

FINANCE COMMITTEE

DRAFT BUDGET 2014-15

SUBMISSION FROM CBI SCOTLAND

INTRODUCTION

1. CBI Scotland is an independent not-for-profit organisation funded by its members in industry and commerce and representing firms of all sizes and from all industrial and commercial sectors.

2. CBI Scotland welcomes the opportunity to contribute to the Infrastructure & Capital Investment Committee's scrutiny of the Scottish Government's spending and taxation plans for 2013/14. Our members believe the public and private sectors should work in partnership to grow and rebalance the economy, and recognize too the contribution that public sector decisions, spending and procurement can and does make to the economy. Businesses themselves 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 timely budgeting provides welcome clarity which allows firms to plan ahead accordingly.

3. CBI Scotland published its detailed manifesto¹ 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 public services and become a more effective catalyst for economic growth.

KEY POINTS

4. The Scottish Government's Budget for 2013-14 comes at a time when the fiscal backdrop is decidedly challenging and is likely to remain so for the foreseeable future. The CBI's most recent economic forecast² expects public sector net borrowing to be £137.2 billion in the current year (8.8 per cent of GDP). The Office of Budget Responsibility expects a further £250 billion³ to be added to the UK Government's national debt over the next 4 years, and the annual cost of servicing this debt is expected to swell from £44.8 billion this year to £64 billion by 2016/17⁴. This is money each and every year that could otherwise be used to make investments to boost competitiveness and further invest in the long terms prospects of the economy, which is why a concerted effort to eliminate the UK's public spending deficit and then start reducing the ballooning national debt must remain a priority.

5. Our members remain convinced that this period of austerity, coupled with the unique situation of a single party majority Administration at Holyrood, should be viewed as a significant and positive opportunity to do things differently, challenge sacred cows and ingrained habits, rethink how and when money is spent, and to

¹ "Energising the Scottish Economy: a business agenda for reform and recovery", CBI Scotland's 2010 manifesto

² CBI economic forecast, August 2012

³ From the Office of Budget Responsibility data

⁴ OBR economic and fiscal outlook, March 2012, table 4.17

make every taxpayers' pound work harder than before. Ministers should concentrate Budgets on the substantive items that will improve the economic and business environment, now that they are able to avoid the often ad hoc and last minute footling additions to Budget Bills which have at times been required in the past in order to secure parliamentary support.

6. CBI Scotland fully endorses the Scottish Government's stated purpose of using its £30 billion annual spend to improve sustainable economic growth, and there were a number of welcome announcements in the Budget, not least on infrastructure, affordable housing, renewables, tourism, and skills. However the Budget was a missed opportunity to signal a fresh direction on public service reform, through contracting-out the delivery of a far wider range of public services to the private and third sectors, and to establish more direct links with key overseas business destinations by introducing an air route development fund. The lack of a moratorium on any new or additional taxes during the remainder of this Spending Review period was disappointing, not least as Scottish Ministers are introducing £131 million of extra taxes on business with their rates levies on larger retailers and firms with empty properties.

7. In line with our August 2012 submission⁵ to the Scottish Government and the Parliament's Finance Committee in advance of the unveiling of the spending plans, CBI Scotland believes Ministers ought to have pursued a bolder approach in this Budget to making savings and promoting competition in the delivery of public services. Freeing up monies in this way would have allowed Ministers to go further and faster in investing in GDP-enhancing measures, help avoid the new tax on firms with empty premises, and stimulate innovation.

COMMENTARY ON ASPECTS OF THE DRAFT BUDGET FOR 2013-14

Reducing the cost of government

8. In our submission to the Finance Secretary last year ahead of his 2011 Spending Review, CBI Scotland set out a number of areas where we thought Scottish Ministers could make further savings – e.g. making Scottish Water less reliant on the public purse in order to free up additional money for infrastructure, reducing costs through greater levels of outsourcing⁶ and shared services, introducing a graduate contribution, reducing the number of local authorities towards a model based on larger authorities including metropolitan areas covering the principal cities, disposing of unneeded assets, and keeping a firm grip on the overall wage bill and curbing recruitment. We welcome a number of the measures in this Budget, including: the savings identified by the Scottish Futures Trust which means more can spent on other GDP-enhancing investments; and the proposal to continue to keep a tight rein on the pay bill, just as the private sector has had to do over recent years.

⁵ Response to the Scottish Parliament Finance Committee's call for evidence on the Scottish Government's Draft Budget for 2013-14, CBI Scotland, August 2012

⁶ CBI's 'Open Services' report identified how £22.6 billion could be saved by the public purse from opening up public services in the UK to competition, 20 September 2012

Infrastructure

9. It is encouraging that the Budget aims to “boost public sector capital investment”, particularly as CBI Scotland called for this in our submission before the Budget, but also because this remains a good time to get value from the purchasing of construction services⁷. Government should build on this aim by setting out a clear and explicit target to spend a greater proportion of its expenditure on investments that support wealth creation (e.g. infrastructure, skills development, exports assistance), and set out a timetable for achieving this. The Economy Committee could usefully question Ministers on this, to better understand what scope there is for a shift in the proportion of expenditure that goes on investment, as argued for in the Committee’s own 2006 report on ‘Business Growth – the next 10 years’.

10. The capital projects identified in the Budget and in last year’s Infrastructure Investment Plan will provide much-needed employment in the short term and help to build Scotland’s economic capacity in the longer term, as well as minimising future maintenance bills and congestion. CBI research⁸ has also shown that high quality infrastructure is a key determinant when firms are considering where to invest. The Scottish Government’s decision to supplement its traditional capital expenditure by leveraging in additional privately funded sources of capital through its NPD/PFI programme, and to fund this using revenue expenditure, is the right course to pursue. This represents investment that would otherwise not happen or not happen for a considerable period. We welcome the continued role envisaged for the Scottish Futures Trust, the proposed extension of the use of Tax Increment Financing, the National Housing Trust (NHT) model for affordable housing, as well as the acceleration of spend on school buildings into the 2014-15 financial year (albeit we await details of the implications if any this may have for the split between capital and revenue financing of the Schools for the Future programme).

11. We welcome the electrification of the Glasgow Queen Street to Edinburgh Waverley train route. However the absence of a commitment to complete it by 2016 as originally planned is frustrating, and we regret that electrification to Dunblane and Alloa and the infrastructure improvements at Dalmeny to provide for a closer link to Edinburgh airport will not now be included, despite the fact that some existing infrastructure has already been altered to accommodate this.

Scottish Variable Rate

12. We applaud the decision in the Budget to rule out the use of the Scottish Variable Rate, which the Christie Commission said could potentially generate £1.2bn in new tax revenues. We would be concerned about any move that might send out a worrying signal that Scotland is a higher tax country than the rest of the UK.

Business rates

13. CBI Scotland welcomes the Budget pledge to maintain poundage rate parity with England, and the continued relief on offer to small firms (which is part funded by a supplementary levy applying to all larger firms with a rateable value in excess of £35,000). Keeping taxes down and predictable helps firms fund their investment plans, crucial in an era when retained profits have become ever more important in

⁷ Report to the Parliament’s finance committee on the 2013-14 Budget by Professor David Bell, Sep 2012, p12

⁸ ‘Better connected, better business’, CBI/KPMG infrastructure survey 2012

financing future investment intentions. The new time-limited 'Fresh Start' rates concession⁹ is welcome recognition of this, and the decision to allow businesses to defer a portion of the inflationary uplift in their bills this year is positive and provides relief for firms' cash flow at this challenging time.

14. However we remain disappointed at the decision to put the principle of poundage rate parity to one side through the introduction earlier this year of the £95 million rates levy on larger retailers. This surcharge makes it more expensive for retailers to operate in Scotland and who are often having to compete with other parts of the UK or overseas for increasingly mobile capital. Also, the decision to increase the tax paid by firms with empty commercial premises to the tune of £36 million over the next two years (commencing in 2013-14) is similarly unwelcome, and sits ill at ease with the Budget's wish to "encourage private sector investment"¹⁰. Furthermore, it was disappointing that the Scottish Government did not use the opportunity afforded by this Budget to rule out the introduction of any further new or additional business rate levies during the remainder of the current Spending Review period.

15. CBI Scotland has previously supported the principle behind the recently introduced Business Rates Incentivisation Scheme – which allows councils to retain a proportion of any growth in non-domestic rates revenue from their area - as a means of encouraging a more business friendly approach from local authorities towards business growth and commercial development. However we would have liked to have seen in the Budget confirmation that the new revenues resulting from this scheme will be transparently re-invested into promoting economic growth, e.g. by spending it on roads or other local infrastructure, more effective resourcing of local planning authorities, local economic development etc.

Charges and levies

16. 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. The Scottish Government is currently considering proposals to increase planning application fees. It is also examining proposals to introduce a carrier bags levy, which could potentially mean additional administrative costs for retailers. The devolved administration has also announced plans to allow Scottish Water to start levying water and sewerage charges on empty commercial and industrial properties, however no information has been forthcoming so far over the level of charging that is being envisioned let alone the amount of money that Ministers hope will be raised. Government can assist the economic recovery by keeping a firm lid on those costs and charges under its control which apply to businesses.

Council Tax

17. CBI Scotland supports the Scottish Government's continuing ambition to freeze Council Tax, which increased greatly during the decade before it was frozen. A continued freeze will see public anxiety over the level of the tax continue to lessen, and subsequently diminish any demands for wholesale changes which might place the administrative burden for calculating and collecting any replacement tax onto employers.

⁹ 'Fresh start for Scotland's high streets', Scottish Government press release, 25 September 2012

¹⁰ Scottish Draft Budget 2013-14, page vii

Skills

18. Ensuring Scotland's workforce has the skills necessary to support the move to a low carbon economy will be crucial if we are to capitalise on the potential that the green economy has to offer, and the announcement of funding for an energy skills academy is therefore welcome. In our CBI skills survey, over half of firms said incentive payments would encourage employer involvement in skills and apprenticeship schemes and help deal with rising youth unemployment. The Employer Recruitment Initiative is therefore a positive response, though we note that its value for small firms appears to have reduced to £1,500 from up to £2,000 previously. Given the Scottish Government's refusal to countenance a graduate contribution, the protection of funding for higher education must continue particularly at a time when the devolved administration's own research¹¹ shows Scotland is already behind its competitors in terms of university funding as a percentage of GDP. The success of Scottish business is greatly dependent on the research, innovation and graduate talent that is produced by our universities. It is essential the government continues the trend towards supporting only research of true international excellence; and that the link between this research and industry is supported by welcome initiatives such as the Interface service and the innovation voucher scheme. We continue to believe however that a mixture of funding from the public sector and individual graduates should be forthcoming for our universities.

Exports

19. We called previously¹² for a more stretching Scottish target for exports in order to reflect the opportunities provided by the growth in world trade, and were encouraged at the subsequent ambition to grow exports by 50% by 2017. Scottish Development International is doing good work, and we support the Scottish Government's attempts to encourage exports to and inward investment from specific high growth economies including China, India, and Pakistan with their series of dedicated 'plans'. The lack of any re-introduction in the Budget of an Air Route Development Fund (ARDF), is however disappointing. An EU-compliant ARDF would help establish new international flight connections from Scotland to overseas business destinations and hubs, make it easier for firms to access markets and customers abroad, and help deliver the step change in Scotland's export performance that will aid the rebalancing of our economy. This is all the more so given the UK Government's short-sighted decision to restrict the ability of London's key interlining airports to expand.

Tourism and business support

20. We welcome the extra £1.5m in this current financial year to support tourism marketing, plus the continued VisitScotland Bid Fund which is seen as a vote of confidence in efforts to attract major business tourism conferences to Scotland. We continue to support the Scottish Government's focus on supporting priority sectors - through Scottish Enterprise and Highlands & Islands Enterprise - which are deemed crucial to long-term economic performance and firms with high growth potential. Grant and funding schemes like SMART, RSA, and KTPs are viewed positively by

¹¹ 'Building a smarter future: towards a sustainable Scottish solution for the future of HE', Dec 2010, p34

¹² CBI Scotland's submission to the Economy Committee in response to its inquiry into internationalisation, February 2010

our members as a valuable means of encouraging industry to invest, expand and locate in Scotland, even more so at a time of rising external finance premiums.

Prompt payment of invoices

21. CBI Scotland supports the Scottish Government's efforts to ensure it and its agencies settle supplier invoices within 10 days, aiding the cash flow of its suppliers, and significant progress has been made. The CBI supports the prompt payment code¹³ and looks forward to contributing to the Scottish Government's consultation on this as part of its proposed Better Regulation Bill.

¹³ www.promptpaymentcode.org.uk