

FINANCE COMMITTEE CALL FOR EVIDENCE

DRAFT BUDGET FOR 2013-14

SUBMISSION FROM SCOTTISH CHAMBERS OF COMMERCE

Introduction

1. Scottish Chambers of Commerce is the umbrella organisation for 21 local Chambers of Commerce across the country, which has a membership of around 10,500 businesses. These members are businesses of all sizes, drawn from all sectors of the economy, from sole trader's right through to large multinationals and they employ over half of Scotland's private sector workforce. Scottish Chambers of Commerce and our constituent local Chambers exist to serve the needs of our members and to represent their interests.

2. Scottish Chambers of Commerce welcomes the opportunity to contribute towards the Finance Committee's scrutiny of the draft budget 2013-14. We will address each of the questions contained in the call for evidence.

To what extent do you consider Scottish Government spending decisions align with its overarching Purpose of increasing sustainable economic growth and how should commitment to this objective be reflected in the draft budget 2013-14?

3. 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 such spending should be on enhancing connectivity, both in terms of transport and digital infrastructure. This kind of investment delivers not just a short to medium term boost to construction and related sectors but provides a longer term competitive benefit to a far wider cross section of Scottish businesses and enhances Scotland's attractiveness as a place to invest and to do business.

4. We recognise the challenges faced by the Scottish Government in budgetary terms, particularly with regard to the sharp fall in capital budget allocations from the block grant that has been evident since 2010. Against this background, we welcome the efforts that the Scottish Government has made to boost capital spending. This is the right thing to do to secure long term sustainable economic growth. We also welcome the focus on transport projects and improvements to digital infrastructure that has been evident in terms of infrastructure project planning. The 2011 refresh of the Scottish Government's Infrastructure Investment Plan was especially helpful and we welcome the ambitious targets to extend the reach of superfast broadband across much of Scotland by 2015.

5. In terms of the 2013-14 draft budget we would expect a continued focus on maximizing capital spend, with a clear focus on investing to improve Scotland's connectivity.

6. In addition to spending, it is also important to look at the revenues raised by the Scottish Government as part of the budgetary settlement, principally through non-domestic rates. In 2012-13, Scottish businesses were expected to pay an additional £140 million in business rates compared to 2011-12. At the time of the last budget, the additional rates take for 2013-14, compared to 2011-12 was expected to be around £246 million. These figures represent a substantial additional burden upon Scotland's businesses at a time when margins are extremely tight. Whilst we welcome the package of reliefs that are available to many Scottish businesses to mitigate the impact of business rates, the fact that such significant increases in non-domestic rates revenue are expected means that these reliefs are outweighed by the additional financial burdens being placed on Scottish business. We do not believe that the rising burden of business rates upon Scottish business is conducive to business growth, nor is it helpful at a time when cashflow remains a challenge to many businesses. The Scottish Government could provide a boost to Scottish business by mitigating rates increases in the 2013-14 draft budget.

The Scottish Government states in its economic strategy that "The actions of the public sector are co-ordinated to maximise their economic impact." What progress has been made in harnessing the public sector to support sustainable economic growth and how should this be reflected in the draft budget 2013-14?

7. It is businesses which are the wealth creators in Scotland and the private sector which will drive Scotland's future economic growth. The public sector has an important role in supporting this in a number of ways, including economic development, better regulation, accessible procurement, education and skills, infrastructure provision and improving the health of the nation. Scottish Chambers of Commerce welcomes the Central Purpose of the Scottish Government "to make Scotland a more successful country, with opportunities for all to flourish, through increasing sustainable economic growth" as set out in the Government Economic Strategy. It would be even more welcome if government policies, including budgetary commitments, were measured against this Purpose. This would not only foster a detailed consideration by politicians and civil servants of the potential economic impact of policies prior to their implementation but also provide a visible indicator of how economically friendly they are.

8. In terms of a co-ordination of approach from the public sector, this is complicated by the fact that there is still a diversity of public bodies dealing with key areas such as education and training, including Skills Development Scotland, Scottish Enterprise and Highlands and Islands Enterprise, the Scottish Funding Council, the Scottish Qualifications Authority, and, at a UK level, the Sector Skills Councils. This leaves business confused in terms of its perception of government priorities and the greater the number of bodies involved, the more prone an initiative is to become fragmented in terms of delivery.

9. Crucially important to business in terms of public sector support are Scotland's public procurement processes. Public sector procurement in Scotland is worth over £9 billion per year and it is in Scotland's economic interests for as much as possible of this spend to be retained in Scotland by purchasing goods and

services from Scottish businesses. Some progress has been made in terms of the development of the Public Contracts Scotland website in terms of improving the accessibility of procurement opportunities, but we remain some distance away from maximizing the benefits to Scotland from our procurement processes.

The Scottish Government states that the aim of its economic strategy “is not only to offer greater protection to the economy during periods of economic uncertainty, but to bring about a long-term, or structural, change in Scotland’s sustainable growth rate”. What spending decisions support such structural change in the long term and what spending priorities should be in the draft budget 2013-14?

10. Scotland has for many years relied heavily on the public sector for both investment and growth. In post-recessionary Scotland, it is clear that growth in the immediate future is likely to rely heavily on the private sector and it is apparent that the vast majority of new jobs during the period 2010-2011 were created by private business. One of the great opportunities that exist over the next few years is to foster a stronger culture of entrepreneurship in Scotland and to support our micro to small businesses in particular to grow, growing their economic footprint and creating even more new employment opportunities. Whilst it is clear that some Scottish Government initiatives, such as the Small Business Bonus Scheme, are targeted at a section of this market, more significant and more direct support to business may be required if we are to achieve the structural change that Scotland needs over the longer term. We must look at Scotland’s new business creation and survival rates in comparison to other international developed economies and aim to excel on a global scale.

In its Scottish Spending Review 2011 and Draft Budget 2012-13 the Scottish Government states that the Finance, Employment and Sustainable Growth portfolio “contributes towards ensuring that we achieve balanced economic growth that provides the most disadvantaged in society with the opportunity to prosper. Equity, whether it be social, regional or inter-generational or a combination of these factors, is also seen as a key driver of economic growth.” What progress has been made in achieving these objectives and what spending priorities should be in the draft budget 2013-14?

11. Scottish Chambers of Commerce passionately believe that Scotland’s greatest asset is its people. All of Scotland’s people need and deserve the opportunity to acquire the education and skills to play their part in Scotland’s economic success. The Scottish Government has a key role in supporting this ambition through the funding of our education system – from early years through primary, secondary and further and higher education – and investing in skills and training through, for example, the Modern Apprenticeship programme. We believe that more needs to be done to harness accurate labour market intelligence and combine this with careers guidance and employability training in schools in order to better equip young people with the information and skills they need to make the successful transition to employment and the workplace.

In its response to the Finance Committee’s report on the spending review 2011 the Scottish Government stated that “The National Performance Framework

represents a common vision for the whole Scottish public sector and, as such, is fully integrated with our spending plans". How does the NPF impact on the spending decisions of the Scottish public sector and how should this impact be reflected in the draft budget 2013-14?

12. The National Performance Framework is a useful tool for the measurement of Scottish Government performance against target, however it does not appear to have a particularly high public profile. It ought to provide guidance in terms of where spending priorities should lie, but we believe that an economic impact assessment of policy and spending initiatives would be a more useful tool.

In its response to the Finance Committee's report on the spending review 2011 the Scottish Government stated that its broader work was "focused on ensuring that our ambitions for a decisive shift to preventative spend are realised across all areas of service delivery." What progress is the Scottish Government making in realising this objective and what spending priorities should be in the draft budget 2013-14?

13. Government policies aimed at providing preventative spend need to be better explained, with a clear and demonstrated linkage between the spending initiative and the future spend that is prevented as a result. Sometimes this is clear, for example where efforts to reduce the prison population can be said to reduce the need to build new prisons in future. However one measure where the causal link is less clear was in the decision in 2012-13 and the two subsequent years to impose a public health levy on large retailers selling both alcohol and tobacco. Aside from the fact that the selection of the targets for this new tax appeared arbitrary, there was little evidence that the revenues raised would be spent on preventative measures in terms of health. The only certainty was that the businesses affected would have to pay more rates for a three year period. The issues this raises need to be revisited.

The Scottish Local Authorities Economic Development Group recently stated in evidence to the Finance Committee that "Quality, sustainable employment should be the outcome of all skills and employment measures." What priorities should be in draft budget 2013-14 to realise this objective?

Small businesses represent 93% of the Scottish private sector and are more likely to employ people with low or no qualifications than large businesses. What spending priorities should be in the draft budget 2013-14 to support public-private partnership to improve the employability of and create sustainable employment opportunities for individuals experiencing high levels of multiple deprivation?

14. Scottish employment has grown in the early part of 2012, largely in the private sector. In recent years, the Scottish Government has sought to boost the Scottish economy through general measures such as maximising capital spend and directed measures aimed at encouraging businesses to recruit new staff. Spending at both the macroeconomic level and targeted support to businesses is essential in order to have the maximum impact. At the micro level, small businesses are more likely to invest in creating a new job opportunity where they receive a direct incentive from Government. That is why Scottish Chambers of Commerce are working with the

Scottish Government to pilot a Graduate Incentive Scheme aimed at placing unemployed graduates into appropriate jobs, with the bonus of freeing up entry level opportunities for school leavers which might otherwise be taken up by underemployed graduates.