CBI SCOTLAND

WRITTEN SUBMISSION

(Originally submitted as a letter to the Cabinet Secretary for Finance, Employment and Sustainable growth on 31 may 2013)

The Scottish economy is showing some encouraging signs of a return to growth[1]. Hopefully this will turn into a lasting and robust economic recovery, and we believe your next Budget, to be unveiled this autumn, provides plenty of opportunities to assist.

To do this the Budget needs to focus on the following:

- Freeing up money for spending on economically beneficial measures
- Galvanising growth through private sector investment and job creation
- Keeping a tight lid on the costs of doing business
- Encouraging competition

The economy is at a critical turning point and decisions taken this year will help determine the future for Scotland's economy and its public finances. Through the measures outlined in this paper we believe Scotland's economy can be assisted to return to a sustainable growth path with firms more confident about exporting, investing and expanding.

The overriding challenge to government, parliament and policy makers is clear – channel your collective energies into aiding economic growth and ensure all policies make Scotland an even better place to create wealth and jobs.

Yours sincerely,

Iain McMillan
Director, CBI Scotland

Freeing up money for spending on economically beneficial measures

The Scottish Government has a substantial remit and £30 billion annual budget, and there are always ways of doing things differently and better. A bolder approach to making savings in devolved public expenditure would free up money for spending on more economically beneficial and growth enhancing areas of government policy. It would also negate the need for any further new tax rises. There are plenty of options for reshaping devolved spending, and while some may not be easy politically, now is the time to grasp the nettle.

[1] Economy moving from flat to growth, CBI economic forecast, 10 May 2013

Role of the State

Ahead of the next devolved Spending Review there ought to be a public debate about the role of the State, including whether the balance between current and investment spending is appropriate. In the meantime every Scottish Minister and spending authority should ask themselves six key questions every time they think about spending taxpayers' money: Is this something government needs to continue to do? Does this service remain a priority given funding constraints, or could better outcomes be delivered if the funding was spent elsewhere? Is this something that could be done more efficiently? Is this something that could be delivered better by the private or not-for-profit sector? Is this a service that can be re-engineered to deliver a better outcome? Is this service really necessary at all? If this kind of thinking were applied across the public sector savings could be made while improving or maintaining the quality of services.

Costs of government

With its significant role in the economy the public sector should be as productive as possible. The Scottish Government should be relentless in looking to make further savings, for example through: making Scottish Water less reliant on the public purse (as has previously been advocated by the Independent Budget Review, Royal Society of Edinburgh, and the Scottish Futures Trust); continuing to contain the public sector wage bill; reducing costs through greater levels of outsourcing; further asset sales; and introducing a graduate contribution to the cost of students' university education.

Further structural reform

The Scottish Government has recently undertaken structural reform of the police and fire services, designed to maintain service quality and reduce costs. Further positive structural reform could be applied elsewhere in the devolved public sector, for example: speeding up the integration of health and social care; reducing from 32 the number of local authorities, towards a model based on larger authorities including metropolitan areas covering the principal cities; reducing from 14 the number of rates assessors.

End ring-fencing of health

Health spending has been given the highest priority in recent Budgets. Health now accounts for 35 per cent[2] of the Scottish Government's spending, and received the largest increase of any portfolio in the 2013/14 Budget. It commands a significant amount of money and the decision to ring-fence its funding has consequences for all other areas of devolved spending. The focus should shift to preventative spending, and the ring-fencing of health spending should end when this current 3-year Spending Review period concludes. Furthermore, the health service should be allowed to capitalise on the expertise and economies of scale on offer from external providers and make more use of them, e.g. hospital catering, hospital cleaning, GP services.

[2] Briefing paper on 2013/14 Budget prepared for Holyrood's finance committee by Professor David Bell, Sep 2012

Galvanising growth through private sector investment

The Scottish Government should continue to invest in the economy, prioritising growth enhancing spending that supports and encourages business investment and exports.

Capital expenditure

Recent CBI research[3] has shown that high quality infrastructure such as digital and transport is an important determinant when companies are looking at where to invest. Good infrastructure builds the nation's long term economic capacity, facilitates private sector investment, helps overcome our location on the periphery of our major markets, and minimises future maintenance bills and congestion. While there will always rightly be debate over individual projects, a long term political consensus over the importance of good quality and economically beneficial infrastructure should be a priority.

The use of private finance through the £2.5 billion NPD/PFI programme and the funding of further capital expenditure through Tax Increment Financing and National Housing Trust models is encouraging and represents investment that would otherwise not happen or not happen for a considerable period. It also helps unlock private investment. However, the Scottish Government should build on these positive developments by seeking to spend a greater proportion of its budget on investments that support wealth creation and connectivity between our major cities, particularly to the North and North East. It should prioritise a further injection of capital spending, for example on smaller-scale projects including roads and affordable housing, which benefit from the high construction multiplier[4] without suffering the long lead in times that can affect more major projects. It should also examine further the scope to bring forward repair, maintenance and improvement works, for example on its roads network. Research undertaken by the CECA[5] has shown that 3,000 jobs are created for every 1,000 in the construction of infrastructure, for example through the manufacturing supply chain and extractive industries.

Skills and innovation

A focus on skills development must remain a priority for the devolved Budget, particularly on STEM skills which are crucial for those economic sectors with the brightest prospects. Skills Development Scotland, with a budget of £187m in the current financial year[6], is increasingly being seen as providing welcome support for students in the form of careers advice and for employers in helping to recruit apprentices, provide training opportunities, accrediting young people as work ready, and signposting employers to available support.

The success of Scottish business is greatly dependent on the research excellence, innovation and graduate talent that is produced by our universities, and we are fortunate in Scotland in have a higher education sector that punches well above is

[3] 'Better connected, better business', CBI/KPMG infrastructure survey 2012, 14 September 2012
[4] For every £1 invested in construction some £2.84 is generated for the wider economy – CBI UK's Budget submission, 25 February 2013
[5] 'Securing our economy: the case for infrastructure', CECA, May 2013
[6] Letter from Youth Employment Minister to chairman of SDS, 7 April 2013

weight internationally. However, the Scottish Government's own research[7] shows Scotland is already behind its competitors in terms of university funding as a percentage of GDP. If our universities are to remain internationally competitive and continue to deliver high standards of research and teaching to a significant number of Scottish students, then public funding must be maintained. At the same time, it is reasonable to expect graduates to make a financial contribution once their salaries have passed above a certain income threshold, e.g. £21,000 per annum.

Exports, tourism and business support

The Scottish Government should implement an aviation strategy to enhance Scotland's international air connectivity and export and tourism performance, and make it easier for firms to access overseas markets (particularly emerging markets) and customers. This should be backed up with a new EU-compliant version of the air route development fund.

The enterprise networks are right to be focusing their resources on seeking out sources of advantage, through those priority sectors deemed crucial to long term economic performance and on those small and medium sized firms with high-growth potential. The expansion of Scottish Development International's network of offices into rapidly growing overseas markets is similarly encouraging. Public expenditure through the enterprise agencies and the national tourism agency, Business Gateway and incubator support for start-ups, should be maintained and nurtured, not least if the ambitious target for 50% export growth by 2017 is to be realised. Grant schemes for inward investment and company expansion, together with the funds available from the Scottish Investment Bank, are viewed positively by our members as valuable means of stimulating private investment.

Keeping a tight lid on the costs of doing business

This is no time to impose further tax rises on business. Keeping taxes and other costs affecting businesses down and predictable helps firms remain competitive. It also helps to fund their investment plans, which is crucial in an era when retained profits are becoming a more important source of financing investment intentions.

Taxation

We applaud previous decisions to rule out the use of the Scottish Variable Rate, which would place a costly additional administrative burden on employers in both the public and private sectors. The CBI has supported the freezing of Council Tax, as previous increases in the tax far exceeded rises in both the retail and consumer prices indices. As a result of the freeze public anxiety over the tax has lessened and thus diminished demands for any wholesale changes which might place the administrative burden for calculating and collecting any replacement tax onto employers, for example through a Local Income Tax. We do accept that the Council Tax cannot remain frozen for ever, however any future increases must be kept to a minimum, perhaps by no more than annual inflation.

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

New taxes
The Scottish Government should use this Budget to provide early clarity over the likely rates to be applied under the new Land & Buildings Transactions tax, which is to come into effect in Spring 2015. The Scotland Act 2012 gives the Scottish Government the power to introduce, with immediate effect[8], new devolved taxes in order to pursue desired policy outcomes or raise additional revenue. We would caution against introducing any new taxes which might make Scotland a more expensive and less attractive place to invest, live or visit.

Non-domestic rates
The commitment to maintain poundage rate parity with England is the right policy and should be maintained, as should the rates relief available to smaller firms. The recent decisions to depart from the uniform business rate and introduce a supplementary business rates levy on larger retailers, and also reduce the rates relief available to firms with empty commercial premises, is the wrong approach and will add £131 million to firms' rates bills during the current Spending Review period. We remain deeply disappointed at these two tax rises and are concerned that these decisions open the door to further rises in rates. To build more predictability and certainty into the rates system, the Scottish Government should introduce a moratorium on any new or additional business rate levies during the remainder of this Spending Review period. We support the retention of the mandatory relief available for higher education institutions and the exemptions available for oil and gas pipelines and rural ATMs, which would otherwise raise the cost of providing these services. Any revenues accruing to councils through the new Business Rates Incentivisation Scheme ought to be transparently re-invested into resourcing local planning authorities, local economic development or improving local roads.

Charges and levies
The Scottish Government increased planning application fees by 20 per cent this year, and to maintain business support there needs to be a commensurate and demonstrable improvement in the service that commercial applicants receive. We are concerned that the proposed new environmental levy on carrier bags could prove a costly administrative headache for retailers, at what remains a challenging time for the high street and after significant success recently in reducing the use of plastic bags. The Scottish Government has announced plans to allow water and sewerage charges to be levied on empty commercial premises from Spring 2015, and we await further details as to the proposed level of charging and the amount that is expected to be raised.

Encouraging competition

With several years of severe fiscal restraint ahead for the public finances, new thinking is needed on the delivery of public services. The need for every pound's worth of public spending to be as effective as possible on a long term sustainable basis is more important than ever. More ought to be done to encourage competition in the delivery of public services, in order to extend consumer choice, drive up

[8] '1st annual report on the implementation and operation of Part 3 (financial provisions) of the Scotland Act 2012', HM Treasury April 2013. Any new taxes need to be agreed with Westminster.

performance and innovation, attract external investment and provide better value for money.

Make more use of independent providers
The 2010 Independent Budget Review made clear the need for a "mainstream role" for the private sector in the delivery of devolved public services. The CBI believes the Scottish Government should be open minded about who is best placed to deliver public services, and progress the Christie Commission's recommendation that there should be "competitive neutrality" between all potential suppliers of public services so that in-house bidders are not favoured over for-profit or not-for-profit suppliers. Indeed, we believe a new 'right to bid'[9] should be introduced so that private and third sector organisations have a right enshrined in law to bid to deliver public services.

Candidates for the removal of legislative, Ministerial and attitudinal restrictions on service delivery and introducing private or third sector include: ferry services; hospital catering and cleaning; GP services; building standards verification. Local authorities should similarly embrace such an agenda, for example by contracting out the management and maintenance of their local roads networks, back office payroll and HR, the delivery of Business Gateway contracts, or the provision of customer contact centres.

CBI Scotland
May 2013

[9] CBI Scotland called for a 'right to bid' to deliver public services in our 2011 submission to the Christie Commission.