ECONOMY, ENERGY AND FAIR WORK COMMITTEE

SCOTTISH NATIONAL INVESTMENT BANK

SUBMISSION FROM North Ayrshire Council

North Ayrshire Council welcome the opportunity to respond to this call for views on the Scottish National Investment Bank (SNIB) Bill. We have submitted our views to previous Scottish Government consultations on the development of the Bank, however we feel our key concerns regarding the use of the Bank as a tool to achieve inclusive growth through a reduction in regional inequality have not been addressed.

1. What are the advantages or otherwise in establishing the Bank as a public limited company?

No response.

2. What in your view are the fundamental characteristics of a national investment bank?

SNIB is being established at a time of significant challenge and change and the need for the new Bank was addressed in the Council’s response to the 2017 consultation. The Council generally welcomes the objectives, purposes and vision set out in the Bill and previous consultation documents, however the Council wishes to note that if the priority of the Scottish Economic Strategy is inclusive growth, the Bank’s visions and aims (and most importantly its actions, what and where it invests) needs to be aligned to this priority. Other observers including Professor Mariana Mazzucato have also noted this: ‘To be most effective, it is important that the missions of the Scottish National Investment Bank are aligned with the Scottish Government’s wider policy objectives’ (Mazzucato and Macfarlane, 2019).

The Council has made clear in response to earlier governmental inquiries that we support the recognition by UK and Scottish government that targeting support to achieve regional economic growth is a critical component of a strategic approach to creating and sustaining balanced and inclusive growth. The UK Industrial Strategy, Scottish Government’s Economic Strategy, the Enterprise and Skills Review, all include commitments to create a new environment for regional development as a key driver towards a competitive future. The Bank’s framework documents should be explicit in recognising the role it can, and will, aim to play to support regional inclusive growth which will in turn create a more resilient national economy.

Stark levels of regional inequality in the UK have been well-documented, however this is also an issue impacting the Scottish economy and our ambitions for inclusive growth. The Fraser of Allander Institute (2018) have recently highlighted this in their economic commentary: GVA per head in Edinburgh is nearly 2.5 times higher than in East and North Ayrshire. In the past 20 years this gap has widened – GVA per head in Edinburgh has nearly doubled since devolution, with growth in East and North Ayrshire around half that rate. Scottish Government’s Economic Strategy (2015) states that uneven growth is evident within Scotland, with the gap in output per person between Edinburgh and East & North Ayrshire highlighted as a specific example. This ‘regional gap’ was also picked up in a report on Scotland’s economic performance in June 2018 by Scottish Parliament’s Economy, Jobs and Fair Work Committee Inquiry. The Committee made the
recommendation that: ‘it is vital that the gap between low-performing and high-performing regions in Scotland is reduced.’

Scotland is primarily a country of SMEs and micro businesses and it would be helpful for the Bank to recognise this in strategic documents given its customer will be the private sector.

Even with the proposal to invest up to £2 billion of public capital in the next ten years, the Bank will not have sufficient funds to take on everything. Enhancing investment is a key issue for the Scottish economy and the links between investment and productivity are well evidenced. The identification of long term patient capital investment as a key function should offer an important tool to help business and places to develop their potential. A long term outlook is required to ensure Scotland is resilient and able to maximise the opportunities that a transitioning economy presents and for Scotland to be able to undertake the leadership role set out in the recent Economic Action Plan.

The previous Scottish Government consultation document included a vision statement focused on powering innovation and accelerating the move to a low carbon, high-tech, connected, globally competitive and inclusive economy. Ayrshire businesses and organisations share similar objectives in the plans being developed to transform our regional economy, including the £251.5m Ayrshire Growth Deal. The Council would, however, caution against any interpretation of the vision which excluded support for growth/adaptive capacity in traditional sectors such as manufacturing and engineering and ensuring these sectors have the finance and infrastructure needed to transform for Industry 4.0. SCDI and the OECD, amongst others, have warned that automation could impact post-industrial regions disproportionately and that we must take predictive action to prevent this. What role will the Bank play in regards to this recognised area of challenge?

3. Is the level of capitalisation proposed sufficient for the Bank to deliver its desired impact? Please expand.

No response.

4. What is your view on the proposed costs in the set up and day-to-day running of the Bank?

No response.

5. What governance arrangements ought to be in place?

No response.

6. How can we ensure the market is ready for the investment opportunities the Bank can offer?

No response.

7. What ethical and equalities considerations do you think should inform the Bank’s ethos and decision making?
8. It is proposed that the Scottish Government will set the strategic direction of the Bank but the body itself decide on its investment approach. What is your view on this “mission-led” approach?

NAC are supportive of the mission-led approach advocated by Professor Mariana Mazzucato which makes the case for bold, ambitious goals that have set timescales and require innovation and collaboration across the public and private sector, breaking down organisational silos. We are supportive of recommendations made to the Scottish Government by Professor Mazzucato that missions are tailored towards tackling major social, environmental and economic ‘grand challenges’, including environmental threats like climate change, as well as demographic, health and wellbeing concerns (Mazzucato and Macfarlane, 2019).

The Council accepts that the Strategic Framework should be agreed by Scottish Government, but trusts it will also be informed by contributions from others, including local government which has a key role in facilitating local and regional economic growth.

It will clearly be essential to ensure absolute clarity on what support the new Bank can provide and how this aligns with activity that other institutions such as the British Business Bank and the Scottish enterprise agencies already undertake. Duplication of activity across is not appropriate at a time of finite resource.

North Ayrshire Council recognise that in an increasingly challenging economic environment, we have to work in new ways in order to deliver inclusive growth. As a result, working in partnership with the Scottish Government’s Office of Chief Economic Advisor, the Council piloted the ‘Inclusive Growth Diagnostic’. The main purpose of the Diagnostic was to identify constraints and opportunities for driving inclusive growth in North Ayrshire in order to prioritise actions to address them at a time of constrained public sector resources. Jobs density was one of the key constraints identified by the diagnostic – indeed North Ayrshire has one of the lowest job densities in Scotland – and this highlights that the Council is unable to achieve inclusive growth without a change in national Government policy and actions by the agencies to tackle regional inequality. Investment should be targeted where there is most need, for example areas of market failure, and impact will be greatest – this should be at the heart of the mission approach.

It is welcome that the Bank will be subject to the Fairer Scotland Duty and this should outline specifically how the Bank will ensure it does not exacerbate regional inequality.

The Council also welcome that the Policy Memorandum makes reference to island communities and notes that it will be important that island businesses and communities are able to benefit from the creation of the Bank.

As an accredited Scottish Living Wage Employer, the Council welcomes employers who make this commitment as part of a wider journey towards inclusive growth.

Given the priorities of the Scottish Government, inclusive growth has to be considered when making decisions on where and how Bank staffing and recruitment opportunities will be created, as well as when agreeing arrangements to meet Bank targets, priorities and missions. Lessons should be learned from the experience of choosing the location of the new Scottish Social Security Agency which used an assessment that was unfairly biased towards cities and city regions given their population whilst also acknowledging that areas like North Ayrshire are most in need of investment and jobs (NA scored highest for the
assessment’s inclusive growth ranking). The assessment methodology did not recognise that areas like NA contribute greatly to Scotland’s labour market. In a report for North Ayrshire Council (November 2018), the Fraser of Allander Institute noted that that despite North Ayrshire being identified as best choice of location for the new agency in terms of ‘inclusive growth’, it was passed over because it was felt that the local authority might struggle to attract people to work there, despite its close travel links to Glasgow.

In response to this, the Bank should consider North Ayrshire as a location. We are a net exporter of labour to nearby labour markets: 11,000 more people travel out than travel in to NA for work and 42% of those which travel to Glasgow for work are managers and professionals, whilst the area has one of the lowest jobs densities in Scotland. This would signal a clear intention that the Bank’s priority is creating an inclusive economy.

9. Is there any other aspect of the Bill you wish to address? Please elaborate.

Though future UK state aid regulations are unknown at this point, it is likely the new Bank’s lending will need to be additional, ie to focus on areas currently under-served by the market. Early engagement with any future new state aid procedures will be required and it is welcome that the Bill’s Policy Memorandum notes that engagement with the European Commission will take place.

In observing key responsibilities, and mindful of the nature of missions likely to be set, the Council believes that the inclusion of local government experience in governance arrangements would make it easier for SNIB to meet a number of its key objectives, avoid duplication and ensure all economic development actors are delivering towards the shared aim of inclusive growth for Scotland.

The Bank should also be conscious of the principles of Community Wealth Building in its investment, employment and procurement activity. Community Wealth Building is an approach to delivering an inclusive economy through focusing on the role of anchor institutions and other large employers in supporting and developing the local economy in which they are located (through their role as purchasers, employers, owners of assets, and enablers of wider economic activity).

The Council would be pleased to discuss this submission in further detail.