DRAFT BUDGET 2015-16

SUPPLEMENTARY SUBMISSION FROM CBI SCOTLAND

The CBI is the UK’s leading business organisation, speaking for some 190,000 businesses operating across the UK. With offices across the country as well as representation in Brussels, Washington, Beijing and Delhi, the CBI communicates the British business voice around the world.

CBI members directly employ at least 500,000 people in Scotland, which represents a quarter of the private sector workforce. This includes companies headquartered in Scotland as well as those based in other parts of the UK that have operations and employ people in Scotland. We welcome the opportunity to input to Scottish Government’s draft budget for 2015-16.

This submission makes the following points:

- Ongoing deficit reduction is essential and the CBI have a series of priorities reflected in the draft budget to ensure that prosperity is widely shared

- We welcome the principled approach to taxation which must apply for individuals and business

- Our growing economy must be supported by a significant rebalancing towards business investment and trade

- Efforts to decide and deliver critical infrastructure priorities must be maintained

- A Scottish labour market that is flexible and full of opportunity is crucial to ensuring that people progress into higher skilled, better-paid jobs

Ongoing deficit reduction is essential and the CBI have a series of priorities reflected in the draft budget to ensure that prosperity is widely shared

1. Our members have identified a series of priorities which we believe will help create an environment which will develop jobs, growth and investment in Scotland leading to a sustainable, vibrant economy in which prosperity is shared. These priorities focus on ensuring that the tax system supports individuals and business, rebalancing the economy towards business investment and trade, maintaining momentum of delivering key infrastructure projects and developing a labour market which allows people to progress into higher-skilled, better paid jobs. These priorities and outcomes are reflected in the draft budget and we will be looking ahead to ensure the effective delivery of these key priorities.

2. The overall spending envelope for the Scottish Government continues to reflect the necessary context of ongoing deficit reduction across the UK – with the UK’s overall fiscal consolidation just over half-way complete, ongoing reductions will be absolutely essential to give businesses a stable framework in which to invest, and importantly to mitigate increasing spending on debt interest payments at the
expense of spending on public services in Scotland as well as elsewhere in the UK.

We welcome the principled based approach to taxation which must apply for individuals and business

3. We also welcome the ‘principles-based Scottish approach to taxation’ which mirrors some of the CBI’s own long established views on tax policymaking. Good tax policymaking should always have as one of its goals the promotion of stability, certainty and predictability (see CBI submission to Treasury Select Committee inquiry on ‘The principles of tax policy’).

4. This budget is the first to implement changes as a result of the Scotland Act 2012 including the creation of the Scottish Land and Buildings Transaction Tax and the Scottish Landfill Tax. The CBI supports the reform of Stamp Duty Land Tax across the UK when the public finances permit, calling for progressive reform and a marginal system in our recent Homes for Growth report. The previous slab structure deters first time buyers through eating into their deposit and deters second-steppers from moving house since they would pay substantially more when property prices appreciate into higher tax bands, so we welcome the Scottish Government’s reforms.

5. Continuation of the Small Business Bonus Scheme and Council Tax freeze – welcome relief from Business Rates for growing firms as well as ongoing mitigation of the Council Tax burden for individuals. We continue to urge reform of Business Rates elsewhere in the UK, including an exemption for smaller properties, more frequent valuations, and a switch in the uprating.

6. Importantly, the Scottish Government’s principles must also be used for tax policy which can provide stability, certainty and predictability not just for individuals but for businesses also. The Large Retail Levy has added further costs on firms in the retail sector who already pay a substantial portion of Scotland’s business rates receipts, and was a measure unfairly and deliberately targeted on one sector.

7. On the Scottish Landfill Tax, we welcome the Scottish Government’s decision to maintain parity with the prevailing UK rates – this is to understand that devolution to Scotland does have an impact on the rest of the UK in terms of the precedents set and the impact on neighbouring areas.

Our growing economy must be supported by a significant rebalancing towards business investment and trade

8. In order to maintain and deliver economic growth over the medium term, the CBI believes that we need to rebalance the UK economy by resurrecting business investment and net trade as the key drivers of growth while household and government debt stabilise.

9. Our Scottish Industrial Trends Survey for Q2 demonstrates that despite one of the strongest improvements in optimism on record as domestic new orders and outputs surged, export new orders were flat and were not expected to improve in
the next three months, with businesses saying they have become slightly less optimistic about their overseas prospects.

10. Given the importance of rebalancing the economy and the unique challenges that Scotland’s economy faces in boosting trade, CBI members welcome the Scottish Government’s focus on increasing Scotland’s export base and the ambitious 2010 target to increase exports by 50% by 2017.

11. Ambitious targets which have been accompanied by increased support and advice for new and existing exporters have been well received by CBI members. Members who use the services provided by Scottish Development International, Scottish Enterprise and others are positive about their experiences and the impact on their business and exports opportunities. In addition, members report noticeable improvements in the range of support available and the quality of commercial focussed service provided.

12. In order to maintain momentum the Scottish Government must go further than the provision of effective advice and support. Our exporting members, particularly small and medium-sized businesses report particular difficulties obtaining export finance. This includes both businesses working and patient capital needs, and export insurance. UK Export Finance is a valuable resource for businesses across the UK and we urge the Scottish Government and its support agencies to develop closer links with UKEF to ensure that Scottish businesses also benefit from available finance support.

13. In addition, connectivity from Scotland to the South-East and onto international markets is consistently raised by members as a key barrier to increasing their export base. Our members’ experiences show that conducting business face-to-face is often the most productive and beneficial means to build strong, working relationships and therefore frequent flights to the widest range of markets is crucial for supporting Scottish businesses to export their goods and services across the world.

Efforts to decide and deliver critical infrastructure priorities must be maintained

14. The CBI’s business manifesto for the 2011 Scottish parliament election, clearly set out Scottish businesses’ priorities for the delivery of key infrastructure projects and the Scottish Government has successfully delivered a number of strategically important infrastructure projects in transport, energy, water and drainage, schools, colleges and hospitals with additional projects firmly in the pipeline.

15. The CBI wants to ensure that this positive momentum is maintained so that local communities and business can continue to benefit. The draft budget sends a positive message on the Scottish Government’s commitment to continuing to deliver the next stage of projects to enhance the Scottish economy.

16. In light of the National Planning Framework 3 and new National Planning Policy we will be proactively engaging with members to coordinate a dialogue to strategically decide the business community’s forthcoming and long-term priorities for Scotland.
17. On investment, the CBI believes that innovative tax schemes such as Tax Increment Financing can be an effective incentive for authorities such as the Scottish Government to invest the future proceeds of growth in key infrastructure projects. The pilot is an example of devolved governments across the UK driving new schemes to support local regeneration – other parts of the UK including city regions in England are watching this closely and keen to follow their example.

18. On housing, Help to Buy (Scotland) is an extremely welcome scheme and we support the Scottish Government’s implementation of a bold, demand-led programme. However, the whole industry, not just house builders, but construction and manufacturing need security and stability in order to make long-term investment decisions. With this in mind, we are concerned that the early closure of the scheme in the 2014-15 financial year signals the potential for a similar gap in funding for the financial year 2015-16.

A Scottish labour market that is flexible and full of opportunity is crucial to ensuring that people progress into higher skilled, better-paid jobs

19. As the new Curriculum for Excellence and new national qualifications embed into the Scottish education system we are utilising members views to work with the Scottish Government to ensure that our young people are leaving education with the skills and work readiness that businesses in Scotland need to stay competitive and become global exporters.

20. Members have raised concerns that there is lack of awareness about the new Curriculum and qualifications amongst the business community. To be confident in recruiting young people business needs to understand the rigour and skill development underpinning the curriculum and qualifications. We want to see the SQA and Scottish Government make concerted efforts to boost awareness by engaging directly with businesses across Scotland.

21. We want to ensure that Modern Apprenticeships work for businesses of different sizes and in different sectors by being easily accessible, providing the appropriate level of support and training and that business can play its role in supporting the next generation.

22. In addition, we are keen to facilitate an ongoing dialogue and practical assistance as the Scottish Government looks to implement the recommendations made by the Wood Commission which highlighted the need to strengthen employer engagement in the youth employment and education agendas. Our survey of CBI members in Scotland last year highlighted that our members are already more likely to engage with primary (31%), secondary schools (49%) and further education colleges (51%) than the wider business community (<30%).

23. We know that the business community recognises the importance of their involvement and are keen to do even more so implementing the Wood Commission’s recommendations represents a unique opportunity to capitalise on business’ interest by working with the CBI to support the business community to strengthen their engagement with the education of our young people.

CBI Scotland, October 2014