

# FINANCE COMMITTEE CALL FOR EVIDENCE

## DRAFT BUDGET FOR 2013-14

### 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. CBI Scotland welcomes the opportunity to contribute to the Finance Committee's scrutiny of the Scottish Government's spending and taxation plans for 2013/14. CBI Scotland believes the public and private sectors should work in partnership to grow the economy, and recognizes too the contribution that public sector decisions, spending and procurement can and do 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 manifesto<sup>1</sup> 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.

#### KEY MESSAGES

4. The elimination of the UK public spending deficit and subsequent reduction of the ever expanding national debt - a further £250 billion<sup>2</sup> is expected to be added to the national debt over the next 4 years – remain a necessity. The cost of servicing the national debt is already £44.8 billion this year and is set to swell to £64 billion by 2016/17<sup>3</sup>.

5. However there is plenty that the Scottish Government itself can do - with its substantial remit and £35bn annual budget, and the freedom they have over how that expenditure is deployed - to play a further valuable and pro-active role in stimulating economic activity. We acknowledge that a number of policies and initiatives have benefited the business community over recent years, and we believe more can be done to enhance Scotland's prospects in the future. Our members'

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

<sup>2</sup> From the Office of Budget Responsibility data

<sup>3</sup> OBR economic and fiscal outlook, March 2012, table 4.17

over-riding priority for the Budget is that it helps galvanise future growth. Our members recommend that the way to do this is by: putting the devolved finances on a sustainable footing; keeping a firm lid on costs applying to businesses; investing in the economy; and promoting competition:

- The UK's public finances are in a critical state, and are being tested by several challenging headwinds not least the plight of the Eurozone. It is right that the UK and devolved public finances are put on a sound and sustainable footing. A bolder approach to making savings<sup>4</sup> from the Scottish Government (e.g. as suggested below) than has been taken previously would allow for greater levels of investment in GDP-enhancing measures and also avoid any new taxes on business.
- The Scottish Government should seek to keep a firm lid on those costs under its control and influence which affect business. The two tax rises unveiled in the last Budget - on larger retailers (£95m tax rise) and on firms with empty commercial premises (£36m tax rise) - were the wrong approach, particularly as firms' investment plans are increasingly funded from retained profits. Government should be making it easier for firms to invest, grow and create jobs in Scotland, not more expensive. Scottish Ministers should use the opportunity afforded by this upcoming Budget to make a clear and unambiguous announcement of a moratorium on any new or additional business rate levies during the remainder of this Spending Review period.
- The Scottish Government should continue to invest in the economy, prioritising growth enhancing spending that supports and encourages business investment and exports such as infrastructure and export assistance, and examine further the scope to bring forward repair, maintenance and improvement works. The Scottish Government is currently calling on Westminster to spend a further £5bn<sup>5</sup> on capital projects, so that the devolved administration can accrue its share of 'budget consequentials'. However if these consequentials are not forthcoming then Scottish Ministers should be prepared to revisit their own spending priorities to accommodate the projects, or alternatively add some or all of them to their £2.5bn NPD/PFI pipeline of capital projects.
- More ought to be done to encourage competition in the delivery of public services in order to extend consumer choice, drive up performance and innovation, attract external investment and provide better value for money. Some good examples do exist, however overall the Scottish Government and wider public sector has been far too reticent in capitalising on independent sector expertise and resources. The 2010 Independent Budget Review and 2011 Christie Commission were clear about the need for a "mainstream role" for the private sector in the

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<sup>4</sup> In its 2011 submission to the Finance Secretary on his Spending Review the CBI proposed a number of savings measures - see the section 'Where the Scottish Government can save money'.

<sup>5</sup> Article by Finance Secretary John Swinney MSP, Scotland on Sunday, 19 August 2012

delivery of services<sup>6</sup>, with firms allowed to bid to deliver services and able to prove their worth on a level playing field.

6. This remains a challenging time for Scotland's economy. The overriding challenge to policy makers and parliament is simple – channel your collective energies into aiding the economy and test all policies against a single benchmark: will it make Scotland a better place to create wealth and jobs?

## **SPECIFIC BUDGET RECOMMENDATIONS**

### **PUTTING THE DEVOLVED FINANCES ON A SUSTAINABLE FOOTING**

#### **Costs of government**

7. In our submission to the Finance Secretary ahead of his Spending Review last year CBI Scotland argued that the Scottish Government should use the opportunity to thoroughly question the purpose of government interventions and undertake a root and branch review of the spending decisions it takes. We set out several areas in the submission where we thought the Scottish Government could 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 to the cost of their university education. Reducing the costs of government should remain a focus of this Budget, and will help to minimise any reductions in economically important areas of spending. With such a huge slice of public spending going on wages and related items such as pensions, the prospect of anything other than very modest pay rises in the public sector is simply unrealistic.

#### **Scottish Water**

8. Scottish Water has done well to improve its performance over recent years. However, CBI Scotland has advocated in the past – along with the Independent Budget Review, the Royal Society of Edinburgh and the Scottish Futures Trust - that Scottish Water's investment intentions should be made less reliant on the public purse (e.g. by becoming a public interest company) for two reasons - to minimise or avoid any collateral damage to investment in water and sewerage resulting from cuts and pressures in public spending, and to free up public money for spending on other GDP-enhancing capital investment. The Scottish Government's decision last year to reduce its support for Scottish Water's capital programme by £120m<sup>7</sup> over the current three year Spending Review period was therefore concerning, as was its admission that as a result there are "risks ... to the pace of delivery of the capital programme". We must continue to have a modern and effective water and sewerage service for commerce and industry, particularly to the development industry given

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<sup>6</sup> Independent Budget Review: The report of Scotland's Independent Budget Review Panel, July 2010

<sup>7</sup> P191 budget document

past fears over development constraints and which in time will impact on the initiatives pursued under the Scottish Futures Trust and National Housing Trust, and every effort should be made to minimise the risk of any slippage in the pace of investment.

## **KEEPING COSTS DOWN FOR FIRMS**

### **Scottish Variable Rate**

9. We applaud previous decisions to rule out the use of the Scottish Variable Rate, which the Christie Commission said could potentially generate £1.2bn in new tax revenues. Its implementation could place a costly additional administrative burden on employers in both the public and private sectors, and send out a worrying signal that Scotland is a higher tax country than the rest of the UK.

### **Council Tax freeze**

10. 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.

### **Non-domestic rates**

11. CBI Scotland welcomes the Scottish Government's pledge to maintain poundage rate parity<sup>8</sup> 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 financing future investment intentions. 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. However it is deeply disappointing that Scottish Ministers put the principle of poundage rate parity to one side through the introduction in the last Budget of their £95 million rates levy on larger retailers. This surcharge makes it more expensive for retailers to operate in Scotland and could deter much needed new investment and jobs. The parallel Ministerial decision to increase the tax paid by firms with empty commercial premises, £36 million over the next two years, is similarly unwelcome. The Scottish Government should use the opportunity afforded by this upcoming Budget to rule out the introduction of any further new or additional business rate levies during the remainder of the current Spending Review period.

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<sup>8</sup> P17 2011 Budget document

## **New taxes**

12. The Scotland Act 2012 heralds major additional financial responsibilities for the Scottish Government, including a Scottish rate of income tax, stamp duty land tax, landfill tax, and borrowing for capital infrastructure. While decisions by Scottish Ministers on the rates, thresholds and revenues of these taxes are likely to be for the next devolved Spending Review period, CBI Scotland looks forward to working with the government in the interim on the mechanisms and detail in order to provide certainty over the approaches to be taken. In addition, the Scotland Act also allows 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. 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.

## **Charges and levies**

13. 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 consulting on proposals to increase planning application fees. It is also set to burden retailers with additional costs in administering the proposed carrier bags levy. The devolved administration has also announced it plans to allow Scottish Water to start levying water and sewerage charges on empty commercial and industrial properties, yet 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. 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.

## **Prompt payment**

14. 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 code<sup>9</sup> and looks forward to contributing to the Scottish Government’s consultation on this as part of its proposed Better Regulation Bill.

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<sup>9</sup> [www.promptpaymentcode.org.uk](http://www.promptpaymentcode.org.uk)

## **INVEST IN THE ECONOMY**

### **Capital expenditure**

15. Recent CBI research has shown that high quality infrastructure is an important determinant when companies are looking at where to invest. The devolved government should build on this by seeking to spend a greater proportion of its expenditure on investments that support wealth creation such as skills, innovation and communications infrastructure and set out a timetable for achieving this. Devolved public bodies should examine further the scope to bring forward repair, maintenance and improvement work, e.g. local roads.

16. CBI Scotland was encouraged that the Scottish Government in its last Budget sought to switch money from revenue spending in order to enhance GDP-enhancing capital expenditure, e.g. on renewables, housing and transport. There was subsequently positive announcements on specific projects in the 2011 Infrastructure Investment Plan, e.g. A9, A96 and M8. These projects will help build Scotland's economic capacity and minimise future maintenance bills and congestion.

17. The Scottish Government's decision to supplement its traditional capital expenditure by leveraging in additional privately funded sources of capital through its £2.5 billion NPD/PFI programme, and to fund this using revenue expenditure, is something we support. It represents investment that would otherwise not happen or not happen for a considerable period. We also back the principles which lie behind the use of Tax Increment Financing and the National Housing Trust models.

### **Skills, education and innovation**

18. Investment in learning and skills is vital if Scotland is to prosper and take advantage of the commercial opportunities our open access to global markets provides. Given the Scottish Government's refusal to countenance a graduate contribution, the protection of funding for higher education - at a time when the devolved administration's own research<sup>10</sup> shows Scotland is already behind its competitors in terms of university funding as a percentage of GDP – must continue. 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. In terms of the broader skills and training agenda, Skills Development Scotland provides welcome support for students in the form of careers advice and for firms not least in helping to recruit apprentices and other talent. The 'Opportunities for All'

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<sup>10</sup> 'Building a smarter future: towards a sustainable Scottish solution for the future of HE', Dec 2010, p34

initiative appears valuable, and will ensure all 16-19 year olds are offered training if they are not in work or education.

### **Air Route Development Fund**

19. The lack of any re-introduction in recent Budgets of an Air Route Development Fund (ARDF) is disappointing. An EU-compliant ARDF would help persuade airlines to 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 to attract tourists, 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, and the relentless rise in Air Passenger Duty.

### **Business support, tourism & grants**

20. CBI Scotland continues to support the Scottish Government's focus on priority sectors deemed crucial to long-term economic performance and firms with high-growth potential. We also welcome the focus on manufacturing and on exports assistance and the recent expansion of Scottish Development International's reach into rapidly growing markets. Public spend to achieve this through VisitScotland and the enterprise networks should continue to be maintained and nurtured, not least if the target for 50% export growth by 2017 is to be realised. Grant schemes like RSA and SMART, and newer ones like WATERS and POWERS, are viewed positively by our members as a valuable means of encouraging industry to invest, expand and locate in Scotland, particularly in the low carbon economy, and even more so at a time of rising external finance premiums and tight credit markets, and complement the work of the Scottish Investment Bank.

### **Planning**

21. The total to be spent on planning is to fall by a further 15%<sup>11</sup> over the three years of the current Spending Review period, and comes after the previous year's reduction by a fifth. While fully recognising that most of the delivery of planning is the responsibility of planning authorities, the CBI's concern is that these reductions in budget may be premature and counterproductive given that: (1) our members believe there has yet to be a significant and lasting improvement in the performance of the planning system, (2) the need to facilitate much needed private sector investment (e.g. in energy) let alone the Scottish Government's own enhanced capital programme, and (3) the poor signal it sends to planning authorities who might decide to follow suit. For example, the latest official annual data shows only a modest improvement in the number of major commercial and industrial applications which are dealt with timeously, with fewer than two out of every five being dealt with

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<sup>11</sup> P91 2011 Budget document

within the four month target period. A new scheme (the Business Rates Incentivisation Scheme) is now in place to better financially incentivise local authorities to support economic development, but the monies generated should be ring-fenced for investing in the local economy rather than siphoned off into local authority general spending.

## **PROMOTE COMPETITION**

### **Competition & public services reform**

22. We endorse many of the themes underpinning the Scottish Government's public service reform agenda – namely integration of services, investment in workforces, service standards and outcomes improvements, and preventative spending. The devolved administration should continue to ensure its key performance indicators and efficiency agenda is sufficiently stretching and robust. However, Ministers have missed out an important ingredient for achieving improvements in service quality, innovation and cost reduction, and for leveraging in external sources of investment, namely greater competition<sup>12</sup> in the delivery of public services. Once a decision is taken on whether a particular service is needed then government should be open minded about who would be best placed to deliver it. This was something the Scottish Government's own Independent Budget Review was clear about when it advocated "a mainstream role" for the private sector in service delivery and specifically urged government and public authorities to regularly review this. We await clarity on whether or how the devolved administration will take this forward, along with the Christie Commission's recommendation<sup>13</sup> 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. Candidates for removing legislative, Ministerial and attitudinal restrictions and introducing private or third sector providers could include: ferry services, hospital catering and cleaning, GP services, and building standards verification. Local authorities could similarly embrace such an agenda, for example in terms of the management and maintenance of their local roads and the provision of their customer contact centres.

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<sup>12</sup> CBI Scotland outlined its recommendations for reforming the delivery of public services in its evidence to the Christie Commission.

<sup>13</sup> Christie Commission report 2011, recommendation 7.26