SUBMISSION FROM CBI SCOTLAND

INTRODUCTION

1. CBI Scotland is an independent organisation funded by its members in industry and commerce and representing firms of all sizes and from all industrial and commercial sectors.

2. This paper represents CBI Scotland’s submission to the Scottish Government ahead of the publication this autumn of its Budget and spending plans for the coming three years. Businesses contribute to the funding of the devolved government and public authorities through a range of taxes and charges, and their success or otherwise can be affected by the spending and taxation decisions taken. Businesses are also suppliers to the public sector, and the Spending Review will provide greater clarity on the plans and projects for the next three financial years which will allow firms to plan ahead accordingly.

3. The Scottish Government has a substantial remit and £35bn budget, and the freedom they have over how that expenditure is deployed means they can play a valuable and pro-active role in stimulating economic activity, particularly during the early part of the Spending Review period as the recovery gathers pace.

4. CBI Scotland published its detailed manifesto\(^1\) in June 2010 setting out our members’ recommendations and aspirations for how the present devolved government should prioritise its spending, reform the way it delivers services and become a more effective catalyst for economic growth.

EXECUTIVE SUMMARY

5. CBI Scotland fully endorses the Scottish Government’s stated purpose of improving sustainable economic growth. Our members’ priorities for the budget are to galvanise future growth prospects by:

- putting the devolved finances on a sustainable footing,
- reforming public services,
- keeping a firm lid on costs applying to businesses,
- investing in the economy, and
- promoting competition.

Longer term, CBI Scotland believes\(^2\) that a re-balancing of devolved spending is required with a greater proportion spent on investments that support wealth creation such as skills, innovation, and transport infrastructure, as advocated by the Scottish Parliament’s Enterprise & Culture Committee in its 2006 report on

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\(^1\) “Energising the Scottish Economy: a business agenda for reform and recovery”, CBI Scotland’s 2010 manifesto

\(^2\) “The Scottish Economy: the priority of priorities: Agenda for a growing economy in Scotland”, CBI Scotland’s 2006 manifesto
business growth. The Scottish Government should use this Spending Review to outline whether they share this view and if so set out a timetable for achieving it.

6. The Scottish Government should use this Spending Review to thoroughly question the purpose of government interventions and undertake a root and branch review of the spending decisions it takes. We have set out several areas in this submission where we think the Scottish Government can make further savings, e.g.

- making Scottish Water less reliant on the public purse,
- capping the public sector wage bill,
- reducing costs through public sector reform and outsourcing,
- introducing a graduate contribution,
- putting entitlements such as concessionary fares on a sustainable footing

These savings can then be used to improve the business and economic environment, e.g.

- protecting grants for innovation and support for exporters,
- bringing forward proposals for Enterprise Zones
- enhancing STEM skills and investment in higher education,
- improving road and rail transport infrastructure,
- pump-prime funding for new air routes,
- keeping down business rates and charges,
- ruling out using new fiscal powers to increase taxes on business

7. The election of a single party majority Administration in Holyrood, coupled with the sheer scale of the fiscal restraint required over this parliament, provides a unique once in a generation positive opportunity for the Scottish Government to do things differently. Ministers should challenge sacred cows and concentrate Budgets on the substantive items that will improve the economic and business environment, avoiding the often ad hoc and last minute footling additions to Budget Bills which have at times been required in order to secure parliamentary support. While there will rightly be robust public debate over the contents of the Budget and Spending Review, the existence of a majority Administration should provide certainty and clarity over future spending plans which will be of benefit to public bodies and suppliers alike.

BACKGROUND ECONOMIC COMMENTARY

8. The UK and Scottish Governments are facing the largest spending cuts since the Second World War. The Scottish Government calculates that in the 16 years from 2010-2026 there will be a cumulative real terms loss of £39bn to devolved
spending.²

9. With the large reductions to devolved government spending coming in 2011-2012, albeit larger in part because of the decision to delay implementing the reductions contained in the Chancellor’s summer 2010 emergency budget, the lagged effects of these are likely to restrict the Administration’s scope to promote additional new economic activity over the coming parliament unless it can make further savings elsewhere. In addition, the Scottish Government must continue to assure individual and business taxpayers that their money is being spent with the utmost efficiency in order to make each pound work harder than ever before.

10. The importance of depressed real household incomes is apparent when looking at the modest forecast GDP growth figures of independent forecasters; 0.8%, 1.5% and 1.9% for 2011, 2012 and 2013 respectively.⁴

11. Various factors have led to consumers’ purchasing power being squeezed both at home and abroad, for example: the price of a barrel of oil has risen from $70 in July 2010 to $112 in July 2011 (an increase of 60%); VAT has risen to 20%; there has been an increase in employee National Insurance contributions; and CPI inflation is more than double real wage growth.⁵ Consumption spending in Scotland remains subdued and lower than the rest of the UK. Spending fell by 0.3% in the 1st quarter of 2011⁶. Overall however, household spending is forecasted to rise over the course of 2011 by 0.4%. Then by 1.0% and 1.4% in 2012 and 2013 respectively.⁷

12. A major contributor to the fall in consumers’ appetites has been the increase in the unemployment rate in Scotland. Unemployment increased by five percentage points from April 2008 to March 2010, higher than any other region of the UK during the recession. Some ground has been recovered since then; unemployment has been reduced by 2%, with job creation of 50,000.⁸ Currently, unemployment in Scotland sits at 7.6%, just under the UK average of 7.7%.⁹

13. With public spending reductions however, there are set to be further public sector job losses in Scotland. It has been forecast that the Scottish economy will have 80,000 fewer public sector jobs in 2015 than in 2008.¹⁰

14. From 2009 to 2010, there was a rise in unemployment in the younger working age groups. Those aged 18-24 experienced an increase from 14.2% to 16.4%, and those aged 25-34 from 7.5% to 8.7%. Conversely, older age groups actually

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³ “Scotland’s Spending Plans and Draft Budget 2011-2012” The Scottish Government. Pg9
⁴ “Fraser of Allander Institute: Economic Commentary”. University of Strathclyde. Vol 35 No. 1. June 2011 Pg 16
⁵ CPI Inflation at 4.2% and real wage growth is 2%
⁶ http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/RSI2011Q1XLS
⁸ “Ernst & Young ITEM Club 2011: Summer Update” Ernst & Young. June 2011 Pg 7,8
⁹ ONS: http://www.statistics.gov.uk/cci/nugget.asp?id=397
¹⁰ “Ernst & Young ITEM Club 2011: Summer Update” Ernst & Young. June 2011 Pg 14
experienced a decrease in unemployment: 5.0% down to 4.4% for those aged 35-49, and 5.3% down to 5.1 for those aged 50-64.\footnote{11}{"The Scottish Economic Recovery Plan: Update February 2011". The Scottish Government. Pg19} Furthermore, from 2008-2010 there has been an increase of 14.9% in those working who are over 65.\footnote{12}{http://www.scotland.gov.uk/Topics/Statistics/Browse/Labour-Market/DatasetsLFS (Data set A4 June-July Statistics 2004-2010)}

15. In line with GDP forecasts, job creation is not likely to significantly expand before 2013. From 2012 to 2013 it is forecast that there will be an increase of 39,849 jobs in Scotland, a 1.7% increase from the previous year. Over 60% of these jobs are expected to come from the services sector while another 29% will come from the production sector (e.g. quarrying, manufacturing, utilities\footnote{13}{“Fraser of Allander Institute: Economic Commentary”. University of Strathclyde. Vol 35 No. 1. June 2011 Pg 28}).

16. The Scottish Government’s three large capital projects - Forth Crossing, South Glasgow Hospitals Project and Scotland’s Schools for the Future (approx. worth £4bn) - will help encourage growth in the construction sector. These are vital investments in Scotland's infrastructure, health service and young people.

17. Over the four quarters of 2010, the average number of people employed in Scotland’s public sector was 603,200.\footnote{14}{Ibid Pg.39} The average UK wage for those working in the public sector in 2010 was £25,892k pa.\footnote{15}{http://www.statistics.gov.uk/downloads/theme_labour/ashe-2010/2010-pps.pdf (Table 13.7a)} The Scottish Government paid approx. £15.618bn\footnote{16}{603200 * av wage} alone in wages in 2010, excluding wage related costs such as employer pension contributions. That was 45% of the devolved government’s £34.639bn\footnote{17}{“Scotland’s Spending Plans and Draft Budget 2011-2012” The Scottish Government. Annex D. Pg 209} budget for that year. One-in-four people in Scotland are employed by the public sector.

18. The Scottish Government is now facing substantial challenges in the provision of public services. The previous decade of prosperous economic activity has given the population of Scotland an increased standard of living. The high levels of public spending over the past decade, funded in part by unsustainable levels of public borrowing, has led to increased public service supply, greater entitlements and higher demand in areas such as health care and education. To meet this challenge, the devolved government should be focusing on supply side issues in order to improve productivity and meet the strong demand. The public sector must become more efficient in order to continue to provide good quality services at lower costs. For example, demographic changes in Scotland will further inflate the demand for some public services. From 2006-2016 the population of Scotland aged over 65 is estimated to increase by 21% and those over 85, by 38%. As those over 85 years will be more reliant on the State, the devolved government must invest now in improving efficiency and supply side factors.\footnote{18}{“Independent Budget Review” Beveridge, Mcintosh & Wilson. July 2010. Pg 104}
WHERE THE SCOTTISH GOVERNMENT CAN SAVE MONEY

19. CBI Scotland is confident that further reforms can and ought to be made in the provision of public sector services and to public procurement, in order to reduce costs and maintain service levels. Indeed, we argued in our manifesto that to promote a culture which rewards improvements in services that cost less, managers in public services should be better incentivized for delivering on the outsourcing agenda.

20. The Scottish Government is well aware of the many objectives they have committed to and the restricted finances at their disposal. Therefore, first and foremost, savings must be made in the public sector early in the Spending Review period in order that they can be reinvested in the economy.

21. One such area in which the Scottish Government can lower its spending is in its annual financial support to Scottish Water. A substantial body of work from independent sources such as the Independent Budget Review (IBR), the Scottish Futures Trust (SFT), and the Centre for Public Policy for Regions (CPPR) have assessed the options available to the Scottish Government on the future structure for the water authority. It has been estimated that the amount of additional debt Scottish Water will require is £140m p.a. up until 2015 and then £170m p.a. thereafter.\(^{19}\) This is a substantial sum of money that the Scottish Government has to find from its Budget each year, at the expense of other spending, as no money for this flows to Scotland through the Barnett formula. Various options are available to the Scottish Government - the creation of a public benefit corporation, a mutual organization, or part or full privatization. CBI Scotland supports any re-structuring option that relieves the annual burden from the taxpayer and sees Scottish Water become less financially reliant on the taxpayer for funding its investment programme.

22. The pay discrepancy between the public and private sector is noticeable at a time when Scotland is still recovering from a deep recession. With the Scottish GDP growth rate falling to -4\(^{20}\) in 2009, the private sector has experienced decreasing revenues and higher costs. Pay in the public sector compared with the private sector continues to grow however. In 2008 public sector workers were paid 6% more than those in the private sector and in 2010, 7.8% more.\(^{21}\) Scottish Ministers should place a cap on its pay bill, and consider extending the current pay freeze for public sector employees until at least 2013-14, or lower headcount if pay freezing is not an option. This will also reduce outgoings on wage related expenditures. For example, the cost of devolved pensions for Scottish teachers and NHS Scotland alone is around 10% of the 2011-2012 Budget at £3.24bn.\(^{22}\)

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\(^{19}\) “Scottish Water – Threats & Opportunities” CPPR. Briefing Series No. 2. April 2010. Pg12

\(^{20}\) http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/TrendPDF Pg 3

\(^{21}\) http://www.statistics.gov.uk/cci/nugget.asp?id=262

\(^{22}\) “Scotland’s Spending Plans and Draft Budget 2011-2012” The Scottish Government. Pg 103 Table 7.15
The current policy of no compulsory redundancies should be reviewed.

23. The Scottish Government should be more open to new thinking and do more to open up markets and increase competition and choice in public service provision, as advocated by the Scottish Government commissioned Independent Budget Review which said: “The Panel believes that the challenges arising from the projected financial outlook should act as stimulus for the public sector to review its current delivery models including considerations of alternatives. Looking ahead, the panel envisages mainstream roles for the private and voluntary/third sectors as collaborative partners in the delivery of public services.” Early candidates for removing legislative and Ministerial restrictions and introducing private or third sector providers could include:

- building standards verification services,
- ferries,
- GP services,
- hospital catering and cleaning.

The health service accounts for over a third of the Scottish Government’s total Budget for 2011-2012 at £11.86bn. It commands a significant amount of resources and any decision to ring fence its funding will have serious consequences for all other areas of devolved spending. There are 23 NHS bodies in Scotland, many of whom demand similar services such as catering, infection control and cleaning services. Aggregating these contracts and putting them out to competitive tender could save money. Total UK NHS Government spending in 2010-2011 was £102bn, a 70% increase since 2000-2001. Yet over the same period productivity declined by 0.2%. It is clear that our health service should be allowed to capitalize on the expertise of external providers and make more use of them.

24. CBI Scotland made clear the problems that both students and business would experience if the Scottish Government were to adopt a policy of a graduate tax scheme in our response to the recent HE Green Paper. However, we acknowledge that the current funding gap of £263m cannot go unaddressed and some form of contribution from graduates is needed if we wish to maintain the internationally recognized excellence of Scotland’s universities. With the revenues generated by the increase in tuition fees in England, England’s HE sector will be able to reinvest in facilities, teaching and research. This will raise the overall returns to higher education and lead to increased demand for English

23 “Independent Budget Review” Beveridge, Mcintosh & Wilson. July 2010 Pg46
24 “CBI Public Services: One year on – Progress towards transformed public services”. June 2011. Pg 10
25 CBI Scotland February 2011. Issues include; reducing the incentive to compete on quality and emphasise cost, undermining the autonomy of universities, graduates incentivised to work abroad and differing tax rates for different employees.
universities in the long run. Quality, not quantity, should be the main focus for the Scottish Government and hence, to remain competitive, a graduate contribution ought to be considered. CBI Scotland believes this contribution should be charged only once the graduate is in employment and is earning £21,000 p.a. or above.

25. The Scottish Government could stand to make a saving if a more flexible degree system could be introduced. We are not calling for an end to the current four year degree, just greater flexibility in HE provision. Degrees could be offered to students who are willing to take degrees over three, or even two, years. For some students, their first year of university is academically similar to their final year in high school and therefore not sufficiently challenging. The first two years of the four year degree programme could often be combined into one year for those who have previous study and qualifications in their chosen field.

WHERE GOVERNMENT SHOULD INVEST TO GALVANISE GROWTH

26. By making these savings or other savings the devolved government would put its finances on a more sustainable basis and also free up money for measures to improve the economic and business environment, including:

27. The funding available through Regional Selective Assistance (RSA) and other grant schemes such as SMART and WATERS provides for the creation and the safeguard of jobs in Scotland. Grant schemes are viewed positively by our members as a valuable means of encouraging industry and commerce to invest, expand and locate in Scotland, particularly in the low carbon economy. This is particularly the case at a time when the private sector will be expected to lead the country back to economic health. The Scottish Government’s draft budget 2011-2012 highlights that spending on industry and technology grants (Table 7.06) has been cut by 10.3% to £45.2m. The Scottish Government must ensure that this allocation is not scaled back further over the period of this Spending Review. The opportunity cost of this funding is ever increasing as, SMEs especially, continue to notice rising external finance premiums and tight credit markets. The CBI would oppose any further reduction in this funding which after all helps leverage private sector investment.

28. The public sector now contributes 58.5% of the total funding available in the Scottish Investment Bank’s Scottish Loan Fund at £55m, complemented by private sector funding to the tune of £39m. CBI Scotland has warmly welcomed this initiative and would oppose any reduction to this allocation going forward. The support this Fund can provide to key areas of the Scottish economy, notably manufacturing exporters, will be vital to rebalancing the economy towards a model based on trade and business investment.

27 “Scotland’s Spending Plans and Draft Budget 2011-2012” The Scottish Government. Table 7.06. Pg92
29. We are open minded about the proposals contained in the SNP election manifesto to introduce up to four Enterprise Zones and one or more low carbon Enterprise Zones, as a means of stimulating new economic activity. We recognize that the levers available to Enterprise Zones will involve a mixture of devolved and reserved powers – e.g. a more business friendly attitude to planning decisions, or special dispensation on capital allowances, or a reduction in non-domestic rates - and so it is essential that the Scottish and UK Administrations work together on the proposals. We look forward to further details in the upcoming devolved budget.

30. The last Budget cut spending on planning by a fifth, and (while recognising that the actual delivery of planning is ultimately the responsibility of planning authorities) our concern is that such a reduction is premature as there has yet to be a significant and lasting improvement in the performance of the planning system. For example, the latest official data shows only a modest improvement in the number of major commercial and industrial applications which are being dealt with timeously, with fewer than half being dealt with within the four month target period. CBI members still report frustration with the 34 Planning Authorities still prone to execute planning policy in their own way resulting in uncertainty and delays in Scotland’s planning system. Further reductions in spending on planning could prove shortsighted and counterproductive. Ministers should give further consideration to introducing a Business Rates Incentivisation Scheme in order to incentivise local authorities to consent more commercial applications.

31. Investment in the next generation of the workforce is vital in guaranteeing Scotland remains domestically and internationally competitive over future business cycles. With the BRIC countries rapidly expanding their investment in higher education and lifelong learning, Scotland must take note of this pivotal time in the global higher education picture. Scotland is already behind its competitors in terms of university funding as a percentage of GDP. Funding in Scotland is at 1% of GDP with Canada at 1.5%, China and India at 2%, US at 2.9% and Australia at 5.9%. Scottish business is dependent on the research, innovation and graduate talent that is produced by Scotland’s universities and therefore funding must be viewed as a direct investment in Scotland’s economy. A mixture of funding from the public and private sectors and individual graduates will be crucial.

32. Skills Development Scotland (SDS) experienced a fall in their budget of 10.4% this year which puts further pressure on the provision of careers advice and other significant skill investments in young people, e.g. apprenticeships. Out of their 2010-2011 budget of £209m, SDS spent 52.6% of this (£110.3m) on career

30 “Scotland’s Spending Plans and Draft Budget 2011-2012” The Scottish Government. Pg 141
31 “Annual Operating Plan 2010-112”. Skills Development Scotland. Pg 34
management skills, career agility and connectivity between learning and jobs. This spending has substantial public benefits and positive spillovers to both business and society. SDS should continue to focus on providing value for money, however their funding represents only 8.1% of the Scottish Government’s £2.58bn budget for Education and Lifelong Learning (and 0.62% of its £33.62bn total budget). Given the relatively small financial burden of SDS and the extensive benefits it provides, CBI Scotland would oppose any reductions in the SDS budget that affects the services and support it offers to businesses.

33. CBI Scotland supports the focus of the Scottish Government and its enterprise agencies on growth companies and growth sectors in order to generate the largest return from the limited monies available for business support services. The approach of putting taxpayers’ money where it makes the greatest difference is one that resonates well with our members, in effect trying to create a ‘bigger bang for the taxpayers buck’. Our members tell us that the economic development agencies – Scottish Enterprise, Highlands and Islands Enterprise, and VisitScotland – are largely delivering what they want and provide genuine assistance, particularly in terms of support for manufacturers, exporters and tourism. CBI members have stressed the need for continuity in strategy and delivery from the enterprise networks, given that there can be a considerable period of time between the help that a company is offered to devise a new strategy and the time when sufficient orders and revenues result. Given their role to promote and facilitate growth in the economy and attract inward investment, any further reductions in the budgets of the enterprise agencies must be avoided particularly at a time when it is vital to rebalance the economy towards private sector investment and trade and support more firms to win business overseas. We look forward to the Budget providing further clarity on the “new” enhanced Export Support Package pledged in the SNP election manifesto.

34. The Scottish Government must stay true to its objectives and continue to develop Scotland’s transport infrastructure. In order for business and industry to pull the economy back to a path of sustainable growth, Scotland’s connectivity in roads, railways and air & ferry routes need to be used to their full capacity. Scotland is looking to become more heavily involved in overseas trade therefore an improved transport infrastructure, bringing quicker and more efficient access to markets, is vital.

35. In both the SNP’s 2011 election manifesto and the Scottish Economic Recovery Plan, plans have been laid out to complete various road projects. The M8 Baillieston to Newhouse, M74 Raith Junction and M8, M73 and M74 improvements have been costed at c. £320m. Another project which has been a long standing priority is the completion of the Aberdeen Western Peripheral Route and the A90 Balmedie, the cost of which estimated at £350-£450m. We fully support these projects, as well as others such as further progress on

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dualling the A9. The budget for Motorways and Trunk Roads for 2011-2012 is £557.6m, 36% of which is taken up by spending on the Forth crossing.33

36. There are also various rail projects which are key in the continued development of the mobility of labour and goods, and growth of tourism in Scotland. These include: the electrification of the Glasgow Queen Street to Edinburgh Waverly line and the High Speed Rail (HSR) line from Scotland to South East England. Rail travel is growing in importance: 76.9m ScotRail passenger journeys in 2009-2010, a 20% increase since 2004-2005.34 With growing pressures to decrease the amount of car journeys, investment in Scotland’s rail infrastructure is crucial in contributing to Scotland’s CO2 targets (42% reduction by 2020). We are pleased to see that the Rail Infrastructure budget has been increased by 29% to £426.1 in 2011-201235 and hope to see this continue. One of Scotland’s main exports is tourism, an industry worth approx. £4bn annually to the economy. In 2010, visitors from Germany and France were ranked in the top three for trips made, nights spent and overall spend in Scotland.36 The HSR line would result in increased trips to Scotland from those who travel over to London from mainland Europe. Travel times from London to Glasgow would be reduced by 32% and London to Edinburgh, 40%.37 This is a considerable difference, encouraging more people to travel to Scotland. Therefore CBI Scotland supports this project and calls on the Scottish Government to intensify their efforts and work with the UK Government to get this line fully committed to and its construction timetabled.

37. The Scottish Air Route Development Fund (ARDF) operated from 2002-2007 and supported 63 services worth £22m.38 The Fund helped to increase Scotland’s connectivity and competitiveness by improving air services for both business and tourism. Scottish business benefitted largely from this fund as air routes were expanded; 141,000 Scottish business trips were made using ARDF.39 CBI Scotland calls on the government to re-introduce a route development or route marketing fund, one which is EU compliant, and continue to aid Scotland’s aviation connectivity which is so important to helping firms win business abroad and service overseas customers. The diminishing availability to expand at London’s key interlining airports gives encouragement for larger airports in Europe to eat into the UK’s share of the global air traffic. Trends highlight that passengers are moving to European hubs, therefore raising the case for continued investment in Scotland’s air infrastructure.

33 “Scotland’s Spending Plans and Draft Budget 2011-2012” The Scottish Government. Pg 98
35 “Scotland’s Spending Plans and Draft Budget 2011-2012” The Scottish Government Pg 102
36 http://www.visitscotland.org/PDF/International_Tourism_2010_Full_Year[1].pdf Pg 1
37 CBI Scotland 2008.
38 “Evaluation of the Scottish Air Route Development Fund”. Scottish Enterprise et al. 2009 Pg 8
39 Ibid Pg 20
40 From 2010 to 2011, passengers handled increased at Paris CDG by 1.2%, at Frankfurt by 4.5%, at Madrid Barajas by 12.8% and Amsterdam Schiphol by 4.3%, whilst passengers decreased by 4.4% at London Heathrow:
38. CBI Scotland was encouraged by the announcement at the last Budget that the devolved government had chosen to supplement its traditional capital expenditure by leveraging in additional privately-funded sources – as it has done to kick start affordable housing and commercial development through the NHT and TIFs - and to fund this using revenue expenditure. This represents investment that otherwise would not happen, or not happen for a considerable period at best, and capitalises on what is – from a procurers viewpoint – still a good time to be buying construction services cost effectively. We look forward to hearing more details in the Budget about how this is progressing.

39. A key area in which Scotland must do better is in the quality and quantity of Science, Technology, Engineering and Maths (STEM) students and graduates. The CBI has found that, on a UK level, 43% of employers report a shortage in STEM graduates and find it is increasingly difficult to employ staff. The historical view that STEM subjects are overly difficult has spawned a scarcity of scientists and mathematicians. CBI Scotland is concerned that this shortfall will continue to grow, constricting Scotland’s STEM markets and withholding economic growth. Young people need to understand the benefits from studying STEM subjects and the varied career paths that they offer. The Scottish Government must intensify efforts to raise the profile of STEM subjects early in schooling so that young people are encouraged to take these onto degree level. In order to encourage this, we believe parts of the Educational Maintenance Allowance (EMA) should be directed straight at those who have expressed an interest in, and are studying, STEM. The EMA resource has to be scrutinized and correctly spent on subjects and areas that are going to give the highest return. Investing in STEM pupils and graduates will bring growth to future industries that are vital to Scotland’s long term economic performance, and we support the continued expansion of the Science Baccalaurate.

40. We are pleased to see the Scottish Government’s continued commitment to make broadband available throughout Scotland and to have the next generation of broadband accessible to all by 2020. We welcome the efforts between Scottish Ministers, Scottish Enterprise and Highlands and Islands Enterprise in developing a regional broadband strategy and look forward to its publication. CBI Scotland remains convinced that public investment in this area is vital in equipping Scottish business to stay competitive and the public sector has a role to play in stimulating this investment and we commend the administration’s attempts to explore alternative financing models.

41. CBI Scotland is concerned with the lack of emphasis on encouraging a plurality of providers of public services. Services could be outsourced to independence providers whilst full political decision making over which services are actually

http://www.airports.org/cda/aci_common/display/main/aci_content07_c.jsp?zn=aci&cp=1-5-212-218-222_666_2

41 “Building for growth. Education and Skills Survey 2011”. CBI
delivered, their funding, and monitoring is retained. As recommended by the Independent Budget Review, public bodies should be tasked by Ministers to regularly review and explain why they are not making more use of independent suppliers to deliver public services. The Christie Commission similarly recommended\(^\text{42}\) that there should be ‘competitive neutrality’ between all potential suppliers of public services, so that in-house bidders are not favoured over private or not-for-profit suppliers. Clarity is needed on how this recommendation will be taken forward and CBI Scotland awaits further detail on the matter in the Spending Review.

42. Retaining poundage rate parity with England is central to maintaining business operations in Scotland. While a decision on the specific issue of re-introducing transitional rates relief will be for the subsequent Spending Review period, the Scottish Government is to be warmly commended for its approach to date on the substantive business rates item, namely poundage rates harmonization. Ministers must ensure parity continues, with no return to the higher rates bills for Scottish firms which characterized the early years of the devolved parliament.

43. The CBI is pleased to see that plans proposed in last year’s Budget, which were designed to levy a higher business rate on larger retailers, were omitted from the SNP’s election manifesto. We applaud the rejection of this tax rise, given the importance of the retail sector to the economy and job creation, but also as government should be doing all it can to entice firms to invest in Scotland, not make it more expensive and less attractive as an investment location.

44. Similarly, we would urge Ministers to avoid eliminating or reducing the rates discount applicable to empty commercial and industrial properties. Buildings are rarely left empty by choice, particularly where they don’t generate an income, and a tax rise like this may cause financial insecurity for firms currently in possession of empty properties and could see new developments curtailed.

45. The Scottish Government and its agencies have responsibility for levying or setting the level of a range of charges which apply to businesses including fees, licenses and permits, e.g. for regulatory services such as planning application fees. The devolved government can assist the economic recovery by keeping a firm lid on those costs and charges under its control which apply to businesses.

46. With tightening finances, the Scottish Government may be tempted to exercise its current powers and ability to vary the basic rate of income tax (Scottish Variable Rate) by up to three pence in the pound, valued at £1.2bn in 2011-2012.\(^\text{43}\) It is imperative that Scotland remains tax competitive and therefore would

\(^{42}\)”Commission on the Future Delivery of Public Services” Christie Commission. 2011. Recommendation 7.26 “The Commission recommends there is a requirement of competitive neutrality between all potential suppliers of public services – that is, a consistent and transparent application of commissioning standards to all providers, including in house bids from public bodies”.

\(^{43}\)”Commission on the Future Delivery of Public Services” Christie Commission. 2011. Pg10
oppose the implementation of this option. Scottish Ministers should continue their sensible rejection of the use of the SVR.

47. Whilst we have voiced scepticism over previous plans to scrap the Council Tax and replace it with an additional income tax, CBI Scotland continues to fully support the devolved administration’s ambition to try to freeze Council Tax. Council Tax increased well above the rate of inflation in the decade before it was frozen – average B and D Council tax increased 46.7% since 1998, compared to RPI of 37% and CPI of 25.5%. A continued freeze in the level of the Council Tax will see public anxiety over the tax level lessen, and subsequently diminish the need for wholesale changes which might place the administrative burden for calculating and collecting any replacement tax onto employers. A continued freeze will make Scotland a more affordable place in which to live and work.

48. The Scotland Bill heralds major additional financial responsibilities for the Scottish Government. Taxes such as a Scottish rate of income tax, stamp duty land tax, and landfill tax, are to be devolved, allowing Scottish Ministers direct responsibility for extra tax revenues of up to £12bn. While decisions by Scottish Ministers on the level of these taxes are likely to be for the next devolved Spending Review period, government should work with business in the interim on the mechanisms and detail in order to provide certainty over the approached to be taken.

49. In addition, the Scotland Bill will also allow the devolved government if it is so minded – and with the approval of Westminster - to introduce “specified new taxes which will apply across Scotland”, in order to achieve desired policy outcomes and raise additional revenues. This provision in the Bill could, we understand, come into effect shortly after it is enacted. We fully recognize that the Scottish Government is facing leaner financial times over the next few years, however the right way to address this is by keeping a tight lid on spending and reforming public services. The wrong approach would be to use this expanding arsenal of taxes to levy new or higher taxes on firms which could act as a barrier to investment and innovation, and affect firms’ cash flow. We would be concerned if any proposals for new taxes made Scotland a more expensive and less attractive place to invest, live or visit.

50. The Scottish Government may have the power to finance investment through borrowing up to £200m in any one year, up to a maximum of £2.2bn, under the provisions of the Scotland Bill. These powers should be reserved for GDP-enhancing investments (e.g. in transport infrastructure) that ensure long run economic prosperity to the Scottish economy, and their use clearly set out in a new national infrastructure investment plan.

51. We have supported the Scottish Government’s efforts to ensure it settles supplier invoices within 10 days, aiding the cash flow of its private sector suppliers. We

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44 [www.scotlandoffice.gov.uk/scotlandoffice/15561.html](http://www.scotlandoffice.gov.uk/scotlandoffice/15561.html)
would ask that Scottish Ministers continue this and ensure a similar commitment is forthcoming from publicly funded bodies and local authorities north of the border. This builds on the principles which underpin the widely adopted ‘CBI prompt payment code’.

CBI Scotland