2002/3 and 2010/11.
- The IoD in Scotland does not believe that all the existing public structures we have are necessary for a population of five million people, eg, 32 local authorities. We should de-layer government in Scotland. Sub-Scottish regions should be consistent wherever possible, for example, in relation to health, education and



'The Scottish Government needs to be much more rigorous about measuring performance compared to public sector delivery in other jurisdictions'

policing. Now having the additional layer of Government which devolution introduced it is now time to examine, rationalise and make appropriate reductions with accompanying savings.

- Focus on the areas 'necessary' for Government to have a strong role in. That means ridding itself of responsibility for the supply of water and other areas of industry receiving Government support, eg, waste collection.
- Applying the lessons learned from what Scottish Water has so far achieved across other parts of Scotland's public sector may be just as important for releasing scarce resources and delivering more for less. Since it was established in 2002 operating costs have fallen by more than 40 per cent in real terms, customer service improvements have almost doubled whilst household charges have risen annually in real terms by less than 0.5 per cent.
- It is vital that Scottish Government recognises the role – existing and potential – of the Third Sector and on all occasions considers it as a possible service provider and partner. Many business models of co-operatives and social enterprises exist in this area and can provide interesting delivery options.

Pensions and Pay

Although many public sector pension arrangements are set in Westminster statute, they are administered by the devolved institutions, and the proposals set out by Lord Hutton in his review in this area should be accepted as a starting point to reform.

During the recession, private sector pay and employment fell while that in the public sector continued to rise, and the private sector labour market performed well, with cost savings being reflected largely in pay restraint rather than redundancies. The Scottish Government should encourage similar flexibility in the public sector by allowing pay bargaining at the institutional level rather than nationwide.

Health Spending

A strong case has yet to be made, based on specific and even future demand pressures, for continued special treatment for health spending being protected from cuts. Very high funding increases over the last decade suggest that high efficiency savings may be possible and any real terms increases should not go into higher pay rates.

- Health spending should focus more on preventative measures rather than remedial care.
- Ensure that the growing pressure from an ageing population does not lead to an increasing share of the economy being put to support of these public services. This will mean that 'long term care' (LTC) and 'health' services need to be reinvented.
- On LTC greater use of 'individual budgets' to allow the elderly to remain in

their own homes for as long as possible and real co-ordination between agencies is essential to ensure best possible service and economic delivery.

- On health, greater exploration is needed of the reasons why Scotland employs and spends more per head of population than any of the other constituent countries of the UK in order to reduce wasteful costs.
- The case for universal benefits such as free prescriptions or eye tests seems very limited at this time. We would wish those who can afford to pay to pay so freeing funds for other necessities.

Enterprise Networks

SE/HIE should act as a commissioner rather than a deliverer of some development services in partnership with private or third sector suppliers on a demand-led basis. Some good current examples of co-operation exist. It seems possible and desirable that the initiatives such as Global Scot and support around major international events, currently delivered directly by Scottish Enterprise, are examples which could follow that model.

A more focused understanding of Enterprise Networks role in improving Scottish economy, via either skills or infrastructure is needed. The alternative is that it exists primarily to offer financial incentives which could distort market operations through the unequal distribution of grants.

More effective action is required to get Scottish companies exporting – the current figure of 4,000 is much too low if we are to increase the growth of our economy.

Business and Society

Tax & Regulation - freeing business to serve society

Taxation and red tape are important factors in the business environment. Low tax and lightly-but-appropriately-regulated economies attract investment and allow home-grown businesses to flourish by reducing their cost base and leaving more to reinvest in growth.

The IoD believes that Scotland should move towards becoming a lower tax economy in order to improve its economic performance. The Scottish Parliament holds significant fiscal powers on non-domestic rates, income tax and council tax. Together these account for 14 per cent of its budget:

IoD believes that the Scottish Government should use these powers to improve the climate for business in Scotland. It should be the aim of the Government

to reduce spending and to produce a growth economy with a business friendly environment.

- The Scottish Government should set a medium term, ten-year target to reduce the burden of taxation in Scotland by £2.5 billion (2008/9 figures). The target would in itself send a powerful message of Scotland's economic priorities.

The aim should be to reduce the poundage on non-domestic rates to encourage business growth – with an aim to have it set lower than the rest of the UK.

A further aim should be to cut council tax by a third, saving a further £650million over the ten year period.

- A new government should commit to not introducing a “supermarket tax” or similar excessive business charges.

- The Scottish Government should lobby the UK government to reduce the burden of taxes which hit Scotland particularly hard, eg, those on key industries such as North Sea oil and whisky.

Regulation

Red tape imposes major costs on businesses and individuals in Scotland and the IoD believes the Scottish Government should focus on reducing regulatory costs and proceed, as the UK Government has committed, to significantly reducing the burden on businesses, especially SMEs.

- Audit Scotland should conduct an annual review of the cost of regulation in Scotland. It should also calculate the cost of licences, charges and fees levied by local authorities and the Scottish Government. The Scottish Government should set a target of reducing the costs of both by at least five per cent year on year.

- The rule of “one piece in, one piece out (minus five per cent)” should be applied to legislation and regulations, so that we see an overall decline over time.

- All new regulations and regulators should be introduced with a ‘sunset clause’ and ‘post-implementation review date’. The sunset clause would dictate a date at which the legislation would need to be recast in order to continue; thereby placing the burden of proof on those that wish the regulation/regulator to continue to prove this is necessary to do so.

- An independent annual audit of these figures by Audit Scotland and introduction of mandatory (Parliamentary Committee lead) post-implementation reviews of legislation should be introduced.

- The Scottish Government should publish annually a detailed list (by department) of all Regulatory Impact Assessments that have been discussed internally. A selection of these Regulatory Impact Assessments should be annually audited by Audit Scotland.

Conclusion

“The Scottish parliament already has control of many of the most important growth factors that impact on economic growth and it needs to focus on getting the best out of them”

(CPPR - Scottish Economy - Future Challenges and Policy Options)

As others have said: “Devolution is a process, not an endpoint.”

Thus far, the Scottish Government has been provided with sufficient extra funds to avoid the difficult decisions that Governments are traditionally employed to make. Its learning phase is now over and it needs to lead the country into a greater understanding of the hard choices that have to be made. The wrong choices will lead to existing services being put under even greater pressure; the right choices will lead to faster growth that can accommodate these pressures and more.

Politicians elected to the Scottish Parliament have a wonderful, once-in-a-lifetime opportunity to bring about changes in the underlying philosophy and approach to life in Scotland, for the medium-term goal of sustainable financial prosperity and social stability. The reality is that it is more than an opportunity, it is an absolute necessity.

We need to face up to an uncertain future from an economic perspective by addressing unwelcome certainties:

- In order to rebalance Government budgets there will inevitably be a sustained period of low, or no, real terms growth in funds for public services



- An ageing population means that this public sector austerity will still need to accommodate growing, possibly accelerating, public sector spending pressures in big budget areas like health and care for the elderly.

Individually these two certainties would point to the need for radical reshaping of Scottish public services. Together they make this imperative.

However, so far political debate has shunned the inevitability of structural change and fallen back to the false reassurance that tinkering with the current system will see us through. It won't.

Currently the economy, like that of most European countries, is out of balance, with too strong a reliance on the public purse to provide for the wellbeing of its population. We need to move to a society where 40 per cent or less of GDP is produced by the public sector instead of the current level of over 50 per cent.

However, this is too narrow a focus. The real emphasis should be to stimulate higher levels of business enterprise in order to create sustainable jobs and tax revenues to support the key public services.

The main goal of the politicians in Scotland should be to support at every opportunity a culture and approach in which business enterprise is praised and encouraged. This would in fact reacquaint us all with the principles and values of the famous Scot, Adam Smith, and the creative and innovative approach of so many of our countrymen ever since.

David C Watt
Executive Director
IoD Scotland
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The IoD in Scotland

The IoD's membership in Scotland is just under 2,000 (out of 40,000 across the UK) and this figure reflects the ratio of Scottish companies listed on the London stock market – around two per cent, and the five or so in the FTSE 100 listing. The membership is about 65 per cent focused on the SME sector, with the emphasis on the 'M' in SME, although around 10 per cent of the membership comes from some of Scotland's largest companies.

IoD members in Scotland are determined company leaders focused on growing their businesses and being effective corporate leaders. They operate in paid and voluntary capacities across the commercial, public and not-for-profit sectors, providing the leadership so vital to our economy and our society.

Some figures -

- * 33% of members employ more than 100 people
- * Over 15% employ more than 500 people
- * 36% turnover between £2m and £50m per annum
- * Over 25% turnover more than £50m
- * Around 30% are involved in the financial services industry
- * 5% in tourism, 8% in manufacturing, 5% in engineering and 3% in construction
- * 38% are CEO/MD/Chairman and a further 35% company executive directors
- * 48% are under 50

The IoD operates from a base in Edinburgh where it offers drop-in business facilities for members, as it does in Glasgow. It also has active branches in Edinburgh, Aberdeen, the Highlands and Islands, Fife and Tayside which provide a number of seminars and networking sessions designed to educate, support, inform and entertain members and other local leaders.

The IoD does share with any new Scottish Government a desire to grow this section of the Scottish economy – to develop companies of scale and build the international brands of the future.

We also advocate, develop and support strong leadership in all aspects of the nation's life. This includes politics as well as other public sector areas in addition to the private and third sectors. Regardless of the outcome of the election we would look for visionary and inspirational leadership for Scotland and its economy, and trust that the elected leadership would work even more closely with organisations like the IoD to improve the nation's economic performance.

