

## **SCOTTISH CHAMBERS OF COMMERCE WRITTEN SUBMISSION**

Scottish Chambers of Commerce (SCC) is pleased to enclose its response to the call for evidence by Scottish Parliament Infrastructure and Capital Investment Committee in relation to the Scottish Government Draft Budget 2015-16.

### **Connectivity:**

Scottish Chambers of Commerce believe that the most effective way in which the Scottish Government can support long-term growth in Scotland's private sector is to ensure that capital investment is maximised and that the focus of this spending should be on enhancing connectivity within Scotland and to link Scotland to foreign markets. SCC welcomes the Scottish government's commitment to upgrade certain roads and maintain spending on the ferry and rail networks, as part of the infrastructure investment.

The draft budget outlines investment in terms of upgrades and developments on the A9, A96 and A82. It is essential to deliver improvements on key routes such as the A9, A96 and A82 which are of vital economic importance, yet the development and improvement of the A75 must also be prioritised and not overlooked. SCC urges the Scottish government to bring forward its plans to invest in the Berriedale Braes section of the A9, following the recent spate of incidents and subsequent road closures.

Of particular importance is the ongoing work on the completion of the Forth Replacement Crossing, which is essential to maintain domestic connectivity across our east coast. Where road improvements have been implemented, the economic benefits to business, in terms of faster journeys and lower transport costs, have been immediately apparent. Once roads are built, then it is essential that they are maintained in an acceptable state of repair.

Additionally, it is necessary to maintain investment in cross border roads both in Scotland and in England in order to facilitate cross border travel and trade. Whilst investment has taken place on the A74(M)/M6 corridor, the A1 remains a priority for improved access to the north east of England, with major investment needed south of the border.

With plans to progress the re-tender for the Clyde and Hebrides Ferry Services in 2016, it is imperative that in terms of domestic ferry services, these must serve the needs of residents, visitors and business. The Scottish Government's Road Equivalent Tariff scheme has demonstrated the boost that lower fares can deliver on key ferry routes to the islands but has since removed this benefit from commercial vehicles, to the detriment of island economies. Commercial ferry users must be treated equally with other travelers and should benefit from reduced ferry prices that other service users enjoy. Additionally, Scotland has significant economic potential from its ports and these require to be developed to take advantage of the opportunities that

are emerging in terms of logistical support for Scotland's offshore renewables industry as well as developing and expanding the more traditional maritime operations.

Whilst the Scottish Budget indicated a £46 million cut in support for rail services creating capacity in the rail network is also essential to provide improved services. A number of key rail routes require to be upgraded if passenger growth and needs are to be accommodated. For example, single-track sections of the main lines connecting Inverness, Aberdeen and Dundee with each other and with the Central Belt urgently require to be upgraded.

In terms of air travel, Scotland needs to maximise its domestic and international connectivity, ensuring adequate services linking Scotland with the rest of the UK and a strong focus on international services both direct and through hub airports. We support in principle the High Speed Rail 2 proposals, on the condition that it secures additional air access to Heathrow airport in particular from the North and North East of Scotland which at present are unlikely to benefit directly from HS2.

### **Digital Connectivity:**

SCC welcomes the additional investment in the fibre broadband programme which will provide access to a next generation network to 85% of premises by the end of 2015-16 and 95% by the end of 2017. SCC represents a network of 11,000 businesses throughout Scotland, from Caithness to the Scottish Borders, based in both urban and rural areas. It is imperative that all businesses in Scotland have adequate levels of Digital connectivity, as it acts as a catalyst for expansion in the business base and growth of individual businesses. Since the turn of the century, Scotland has made significant progress towards extending the penetration of broadband availability throughout the country. Again, the North and North East of Scotland in particular suffer from poor broadband provision, with poor speeds (even within Aberdeen itself) and up to 20,000 properties within Aberdeenshire not able to access broadband at all.

We want to see Scotland become the best performing nation in terms of broadband reach and speed. We support the Scottish Government initiatives which will deliver improvements to broadband provision in Scotland, however, we believe that both the Scottish and UK governments need to coordinate better with each other to maximise the benefits across the country. The immediate priority must be to extend the reach of broadband to rural areas and to deliver improved speeds in areas of concentrated business activity.

### **Construction**

Construction is an important sector in Scotland, it contributes 10% of Scotland's GVA<sup>i</sup>, and supports 31,000 construction related businesses. Yet the construction sector has experienced a decline in recent years, retracting 5% in 2011 and 13% in 2012<sup>ii</sup>. While growth of 10%<sup>iii</sup> was reported in the year to 2014. Scotland's construction sector was hit particularly hard by the

financial crisis and subsequent recession from 2008. Although the industry has experienced a recovery to some extent since the end of 2013, with the results of Scottish Chambers' Quarterly Business Survey (QBS) highlighting recent increases in orders, contracts, work in progress and numbers employed, the construction industry in Scotland endured 5 years of very difficult times. Not only did the industry experience a sustained decline in public sector work (respondents to the QBS reported on balance, a decline in public sector work every quarter for almost 7 years), but commercial contracts and even more so private house-building contracts declined for the majority of Scotland's construction businesses for almost every quarter between 2007 and 2013. It will take more than one healthy year of orders, revenues and increasing employee numbers for the construction industry to return to pre-recession levels of activity and investment. As recently as 2010 evidence indicated that the industry was operating below 2/3 of its capacity.

The increased commitment towards capital investment is likely to be well received by the construction industry. Evidence from the Scottish Building Federation<sup>iv</sup> in 2012 confirmed that the recession had hit hard, resulting in redundancies and bankruptcies across the sector. Figures quoted by the Scottish Building Federation and the Insolvency Service show that the number of Scottish building companies going bankrupt fell by 33% in the year to March 2014. Additionally, 87 Scottish companies were forced into compulsory liquidation during the year to Mar 2014; 129 in the period to 2013 and 198 in 2011-12<sup>v</sup>. This was reinforced by a report in July which confirmed that bankruptcies had fallen further by 59% compared to the two previous years<sup>vi</sup>.

The commitment to increased funding will support growth and deliver a pipeline to the industry. Yet concerns must be addressed relating to the replacement of stamp duty land tax by Land and Buildings tax and the consequent increase this would have on tax paid for higher duty investments, particularly by institutional investors. This could potentially deter commercial property investors from Scotland, due to the higher costs in comparison to the UK. This could have a detrimental impact on regeneration initiatives.

One of the key issues continues to be skills development which is largely to shortages arising from the lay-offs in the wake of the recession. Many sources, including our own QBS have highlighted skills shortages, in particular a large requirement is for painters and decorators going forward. It is clear that more needs to be done, which should be addressed through better interaction with education providers in the future.

**Scottish Chambers of Commerce  
November 2014**

---

<sup>i</sup> Gleeds Report August 2014 Regional Focus: Scotland & the North East

<sup>ii</sup> CITB Construction Skills Network Scotland 2014-18 Report - Labour Market Intelligence

<sup>iii</sup> BBC News Scotland Article 14<sup>th</sup> March 14 *Scottish Construction Industry output rises to £10.7bn*

<sup>iv</sup> <http://www.scottish-building.co.uk/uploaded/SUBMISSION%20-%20FINANCE%20COMMITTEE%20CALL%20FOR%20EVIDENCE%20-%20SCOTTISH%20BUDGET%202013-2014%20STRATEGIC%20SCRUTINY%20-%20AUGUST%202012.pdf>

---

<sup>v</sup> <http://www.scottish-building.co.uk/media/news/224/scottish-construction-insolvencies-down-by-a-third-new-figures-show/>

<sup>vi</sup> <http://www.orbit-comms.co.uk/construction-sector-morale-boosted-as-bankruptcies-continue-to-decline/>