SCDI is an independent and inclusive economic development network which seeks to influence and inspire government and key stakeholders with our ambitious vision to create shared sustainable economic prosperity for Scotland.

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The Smith Commission on Devolution

1. SCDI is an independent membership network that strengthens Scotland’s competitiveness by influencing Government policies to encourage sustainable economic prosperity. SCDI’s membership includes businesses, trade unions, local authorities, educational institutions, the voluntary sector and faith groups.

Introduction & Principles

2. Since its formation in 1931, SCDI’s role has always been to examine and consider impartially the industrial, commercial and economic challenges and opportunities facing Scotland. As an independent, non-aligned organisation with a broad membership, SCDI has not taken positions on Scotland’s constitutional relationship with the rest of the UK which have, to a greater or lesser extent, been a feature of debate since SCDI was created. For instance, SCDI has seen its role in this context as to provide information and insights on the economic aspects. SCDI was an observer to the Scottish Constitutional Convention and our then-Chair was a member of the Calman Commission. Ahead of the referendum on Scottish independence, SCDI undertook our Future Scotland enquiry into some of the key issues across the Macroeconomic & Fiscal Sustainability, Energy and Europe & International spheres. The work was informed by expert steering groups and by wide and in-depth consultation across SCDI’s broad membership, including organisations across all sectors of the economy, in the corporate sector, SMEs, public sector agencies, trade unions, local authorities, educational institutions and the third sector. Online and face-to-face interviews have gathered substantial evidence from SCDI members and our work has also been informed by relevant statistics, statements and publications from a range of experts. This response draws on that research and on further discussions with a wide range of members on the Smith Commission. The key questions which were agreed by our Future Scotland steering groups, links to those papers and SCDI’s previous papers on devolution are attached at the end of this submission.

3. The centralisation of powers in the UK in the late 1960s was a principle driver of the debate about Scotland’s constitutional relationship with the rest of the UK. It was also a key issue for SCDI, the subject of our first ever international Forum. In a 1969 paper¹, SCDI identified the accelerating pace of the centralisation of economic decision-making, both private and public, in London, particularly management, research and design, marketing and finance as the most dominant and potentially the most damaging factor in the Scottish industrial situation, with wider effects on the Scottish community. The paper also highlighted the decline of Manchester and Liverpool as “centres of national life, standing over and against London in the processes of industrial and political policy-making”, and the same erosion in north east England, Wales and other areas. It was recognised that this not only damaged them, but would have long-term financial implications.

¹ Scottish Council (Development & Industry), Centralisation: Scotland’s 20th century nine of diamonds?, March 1969
because: “if the growth of London continues, so the costs of keeping London mobile will spiral”. By 1974, SCDI’s response to the UK Government’s paper *Devolution within the United Kingdom* suggested that Britain was “the most industrially centralised country in Western Europe - arguably in the world”.² It is striking that many of the points made resonate with our messages in this paper suggesting that these are long-term challenges which have not yet been fully addressed – for example, “the critical industrial issue for Scotland today is Scotland’s ability to generate and to originate new enterprises, and to keep and develop indigenous companies”, the need for “good innovating locations”. Many of the proposed policy responses are also similar: the need to retain and attract centres of management and divisions of responsibility within companies; the need to improve transport communications, especially international aviation connectivity, and electronic communications; the need to take advantage of North Sea oil and gas an anchor head office operations in Scotland as the resource eventually declines; and the need to consider relocation of government departments from London to Scotland (such as the Civil Aviation Authority/aviation, digital communications and – notably with the new Oil and Gas Authority to be established in Aberdeen – energy). Recent policies and statements by all the UK political parties suggest that the decades-old process of centralisation in the UK is now going into reverse, with decentralisation of economic decision-making to support economic rebalancing. SCDI welcomes contributions such as the RSA’s City Growth Commission and, from within Scotland, COSLA’s Commission on Strengthening Local Democracy.

4. Further devolution to the Scottish Parliament should be based on principles and as clear an understanding as possible of the purpose of doing so and, within the timescale available, cost-benefit analysis of the potential impact of using them individually and collectively. The following are suggested as important principles:

- Enhancing the Scottish Parliament’s powers to promote and incentives to prioritise economic growth which are stronger, resilient, inclusive and environmentally sustainable, with a particular focus on improvements to:
  - Productivity
  - Innovation
  - Internationalisation
  - Infrastructure
- Strengthening the financial accountability of the Scottish Parliament
- Safeguarding and strengthening Scottish fiscal stability and sustainability
- Safeguarding the fiscal stability of the UK monetary union
- Encouraging decentralisation of economic powers in the UK and within Scotland to support stronger overall growth and a rebalanced economy

**Executive Summary**

- Fiscal decentralisation is welcome, but stability and predictability of the operating environment and unity of the single UK market need to be protected.
- Corporation tax, competition policy and employment policy should remain reserved.
- Oil and gas taxation, licensing and regulation should remain reserved. Energy policy and the leasing of the seabed should remain reserved. The Scottish Government should have a more formal role in developing UK energy policy.
- Telecommunications and broadcasting policy and regulation should remain reserved.
- The Scottish Parliament should be able to offer tax incentives for business research and development and a local division of the Unified Patent Court should be established in Edinburgh.
- Air Passenger Duty should be devolved as soon as possible and reduced/abolished to develop Scotland’s aviation connectivity.
- Given the proposals from the political parties in the Smith Commission, significant further devolution of income tax is a reasonable way to increase the financial accountability of the Scottish Parliament, including rates and bands. These powers would need to be utilised in a way which maintained the competitiveness of the Scottish economy.
- Some or all of the proceeds of VAT raised in Scotland should be assigned to the Scottish Parliament.
- The Aggregates Levy should be devolved, subject to decisions by the European Commission and Court of Appeal about the Levy.
- The Scottish Government’s borrowing powers, within agreed fiscal rules, should be further increased to fund infrastructure improvements and the range of lenders from which it can borrow should be expanded.
- Further City Deals for those Scottish city-regions which wish to pursue them should be supported. The current review of the oil and gas fiscal regime presents an opportunity to create an Aberdeen City and Shire Infrastructure Fund.
- The Scottish Parliament should have greater flexibility over high skill/high talent migration, including the reintroduction of the post-study entitlement for overseas students.
- Services to get people back into work should be devolved and integrated with education and skills.
- A more co-ordinated approach to export promotion would be more beneficial than further devolution and trade policy should remain reserved. Recommendations from the Wilson Review of Scottish exports, such as Exporter Clubs to share experience and expertise, should be implemented.
- Increased financial accountability needs to be underpinned by increased and improved financial scrutiny, including by the Scottish Parliament, and new checks and balances in the legislative process.
- Scotland should develop stronger links with the north of England, especially on policy and physical connectivity e.g. high speed rail.
UK Governments and agencies should sustain and further improve their engagement in Scotland post-referendum, and there should be a review to identify UK public bodies which can be relocated/ decentralised

Productivity

5. In 2012, Scotland was ranked 17th, of 32 countries, for productivity levels amongst OECD countries. The gap between Scotland’s productivity performance and the lowest ranked country in the top quartile of the OECD grew to 21.8%.

Key Messages from SCDI’s Future Scotland Research:

- The need for stability and predictability for future planning
- The need for Scotland, as a small economy, to be open and connected to the global marketplace, with an attractive operating environment, including low barriers to doing business; high quality infrastructure enabling optimal access internally and externally, and a skilled, well-educated workforce, with sufficient attractiveness to lure and retain globally competitive talent
- The need for a strong domestic economy, with prosperity across communities and public investment in infrastructure and people
- The unified single UK market is a stimulus for many key sectors, with different operating systems and new potential barriers to trade seen as unwelcome in sectors where there is currently a high interdependence
- While a stable and affordable tax environment was important to businesses, many respondents were reasonably satisfied with the existing fiscal regime, and would only be seeking marginal improvements. There were some calls for reductions in taxation rates to assist businesses, including business rates, VAT, national insurance and fuel duties, but no particular consensus was detected for a significantly lower tax environment. Most articulated the desirability of a wider business environment that ensures appropriate investment in good infrastructure, skills and education to support the economy’s long-term needs

SCDI Proposals for Devolution

6. Integration of Support for Employability – Education and skills policy and delivery are devolved to the Scottish Parliament, while the UK Government is responsible for services for the unemployed, such as the Work Programme. There is a perception that these areas could be more effectively joined-up and that the role of JobCentre Plus in supporting people into work is not understood by employers. SCDI believes that there should be devolution of UK responsibilities to the Scottish Parliament. Regional and/ or local delivery should be considered. There may need to be agreement on an inter-governmental financial compensatory mechanism to encourage and reward Scottish
Government successes in reducing welfare payments by placing more people into work.

7. **Flexibility on High Skill/ Talent Immigration** – Population growth is a key driver of a dynamic economy. Scotland’s population has grown at a lower rate than other parts of the UK, rising by 1.5% between 1971 and 2012, compared to 15% in England. Population growth is forecast to continue to be slower over the next two decades. At the same time, there will be a significant demographic shift, with a considerable increase in the number of people of pensionable age. Scotland’s working age population is forecast to decline by 4% between 2012 and 2037, while the number of people over 65 years is projected to rise by 59%. The relatively greater economic and fiscal challenges for Scotland of an ageing population compared to the rest of the UK were highlighted by the UK Government, Better Together parties and the Scottish Government during the referendum debate. This is a very significant challenge for the availability of skilled people and levels of entrepreneurship. SCDI’s research found a widespread view that current UK immigration and visa policy is not aligned with Scotland’s distinct needs. This ranged from problems for the mobility of international executives and technical experts within global corporations, to the attraction of skilled workers in priority sectors for Scotland, to serious and growing difficulties for international students and academics coming to Scottish higher education institutions. There was a view that policy needs to be adapted to meet Scotland’s specific needs, otherwise the economy will be undermined by continuing problems in the attraction of necessary talent. SCDI supports flexibility for Scotland in immigration policy focussed on high skill/ talent immigration. For example, Canadian provinces are able to nominate people based on the skills needs of their economies. The need for flexibility for Scotland was accepted by the UK Government in the Fresh Talent initiative, a two-year post-study work entitlement for international students graduating from Scottish higher education institutions. This operated successfully in Scotland between 2004 and 2008, with no impact on the wider immigration system, before being rolled-out across the UK and then ended in 2012. Restriction of the post-study work entitlement has damaged the international competitiveness of Scottish higher education, moreover as other countries have actively sought to increase their attractiveness. The reintroduction of the two-year post-study work entitlement for international students graduating from Scottish higher education institutions would increase the availability of skills improving productivity and innovation, and supporting a global mind-set among Scottish students and internationalisation of the Scottish economy. International students make a significant positive economic contribution through fees and expenditure, helping to support public finances and services rather than burden them, and, especially given Scotland’s long-term economic and demographic challenges, greater flexibility around high skill/ talent immigration policy would make a vital positive contribution to sustainable economic growth, fiscal sustainability and the provision of public services.

**SCDI’s Supporting Proposals**
8. **Working Together Review** – The review for the Scottish Government of Progressive Workplace Policies found that Scotland benefits from generally good industrial relations, but that greater engagement between employer, trade unions and government could have a positive effect in workplaces, sectors and nationally, with opportunities for innovation that would enhance productivity, workplace development, and labour market security and resilience. The review made a number of useful recommendations on how relationships could be optimised under the existing employment law arrangements, and SCDI believes that more employers, including from the private sector, should get involved in this dialogue and learn from good practice. We believe that the review offers significant potential for improvements in Scotland under the existing legislative arrangements and that this should represent the focus for the Scottish Government rather than the devolution of employment law. A divergence in employment law would increase complexity and costs for employers operating in a single market, and it would create uncertainty for employers and employees.

**SCDI Comments on Parties’ Proposals for Devolution**

9. **Corporation Tax** – SCDI’s Future Scotland research found that corporation tax was the tax most frequently cited amongst those key taxes and/or incentives which most influence investment by organisations in Scotland. A higher rate of corporation tax was widely seen as potentially damaging to the interests of Scotland’s economy, and would send out the wrong signals. There was also recognition that a significantly lower rate could have a positive effect in attracting further investment to Scotland. Nevertheless, it was pointed out that:

- The UK’s current corporation tax rate is relatively competitive and is reducing. Ireland’s corporation tax rate had been set in a different era, and Scotland may have “missed the boat”
- A marginal reduction would have some, but not significant, positive impact for Scotland’s economy
- There is no great desire to participate in a race to the lowest tax environment
- There is doubt about the extent to which tax competition will be permissible within the EU
- The rate would have to be sustained over a reasonable timeframe, and avoid any sign of volatility, to be credible to potential investors
- Many respondents raised questions about how a competitive corporation tax would be funded, and acknowledged that the benefits would depend on the wider package of the prevailing business environment – e.g. it would have no real benefit if the result was that Scotland could not afford to maintain competitive infrastructure
- Corporation tax was not the sole reason for decisions on business location – physical infrastructure, access to raw materials, skilled labour are also taken into account
• It was pointed out that global enterprises have in-built systems for ensuring tax efficiency, and that the funds going to a Scottish exchequer from corporation tax would not necessarily be large-scale
• The headline rate is only one consideration – tax certainty and allowances are also important factors

10. **Competition Policy** – The new Competition and Markets Authority (CMA) has recently been established, with an office in Scotland. SCDI welcomes the approach which it is taking to engagement with stakeholders in Scotland and with the Scottish Parliament. The CMA has a programme of work of significant interest to key sectors of the Scottish economy, including inquiries into banking and power, and supporting the implementation of the new regulatory framework for oil and gas. SCDI believes that devolution of competition law or the CMA would be disruptive to these inquiries and sectors. Competition issues which are specific to Scotland are very small in number and the costs and complexity of establishing a separate system seem hard to justify. It is important that the CMA continues to engage in Scotland to identify any issues and any Scottish dimension to UK issues, and to help encourage and inform a debate among policymakers about competition and collaboration in improving public services and addressing the opportunities and challenges across sectoral strategies.

**Innovation**

**Reason**

11. Despite its academic research excellence and innovative companies, spending on research and development in Scotland is low compared to the EU average and the gap has grown slightly. This is mainly due to very low levels of business investment. The value of business enterprise research and development in Scotland represented 0.58% of GDP in 2012, compared to 1.09% for the UK as a whole. The UK itself lags behind the EU and OECD averages of 1.22% and 1.62%. Patenting in the UK is also lower and has declined since the 1980s.

**Key Messages from SCDI’s Future Scotland Research:**

12. SCDI’s Future Scotland research uncovered a number of tax incentives which were frequently mentioned as being beneficial including R&D incentives; incentives for employment, training and apprenticeships; and innovations such as Patent Box which supports manufacturing activity from patented research.

**SCDI Proposals for Devolution**

13. **Tax Incentives for Business Research and Development** – Targeted tax relief for R&D is shown to encourage existing businesses to invest more and attract inward investment from research-orientated businesses. International evidence cited by HMRC identified benefits of up to £3.60 for every £1 of tax relief. Existing
UK schemes such as tax credits and Patent Box were supported by SCDI members. However, in other countries regional governments are able to offer their own, additional tax incentives for R&D which they may design to focus on key sectors. Given the long-term low level of business expenditure on R&D in Scotland, SCDI supports devolution of powers to offer additional tax incentives.

SCDI’s Supporting Proposals

14. **Scottish-based Division of the Unified Patent Court** – A single Unitary Patent is to be available for businesses, providing equal protection throughout all participating EU countries. Unified Patents can be challenged and defended in a single court action though the Unified Patent Court. The intention behind the new system is that it will in a relatively short time frame of 7 or more years replace the current national and European patent systems. London is to host a specialist division and member states can host up to four local or regional divisions or participate in regional partnerships. Although UK Intellectual Property (IP) law, including patent law, applies UK wide, Scotland is a separate independent legal jurisdiction within the UK with its own distinct courts. Scotland has separate procedures and rules for dealing with IP disputes, including patent related disputes, and the Court of Session has built up expertise and experience in this area. It is important that Scotland as a separate jurisdiction continues to provide local access to a court. If Scotland does not secure a Scottish based local division then IP-rich, Scottish-based businesses will likely be forced to litigate and defend themselves elsewhere in the UK and possibly much further afield within Europe with added costs, business burdens and uncertainty. Within a relatively short time period the skill sets of Scottish IP lawyers and judges would be under-utilised and eroded, requiring them to consider relocation. Securing the location of a local division in Scotland provides a real opportunity to place Scotland on the map as a recognised hub within Europe to resolve patent disputes. This would improve its attractiveness to overseas and local investors as a place to invest and support innovative companies. It would also improve its attraction as a potential base for technology dependent businesses to set up.

SCDI Comments on Parties’ Proposals for Devolution

15. **UK Framework for Research and Innovation** – Based on strong devolved investment, Scotland’s universities punch above their weight in competing for research funding the UK Research Councils, UK research charities and European and international funders, for technology and innovation centres. This ‘dual support’ framework for research should not be disrupted or rebalanced.

Internationalisation

Reason
16. The UK as a whole does not rate highly by global standards as an exporter and Scotland performs slightly less well than the UK as a whole. According to HMRC, in 2012 there were 72,555 “active exporters” (excluding services) in the UK, with only 3,676 registered in Scotland, which is 5% of the UK total, less than Scotland’s GDP and population shares. Around 7% of Scottish businesses export. There has been, at best, limited progress beyond established markets into higher-growth markets with 19 export markets featuring every year in Scotland’s top 20 since 2008.

Key Messages from SCDI’s Future Scotland Research:

17. The importance of Scotland’s membership of the EU was acknowledged by a clear majority in SCDI’s Future Scotland research. In the main, the significance of the EU single market and the EU’s role in international trade negotiations is seen as vital in ensuring Scotland’s future economic potential. It was noted by a number of sectors that much of the regulatory framework within which our key sectors currently operate derives its legitimacy from the EU. This ranges from frameworks governing the insurance sector to environmental and employment law directives across all relevant sectors. EU membership was also seen as highly significant for access to research funding for the Higher Education sector; European Structural Funds; and European Social Funds for local government and third sector economic development initiatives in skills and training.

18. UK Trade & Investment (UKTI) has the commercial and diplomatic reach of a presence in over 200 global markets, and SCDI’s Future Scotland research indicates that for some sectors, such as whisky, this extensive network and the influence that it can provide is paramount. Importantly, the support of Embassies here relates to matters of trade policy and not just trade promotion. However, UKTI’s visibility in Scotland has been lower than it should have been in recent years and many Scottish companies do not realise that the services they are using are UKTI services for which Scottish Development International acts as the agent in Scotland. Some respondents felt that the existence of the UK Government overseas network had little tangible impact for them, and that they may benefit from more proactive support from Scottish representation. The UK’s relative performance, compared for example to Germany, in emerging markets was also questioned. Scottish Development International (SDI) is regarded as doing an effective job, particularly with key sectors, but it cannot and should not try to match UKTI’s footprint. For some respondents there is an opportunity to give deeper support to particular sectoral strengths and competitive advantages that Scotland possesses, and which may not always be at the forefront of UKTI operations. Scotland’s creative industries and arts sector were examples cited that may be promoted more vigorously in international markets by a distinctly Scottish network. In some cases, the role of the British Council in supporting arts, education and cultural diplomacy was also highlighted. It was observed that commercial opportunities can arise through cultural diplomacy, such as links between the arts and food and drink sectors.
SCDI Proposals for Devolution

19. SCDI does not believe that further devolution of responsibilities is required. A more co-ordinated approach to export promotion would be more beneficial.

SCDI’s Supporting Proposals

20. Exporter Networks – The Wilson Review of Scottish Exports contained a number of useful recommendations on how greater collaboration between both governments and between government and the private sector/industry-led bodies can maximise the benefits of Scottish resources focussed on supporting particular Scottish strengths while maintaining full access to the UKTI overseas network and services. Scotland Food & Drink is an effective example. However, there also needs to be improved support by UKTI for sectors of the Scottish economy which are distinct from the rest of the UK but have competitive expertise (such as the legal sector) and by SDI for companies which are outwith their key sectors and have international potential. SCDI endorses, as a priority, the value in creating and exporters participating in Exporter Networks, non-governmental forums in which to exchange experience and help each other, including cascading knowledge from larger, experienced exporters to SMEs.

SCDI Comments on Parties’ Proposals for Devolution

21. Trade Policy – The UK Government has a strong global network and great experience in dealing with trade policy and issues. At present, UK representation at the EU level is regarded as effective by larger industries like whisky, but less so by some industries which are smaller on a UK scale. SCDI does not believe that the devolution of trade policy responsibilities would more effectively deliver for key sectors of the Scottish economy. However, UK government departments should regularly seek to discuss trade priorities with Scottish businesses and trade associations, and the Scottish Government and trade promotion agencies, so that it is fully informed and responsive and that all contacts where there is an opportunity to make representations to relevant decision-makers are utilised.

Infrastructure

Reason

22. The World Economic Forum’s Global Competitiveness Index consistently ranks the UK behind countries such as Germany and France for quality of infrastructure. Quality of rail and especially air transport infrastructure is a drag on its overall ranking. In 2014-15, the UK was ranked 28th for air transport infrastructure. The UK has also been ranked at 139th out of 140 countries for competitiveness of aviation taxes. Scotland has few direct flights to priority high growth markets. Scotland has the EU’s largest energy resources with a world-
class industry and huge opportunities in oil and gas and renewables. However, the Wood Review of UK offshore oil and gas recovery and regulation found that it faces unprecedented challenges which must be tackled if economic recovery is to be maximised. Based on its existing nuclear and thermal power plants, Scotland has been and is a substantial net exporter of power to the rest of the UK. The development of its renewable resources and offshore ‘bootstrap' interconnection would maintain these exports and the future development of North Sea grid infrastructure could enable exports to an integrated European market. However, a new report for the Scottish Government has confirmed that reduced capacity and potential closures of conventional generation, such as Longannet, could lead to security of electricity supply issues in Scotland.

Key Messages from SCDI's Future Scotland Research

23. Oil and Gas:

- Predictability is necessary. This is particularly important in the context of the fiscal regime but is also pertinent to the licensing and regulatory regimes and general operating conditions
- The pace of licensing and investment needs to be maintained, and it would be a concern for future investment flows if there was significant disruption to this (for example, during a period of instability). There is a need to extend the life of existing fields and tie-in new discoveries to existing infrastructure now, not wait. Periods of disruption could cause existing infrastructure to be decommissioned before they can be further utilised and curtail the life expectancy of the North Sea oil and gas industry
- The North East of Scotland (particularly Aberdeen) is the hub of the UK oil and gas industry and considered to be at the forefront of energy service with a world class supply chain
- There is an acknowledgement that the Department of Energy and Climate Change as the UK regulator is currently stretched to meet the volume of work in train
- Decommissioning offers real opportunities for Scotland/UK to be a world leader, but there is a lack of decommissioning business in place. Who would fund this, and would the Scottish Government provide the same level of tax reliefs as the UK Government and reassurance as to the certainty of the availability of that tax relief? The Scottish Government is not a party to the Decommissioning Relief Deeds (the contracts entered between the UK Government and companies to provide assurance on the tax relief that they would receive on decommissioning assets in the event of the default of a co-venturer)
- The growing skills gap (particularly engineering skills) is a threat to the sector
- The secondary tax regime is very important primarily in order to attract and retain a skilled workforce. There may be more Scotland can do to support local content in the supply chain

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3 Scottish Government, Assessing Scotland’s security of supply in the GB Electricity market, October 2014
There are opportunities in unconventional gas production such as shale

24. Power Generation and Transmission:

- The need for a clear and competitive policy. Contract for Difference (CfD) allocations will provide a clear framework for investment but policy clarity on allocations in future rounds is not present. This may lead to a drop off in development work which may in turn reduce competition and investment in the future. Harnessing Scotland’s potential in the generation of renewable energy is a key objective. The development of renewable energy has been based on the renewables obligation and the system of Renewables Obligation Certificates (ROCs), now being phased out and replaced by CfDs.
- The Scottish Government is perceived by industry as more strongly and consistently supportive of renewable energy generation, and a more formal role for the Scottish Government in developing UK energy policy would be welcome.
- The cost of doing business is key in electricity and natural gas supply. Recognition that conventional gas remains important to domestic and business users.
- Long-term investment programmes in the electricity networks – including building bootstrap connections around Scotland to England – are essential to both Governments for renewable electricity ambitions.
- The need to continue to support innovation, particularly in less mature technologies for which Scotland has competitive advantages.
- Scotland must continue to pursue leadership potential in Carbon Capture and Storage opportunities.
- Membership of the EU enables involvement in the carbon trading market and supports investment in reducing emissions.

SCDI Proposals for Devolution

25. **Air Passenger Duty** – Aviation connectivity is very important to the Scottish economy due to its location on an island on the periphery of Europe and its need for greater internationalisation, especially in higher growth emerging markets. Airports and airline services are closely connected with urban economic development and regional employment growth, and airports are associated with key characteristics of knowledge-based economies. Improved aviation connectivity with key national and international markets is, therefore, a high priority for the Scottish Government, Scotland’s cities and VisitScotland. Given its location and relatively small population size, the commercial viability of routes to and from Scotland is more challenging than other larger markets elsewhere in the UK and Europe. The impact of taxation on aviation connectivity is, as a result, more significant and serious. Since 2007, Air Passenger Duty (APD) rates for short-haul travel have increased by around 160% with long-haul rates increasing by between 225% and 360%. The UK is one of just five countries in Europe to levy a passenger departure tax and APD is by far the highest air passenger tax in the world. A report by York Aviation estimated that APD is costing Scotland two
million passengers per annum and will cost the Scottish economy up to £210 million in lost tourism spend per annum by 2016. Research by PwC suggests that reducing or abolishing APD would raise as much or more money for the wider economy – this was also the conclusion of heavily-indebted Ireland when it abolished its equivalent of APD entirely in 2013. The Calman Commission in 2009 included APD in the package of powers to be devolved to the Scottish Parliament and, with the Scottish Government committed to reducing and eventually abolishing APD in Scotland, SCDI continues to strongly support this position. In SCDI’s discussions with members, the opportunity for Scotland to control its own APD rates is seen as very important in developing the connectivity required to grow its exports, attract inward investment and increase tourism. As a result of its specific challenges, particularly its relative remoteness and market size, which increase the costs and risks of operating air routes from airports such as Inverness, the Highlands and Islands have an effective rate of 50% at present. The reduction in APD in other parts of Scotland may lead to more people from the region travelling to other Scottish airports to fly. Should the Scottish Government gain powers over APD and reduce it, there should also be further reductions in the effective rate in the Highlands and Islands to mitigate this effect.

26. Enhanced Borrowing – As a result of the Scotland Act from April 2015 the Scottish Government will be able to borrow up to a total of £2.2bn for capital investment via the National Loans Fund, commercial loans, and by issuing its own bonds. The Scottish Government has a good track record of prioritising and utilising traditional and more innovative fiscal measures to fund infrastructure investment, and of prudently managing its capital investment programme. SCDI believes that there is scope to increase these borrowing powers further to fund infrastructure, with the agreement of appropriate fiscal rules, and widen the range of lenders from which the Scottish Government is permitted to borrow. This could, for example, increase its ability to become involved in the green infrastructure projects on which the UK Green Investment Bank focuses.

27. City Deals – SCDI welcomed the City Deal between the UK Government, Scottish Government and Glasgow city-region, particularly the additional funding for infrastructure. We believe that there is the potential for further City Deals for those Scottish city-regions which wish to pursue them. The current review of the oil and gas fiscal regime presents an opportunity for the Aberdeen city-region. This is a global energy hub and its continued success as an attractive business location for the oil and gas industry and its high-skilled employees, many of whom work globally, is of great importance to the Scottish and UK economies. High levels of investment by the oil and gas industry are generating further growth in the city-region which is straining its infrastructure. Underinvestment in the infrastructure of the city-region is one of the causes for the cost pressures being faced by the industry in Aberdeen. For example, housing market pressures and poor intercity and city-region transport accessibility, especially public transport, restrict the labour market. Aberdeen competes with existing and aspirant global energy hubs which are often able to invest enormous sums in
world-class infrastructure. Some of the pressure from the growth in Aberdeen can be relieved by spreading the economic benefits of the industry to other smaller hubs in Scotland and the UK. However, it is fundamental to the UK’s future in the global energy industry and sustaining the wider economic benefits that Aberdeen is able to compete with other international hubs for highly-mobile businesses and employees, especially as the basin matures further. This requires greater investment in infrastructure and, as this helps to ease cost pressures on the industry, it will generate further tax revenues for government by supporting improved industry profitability, maintenance of marginal production and anchoring the supply chain in the UK. This demonstrates the strength of the fiscal case. The private sector could potentially support improvements through the creation of an allowance for company contributions to an Aberdeen City and Shire infrastructure fund.

SCDI’s Supporting Proposals

28. UK/ Scotland Energy Partnership – An answer to the energy trilemma of security of supply, decarbonisation and affordability is most likely to be achieved through an approach based on integration, stability and cost-sharing. By working together, the UK and Scottish governments are better able to support the development, demonstration and deployment of new technologies and a single market has greater capacity to spread the costs of support mechanisms. However, there is also a need for national policy to better reflect national, regional and local opportunities and challenges, such as security of supply on the network in Scotland, transmission charging and island transmission connections. In particular, the relatively high level of transmission charges for generation in Scotland has been a very significant barrier to investment in renewable and new conventional power generation, and while reforms have been under discussion the pace of change has been frustratingly slow and the charges are now a major factor in the threat to existing conventional generation capacity. SCDI believes that energy policy should remain the responsibility, ultimately, of the UK Government, with the Scottish Government able, as at present, to exert a positive influence through planning and enterprise support. An unprecedented level of investment in new energy infrastructure is required and the energy market has been going through a long reform process, supported by the UK and Scottish governments, to be as well-placed as possible to meet this challenge. SCDI is concerned that allocating a proportion of the Levy Control Framework, as has been mooted by some, to Scotland would risk limiting the support for good projects and begin to unravel the single market. However, the Scottish Government should also have a more formal role in developing UK energy policy, based on regular meetings between the UK Government and devolved governments with the objective of discussing, developing and agreeing overall policy and the respective priorities of the UK’s nations and regions within it. Given the commitments from the UK and Scottish governments during the referendum campaign on infrastructure to develop the substantial renewable electricity resources on Scotland’s islands, this must include action to ensure that
developers have access to sufficient support through CfDs that they can commit to grid connections in time for Transmission Operator’s to apply to Ofgem and approval to be granted in time for connections to be operational before 2020. A more formal partnership on energy policy and regulation would include annual evidence sessions at the Scottish Parliament for the Chief Executives of Ofgem (as at present at the UK Parliament) and the new Oil and Gas Authority. These meetings in Holyrood could be held jointly with the UK Parliament’s Scottish Affairs Committee. There could be merit in devolving energy efficiency and fuel poverty policy.

29. **Circular Economy** – The circular economy is designed to keep resources in use for as long as possible, extract the maximum value from them whilst in use, then recover and regenerate products and materials at the end of each service life. It can reduce environmental impacts, drive greater resource productivity, reduce resource risks and costs, increase competitiveness and open up new opportunities for growth. While the powers which would support the development of a more circular economy are already devolved, government leadership and policy direction are also key to encouraging more businesses to get involved. The Scottish Government is moving ahead of the UK Government in this respect. The development of the circular economy and the scale of new infrastructure it will require, such as for remanufacturing, may present an economic opportunity for collaboration between Scotland and city-regions in the north of England. A forthcoming report by the Green Alliance and SCDI will provide analysis of how Scotland could help to make its economy more circular and consider opportunities in specific sectors, including biorefining in food and drink, and reusing and remanufacturing – when they are ultimately decommissioned – oil and gas assets or directly reusing oil and gas infrastructure for Carbon Capture and Storage.

30. Rebalancing and decentralisation of the UK economy would be supported by protecting and improving transport connectivity between Scotland and the north of England and from Scotland to and through London to the rest of the world. This would be a positive, long-term post-referendum agenda for the UK and Scottish governments to agree with benefits for Scotland and the rest of the UK.

31. **Scottish Access to London Airports Hub Capacity** – Air access through a UK hub in London is of strategic importance to Scotland’s economy. Restrictions on capacity at Heathrow and Gatwick due to UK governments’ policies against expansion has seen commercially viable domestic routes squeezed out through landing fees, or substituted for more profitable long-haul services. This has seen air access from UK regions into these key airports eroded, impacting on Scotland’s competitiveness. It is vital that we halt this deterioration and secure for the long-term frequent services from our city-regions. SCDI continues to engage with the Airports Commission and both short-listed bidders, Heathrow and Gatwick, to ensure that Scotland’s interests are fully taken into account. The new UK Government must be decisive both on the need for additional capacity and
the need to ensure that access to it is safeguarded for UK nations and regions, and above all city-regions which do not have competitive surface access alternatives. UK aviation policy over many decades has been weak in relation to the connectivity needs of the UK’s nations and regions. Changing this mind-set could be encouraged by relocation of policy and regulatory functions from London, and SCDI suggests that its 1969 proposal to relocate the Civil Aviation Authority to Scotland (or at least the north of England) should be revisited as part of a broader consideration of the decentralisation and dispersal of UK public bodies.

32. Including Scotland in HS2 – The case for HS2 would only be strengthened by the inclusion of a high-speed rail connection between central Scotland and the north of England, maximising the economic, environmental and social benefits of the investment. This would better link the city-regions in those areas and enable a journey time of below 3 hours between both Edinburgh and Glasgow and London. HS2 would provide an essential capacity increase on north-south intercity routes for passengers and freight and bring substantial productivity benefits to businesses in Scotland. Without high speed rail between central Scotland and the north of England, the journey time reduction of HS2 between London and central Scotland would be proportionately far less significant than between London and the north of England, reducing the competitiveness of Scotland as a location for investment. SCDI looks forward to the report by HS2 Ltd on HS2 Phase 3 between northern England and Scotland. This should be a priority for the UK and Scottish governments. They should also continue to invest in track and train infrastructure, including cross-border, to grow and protect the intercity rail markets in readiness for HS2, including key routes for the economy, such as Aberdeen-Newcastle, which may not directly benefit from HS2.

SCDI Comments on Parties’ Proposals for Devolution

33. Oil and Gas Fiscal Regime – The UK Government’s review of the fiscal regime for the North Sea will lead to the publication of a Roadmap at the time of this year’s Autumn Statement. SCDI has made a submission to the Treasury on the changes which we believe are necessary to improve the competitiveness of the basin to attract investment and maximise economic recovery, particularly as costs rise and prices fall. SCDI is concerned that devolution of the fiscal regime or its revenues would create additional unpredictability, uncertainty and complexity which would risk an investment hiatus that the North Sea can ill-afford given challenges such as low rates of exploration and maintaining ageing infrastructure. The sharp decline and increased volatility in revenues from the North Sea which have been evident in recent years are also more comfortably absorbed by the UK’s larger tax base than it would be by the Scottish Parliament.

34. Oil and Gas Licensing and Regulation – Following the Wood Review, the licensing and regulation of oil and gas exploration and production are being overhauled, with the new regulator, the Oil and Gas Authority being established
in Aberdeen to encourage economic production and provide sustainable long-term support for the industry. Fast-track implementation of these changes are key to maintaining the investment required to sustain and increase activity and meet the challenges of maturity and maximising economic recovery. Devolution would delay and complicate this process, potentially risking confidence and investment, and the operation of two regimes within the basin would create greater complexity for operators and duplicate effort across the governments. The offshore oil and gas health and safety regime is also subject to significant changes at present with the implementation of the EU Offshore Safety Directive and legislative devolution or the creation of a separate Scottish Health & Safety Executive would add further complexity and cost and has the potential to cause confusion and delay, fragmenting arrangements that are regarded as world-leading.

35. **Leasing of the Seabed** – The seabed around the UK is the location of key infrastructure, such as energy cables and pipelines and telecommunications cables. These investments are often deployed over large areas in challenging environments and, therefore, a strategic management and specialist knowledge of the seabed are highly-valued by investors. This is especially true in relation to the development of offshore wind, wave and tidal, and carbon capture and storage. The UK is consistently ranked the most attractive country in the world for offshore wind investment and one factor in its competitiveness is the strategic oversight and single point of entry to the market provided by The Crown Estate. It also has a number of important partnerships with industry to support and reduce the risks of development and deployment. These investments are potentially highly important for national energy security and decarbonisation targets, and national and regional economic activity, potentially supporting reindustrialisation of the economy and an internationally competitive supply chain. Industry, including offshore renewables, is clear on the benefits of certainty and stability, and the risks of a loss of co-ordination and specialist knowledge and a duplication of effort. Seabed leasing should remain a national rather than a local responsibility. Strong growth bolstered by global demand is also projected for the aquaculture sector, backed by major international investment, which is a key component of Scotland’s thriving food and drink sector. The Scotland-wide approach to leasing and sustainable management of the Crown Estate is attracting investment in developing the new sites needed and should be retained. SCDI understands aspirations for greater local control of or input into Crown Estate assets, and for increased direct local revenue benefits. Local Managements Agreements, the Coastal Communities Fund and foreshore sales have been significant steps in the right direction. These can and are being extended and there may be other arrangements, for example in relation to revenues, which would be further improvements. However, the desire for local control needs to be balanced against strategic sustainable development of nationally-significant assets with their national and local socio-economic benefits.
36. **Onshore Oil and Gas Licensing** – Access to shale gas is considered essential to the future of the Grangemouth petrochemicals and refinery complex, which accounts for around 10% of Scotland’s GDP. This is being enabled through the construction of a new importation facility for US shale gas ethane. This will put Grangemouth in an extremely strong competitive position compared to other European sites which are facing a fierce competition from lower cost US and Middle East sites. The Scottish Government’s Expert Scientific Panel found that Scotland’s geology suggests that there could be significant reserves of unconventional oil and gas in Scotland and that their potential availability could have a beneficial impact on Scotland’s petrochemical industry in the long-term. The Panel concluded that the technology exists and the regulatory framework is largely in place to allow the safe extraction of such reserves and control the potential environmental impacts. The impact on the commitment to reduce greenhouse gases is, however, not definitive – for example, it may be minimal if they are used as a petrochemical feedstock – and, for SCDI, this is a key consideration in decisions about its future. Scotland currently has a window of opportunity to lead Europe and develop the technologies and skills required for EU resources and regulations, particularly given its oil and gas supply chain, research excellence and wider industrial base. The Scottish Parliament already has extensive planning and environmental regulation powers over onshore oil and gas. Should licensing also be devolved, decisions on whether or not to support extraction should be evidence-based and taken with the awareness that unnecessary political delays and regulatory complexity will discourage investment and reduce the potential economic and employment benefits.

37. **Telecommunications** – The single UK telecommunications market appears likely to continue. In its role as the UK’s regulator, Ofcom is central to this single market and it has successfully promoted investment and competition. While the roll-out of next generation broadband to all parts of Scotland is a priority which SCDI shares, the fundamental challenge is one of cost rather than devolution. SCDI believes that further progress with superfast connectivity across Scotland within the single UK telecommunications market would be best-served by a single regulator, Ofcom. However, it also needs to be able to demonstrate how any Scottish-specific issues are being addressed under these arrangements.

38. **TV Production Sector** – The independent production sector in Scotland benefits from the UK’s licensing structure, regulation and large audience supporting a high number and varied range of channels. Devolution of broadcast regulation would fragment these arrangements and risk reducing the opportunities for Scottish companies. Regulation of broadcasting should, therefore, remain with Ofcom on a UK-wide basis. Additional incentives to improve the attractiveness of Scotland as a TV and film production location should be considered.

39. **Rail Franchise** – Across a range of metrics the railways in the UK, including Scotland, have outperformed other European countries over the last 15 years. The new 10-year ScotRail franchise will further extend these improvements, with
significant investment and innovation. The Commission should give consideration to the devolution of powers which would facilitate the stronger alignment and co-operation sought by the Scottish Government between track infrastructure and train operation management in Scotland. Should rail franchise powers be devolved to the Scottish Parliament, it will be essential that no uncertainty is created about the current contract as this would discourage private investment in Scotland’s railways. Any future change to the model should be based on evidence and consistent with EU policy to encourage the development of European rail networks and services.

Financial Accountability

Reason

40. In comparison with other decentralised authorities, the Scottish Parliament is responsible for a relatively substantial percentage of public expenditure in Scotland. While the Scotland Act will increase the percentage of spending it raises from 10 to 22%, this is relatively modest by international standards.

Key Messages from SCDI’s Research

41. SCDI undertook membership research following the publication of our report in 2007 on Scotland’s Economy – The Fiscal Debate. This found that:

- Slight majorities agreed that Scotland did not have enough autonomy over fiscal policy and that the current system of financing public expenditure should be changed
- Large majorities agreed that there were not enough incentives on policymakers to act to promote economic growth and not enough incentives or discipline on policymakers to spend money efficiently
- A large majority felt that there was no compelling evidence that greater fiscal powers would themselves be enough to promote improved economic growth and a large majority felt that not enough attention has been paid to the constraints facing any options for increased fiscal powers
- A large majority felt Scottish policy makers could do more to promote growth with the powers they already have

42. While the Scotland Act has since been passed, SCDI believes that these findings are still relevant. SCDI supports further financial accountability for the Scottish Parliament, but it is the effective utilisation of powers, both existing and new, which would promote economic growth. The financial crash post-dated this research and some of the lessons from it are also highly important. As the Bank of England Governor, Mark Carney, has stated “effective currency unions tend to

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have centralised fiscal authorities whose spending is a sizeable share of GDP – averaging over a quarter of GDP for advanced countries outside the euro area”. The Treasury currently controls taxation and spending which equate to around 37% of GDP, with a further 8% of GDP being controlled by the devolved nations. While, due to Scotland’s relatively small size, none of the proposals would reduce the Treasury’s spending share by more than a few percentage points, devolution to the Scottish Parliament is part of a wider picture of fiscal decentralisation. It appears crucial that the overall settlement is designed, and has the confidence of the markets as being designed, to maintain spending by the UK’s centralised fiscal authority at a percentage of GDP which the evidence suggests will ensure fiscal stability and resilience in any future financial shock.

SCDI Proposals for Devolution

43. **Income Tax** – All the parties favour further devolution of income tax to the Scottish Parliament. SCDI’s Future Scotland research found a widespread consensus amongst respondents that higher income tax could impact adversely on Scotland’s attractiveness to higher earners, often those with greater mobility potential. This was regarded as a matter of personal choice and circumstance. For individuals rooted in Scotland, it would be unlikely to make a difference. However, for a proportion of higher earners, who frequently had UK-wide responsibilities and could maintain Scotland responsibilities from other locations, this might prove a deterrent. On the other hand, a lower income tax regime was not thought necessarily to have the converse impact – i.e. it would not necessarily attract people in large numbers to relocate to an independent Scotland. Lower income tax was, however, thought by some respondents to be significant for lower-earners and middle-earners in releasing disposable income as a stimulus to spending in the economy, and in alleviating personal debt and credit difficulties. SCDI agrees that, given the undertakings from the political parties in the Smith Commission, significant further devolution of income tax is a reasonable way to increase the financial accountability of the Scottish Parliament, including rates and bands. These powers would need to be utilised in a way which maintained the competitiveness of the Scottish economy as a location for decision-making functions, such as in management, research and design, marketing and finance, entrepreneurship and the highly-skilled, globally-mobile workforce which sectors such oil and gas need to attract and retain in Scotland. There should be sufficient time between the passage of a new Scotland Act and the implementation of any changes to the Scottish income tax to enable adequate preparation by all those which would be affected and it may be prudent, therefore, if further fiscal devolution was to be a staged process. It is also very important that a better understanding of how the Block Grant Adjustment will be calculated is developed to mitigate risks to Scotland’s budget.

44. An important consideration which applies to income tax – and capital gains and inheritance taxes – is the maintenance of a single market across the UK for financial products and services. If Scottish taxes on financial products used for
investments, dividends and savings were to diverge from the rest of the UK, it would damage the integrity of the single financial services market and could have a detrimental effect on the access of Scottish residents to the wider UK financial products market. Income tax on investment, dividends and savings should, therefore, remain on a uniform UK-wide basis.

45. **Aggregates Levy** – The Calman Commission recommended that the Aggregates Levy should be devolved. However, the levy has been subject to legal challenges in the European and UK courts. SCDI agrees that it is a suitable tax for devolution and that it would complement existing devolved powers on the environment and recycling. Assuming that these legal challenges are fully resolved, the levy should be devolved.

46. **VAT Assignment** – It is accepted that EU rules prevent devolution of VAT rates to the Scottish Parliament. However, SCDI agrees that some or all of the proceeds of VAT raised in Scotland should be assigned to the Scottish Parliament. This should encourage the Scottish Government to support activity which generates higher revenues from VAT. The UK Office of Budgetary Responsibility has cautioned that VAT receipts are likely to come under downward pressure in the next 30 years due to increasing global competition.

**SCDI's Supporting Proposals**

47. **Stronger Financial Scrutiny** – Greater fiscal accountability for the Scottish Parliament needs to be underpinned by stronger fiscal scrutiny. It is generally accepted that fiscal rules would need to be agreed between the UK and Scottish governments to protect the stability of the monetary union and fiscal sustainability. However, fiscal scrutiny by the Scottish Parliament and independent expert bodies, both official and unofficial, also needs to be strengthened. Committees of the Scottish Parliament need to display the same independence from party politics and forensic analysis which characterises the best of the committees in the UK Parliament, especially at times of majority government, either by a coalition or a single party. The role of the conveners is important – these should become alternative “career paths” for MSPs to advancement through government or party ranks and perhaps, at times of majority government, these should be from non-governmental parties. The establishment of the independent Scottish Fiscal Commission to review government forecasts of receipts from devolved taxes is welcome. As more powers are devolved, its role in advising on the impact of policies on the economic and other national targets and indicators should be enhanced. The creation of the Fiscal Affairs Scotland think-tank is an important development in better informing public debate about Scotland’s finances and policy choices.
48. **Capital Gains Tax** – SCDI believes that Capital Gains Tax is another tax which potentially could be devolved to the Scottish Parliament, particularly in combination with further income tax powers. However, there are potential risks and costs around increased scope for tax avoidance and administration.

49. **National Insurance Contributions** – These are linked to the State Pension which is expected to remain reserved and they should also remain reserved.

50. **Excise Duties** – SCDI understands that EU rules prevent devolution.

**Devolution and Decentralisation in Practice**

51. SCDI members have repeatedly stressed their desire for a durable settlement. While the distribution of powers is clearly of great significance, the effective utilisation of these powers at whatever level they reside, to meet the priorities of people in Scotland and across the UK, has also been raised time and again. The referendum campaign has shown that most people want to have a stronger influence and work in partnership, and government needs to change the way that it is structured and the way that it operates to fulfil these aspirations, including:

- **Scottish Influence on UK Decision-Making** – The profile and presence of the Scotland Office and UK Government in Scotland has waxed and waned since devolution. This needs to be addressed. There is a risk that, with further substantial devolution, UK policy-makers reduce their engagement and lose sight of Scotland, even in reserved areas of economic decision-making. UK Government departments and agencies, alongside and supported by the Scotland Office, should improve their links with Scotland and, as far as is possible, with different parts of Scotland. It is particularly welcome that HM Treasury has based a member of staff in Scotland permanently. The Scottish Government clearly has a major role in representing Scottish interests in reserved areas. It needs to consult more closely with key sectors of the economy in formulating its positions.

- **Decentralisation of UK Public Bodies** – Policy-making which better reflects the priorities of all the nations and regions of the UK can be supported through more national/ regional representatives or agents who relay information back to the centre (such as the Bank of England) and the location or relocation of Government departments, agencies and divisions responsible for reserved areas outwith London (such as the Green Investment Bank). Relocation could also reduce their costs and be particularly effective when there is a strong link with a national, regional or local industry. SCDI supports a review across government and has given the example of the Civil Aviation Authority as a candidate.

- **Stronger Relationships with the North of England** – Scotland should rethink and strengthen its relationship with the other nations and regions...
of the UK, especially with the north of England where there are opportunities to improve economic linkages and make common cause on rebalancing the UK economy and the decentralisation of powers, with transport a key area. The Borderlands initiative by the local authorities immediately on either side of the border is welcome. The Scottish Cities Alliance and Scotland’s city-regions are also beginning to strengthen their relationships with UK city-regions. This should be a clearer feature of national spatial planning. Scotland’s National Planning Framework 2 had included a strategic corridor between Aberdeen, Dundee, St Andrews, Edinburgh and Newcastle, particularly due to the offshore energy industry and their universities, but this was omitted – without explanation – from the refreshed version issued earlier this year. New bodies are emerging in the north of England, such as combined authorities and the proposed Transport for the North, with which links would be beneficial, for example to promote, develop and maximise the benefits of high speed rail between central Scotland and the north of England. Common interest might also be found in the relocation of specific government functions from London to either Scotland or the north of England in order to promote less metropolitan-orientated policy and regulation, such as, again, the Civil Aviation Authority. The Scottish Government’s Infrastructure Investment Plan – rightly – includes the completion of a dualled road network between Scotland’s city-regions as a strategic priority for the economy. This principle should also be applied to fully dualling the A1 which connects the Edinburgh, Dundee, Aberdeen and Inverness city-regions with the Newcastle, the nearest city-region in England, as well as ports in the north east of England. However, despite the UK Government offering to support a joint study on dualling the A1 in the Scottish Borders, this has not been accepted by the Scottish Government. The development of the circular economy and the scale of infrastructure it will require, such as for remanufacturing, may present another opportunity for collaboration between Scotland and city-regions in the north of England.

- **A Mature Relationship between the UK and Scottish Parliaments** – The UK and Scottish Parliaments should have a more co-operative relationship. UK and Scottish government ministers should regularly meet committees of the other parliament, without such sessions being dominated by political point-scoring. It should be routine that, when required, the Scottish Affairs Committee, and other UK Parliament committees, should use Holyrood for hearings in Scotland, and Scottish Parliament committees should use Westminster (and governmental buildings elsewhere in the UK) for hearings. Joint inquiries and/ or hearings by committees of both Parliaments should also be encouraged. There could be a regular joint session of Scottish Parliament committee conveners and the Scottish Affairs Committee at which the First Minister and Secretary of State for Scotland answer their questions together.
• **A Reviewing Chamber for the Scottish Parliament** – The lack of a revising chamber for the Scottish Parliament to provide checks and balances remains a weakness, but one which it is difficult to resolve. That said, extensive further legislative powers should be subject to the scrutiny and transparency a second chamber can bring in the interests of ensuring new legislation supports the long-term interests of the Scottish economy. As one alternative approach, prior to devolution, SCDI suggested that committees could be supported by advisory panels including representatives from local authorities, trade unions, business and the third sector. The suggestion of a mechanism for representatives from civic Scotland to examine and provide collective strategic insight in the formal legislative process should be revisited. This advice must be fully considered by the Scottish Parliament and to which the Scottish Government must fully respond. While it would require the consent of the electorate and all parts of the UK, the challenges of which have been demonstrated over many decades, if it could be accomplished, a reconstituted second chamber in the UK Parliament, with representation from all the nations and regions of the UK, could perform this vital role.

• **National Performance Framework** – SCDI has always supported the thinking behind and targets in the National Performance Framework, but has been critical of its low profile and lack of involvement of the private sector. With further powers for the Scottish Parliament, it needs to take centre stage and be used to communicate and engage with the Scottish people and civic Scotland on performance and policy choices. Perhaps public bodies should have a statutory duty to report on their contributions.

**Summation**

52. Registration to vote, participation in debate and turnout at the referendum on Scottish independence was without precedent in Scotland. The level of interest and engagement reflected the historic importance of the vote, but also seemed to express a desire for change which goes well beyond new powers for the Scottish Parliament. With the Scottish people deciding to remain part of the UK, but all the UK and Scottish parties committed to substantial change, the Smith Commission is rightly focussed on the design of a new suite of statutory powers for the Scottish Parliament. However, this needs to sit alongside and within a reset of the relationship between the nations and regions of the UK, between all their elected representatives, and between government at all levels and people. In discussions with our members, it is the utilisation of existing and new powers which is most often raised with SCDI. There is an onus on all political parties in the UK and Scotland and on civic Scotland to respond and rise to this challenge, but the Smith Commission needs to set a tone and direction. We wish you well.

**Gareth Williams**  
**Director of Policy**
Scottish Council for Development and Industry
MACROECONOMIC AND FISCAL SUSTAINABILITY

How could best use be made of fiscal and other levers to deliver sustainable economic growth while addressing the pressures on public finances likely to be imposed by increasing social, economic and environmental demands?

How could different constitutional arrangements, including the Union and Scottish Independence, and their associated opportunities and constraints, impact on the challenge above and the following questions?

1. How can the current and projected gaps between Scotland’s revenues and expenditure be closed? What can we learn from countries which have successfully tackled fiscal challenges and have greater fiscal sustainability?

2. What can be done to stimulate sustainable economic growth, particularly in those areas where Scotland’s performance has been at its weakest, such as the rates of entrepreneurial activity, business R&D and innovation activity?

3. What are the fiscal levers which could most improve business growth in Scotland? What would be the likely trade-offs between tax competitiveness, public investment and the costs of doing business across the UK market?

4. What can be done to address fiscal challenges from economic competition, an ageing population, climate change, inequality, infrastructural renewal and declining revenues from oil and gas production and environmental taxes?

5. What can be done - in terms of key criteria such as economic growth and structure, budgetary performance and stability, debt burdens and management, political stability, wealth and demographics – to ensure that Scotland benefits from competitive rates of borrowing from financial markets?

6. How could possible currency arrangements affect Scotland’s ability to deliver on this agenda and what opportunities and constraints could these entail?

EUROPE AND INTERNATIONAL

What key factors in relation to the European Union and other international organisations and trading relationships affect the Scottish economy?

How could different constitutional arrangements, including the Union and Scottish Independence, impact on the question above and the following questions:
1. What can be done to attract high levels of investment to Scotland and grow substantially the value of its exports to developed and emerging markets?

2. What is the best way for Scotland and its key industries to maximise their influence in the European Union? How can Scottish businesses and academic institutions win a greater share of European Union funding for innovation?

3. What is the most effective way of supporting the success of Scotland’s existing and new exporters and the attractiveness of Scotland for investment through international representation and trade relationships and agreements? What is the best way to further the interests of the Scottish economy and industries in international trade bodies and overseas markets, such as in trade treaties and the elimination of trade barriers, and via representation and networks in developing markets? What can be learned from other countries?

4. What impact could uncertainty, resulting from referenda, about Scotland’s future relationship with the European Union have on investment in the Scottish economy and what could be done to minimise any potential impact?

In the event that Scotland votes to become Independent. Should there be a transitional period before an Independent Scotland becomes a Member State of the European Union, what could be the impact on the Scottish economy? What should a Scottish Government’s priorities be in negotiations on the terms of an Independent Scotland’s membership of the European Union and any transition?

ENERGY

How does Scotland further enhance its global competitiveness for investment and maximise the long-term potential of its energy assets and industries?

How could different constitutional arrangements, including the Union and Scottish Independence, impact on the challenge above and the following questions?

1. What can be done to sustain investment in the North Sea as it deals with the challenges of a mature basin, for example to enhance the recovery factor, reinvigorate exploration success, manage costs, and facilitate the sharing of infrastructure while prolonging its operating life? At the same time, how can we help anchor and internationalise the supply chain and ensure access to the required skills for the industry?

2. How can the fiscal conditions that the industry needs to compete globally for investment be best achieved, while meeting the long-term revenue needs of government? To avoid premature decommissioning, how can the industry be assured
on the future availability of funding for tax reliefs from Government? How does the licensing and regulatory regime affect the ability of the industry to deliver?

3. What can be done to attract increasing investment in the electricity generation sector in Scotland? Are there any aspects of the current regulatory framework which act as a disincentive to investment into Scotland? What can be done to grow and internationalise the supply chain and retain the economic value created in Scotland? What can be done to support less mature technologies where we have a competitive advantage?

4. What could be the demand from the rest of the UK and Europe for electricity from Scotland and on what terms might low carbon generation in Scotland be supported by financial support mechanisms in net consumer/importer countries? Are there any policy or regulatory tools at an EU or international level which Scotland should seek to use which could help open up potential export markets for its electricity? As gas is critical for heating and as a feedstock for industry, what investment might be required in storage in Scotland or greater interconnection with Europe in order to maintain long-term security of supply in the gas transmission and distribution system?

5. What can be done to ensure that Governmental and regulatory bodies have the resources necessary to support the needs of industry and consumers?

6. As business in Scotland has made very clear that it must not be placed at a competitive disadvantage due to pricing of energy supply, what can be done to secure affordable energy and avoid the costs of the transition to lower carbon supply damaging the competitiveness of Scotland as an industrial location, while reducing our relatively high levels of fuel poverty for consumers?
FURTHER READING


