

## FINANCE COMMITTEE CALL FOR EVIDENCE

### DRAFT BUDGET FOR 2013-14

#### SUBMISSION FROM SCOTTISH COUNCIL FOR DEVELOPMENT AND INDUSTRY

##### The Draft Budget 2013-14

1. SCDI is an independent membership network that strengthens Scotland's competitiveness by influencing Government policies to encourage sustainable economic prosperity. SCDI's membership includes businesses, trades unions, local authorities, educational institutions, the voluntary sector and faith groups.

***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?***

2. SCDI has previously highlighted that since devolution it is difficult to discern a pattern of spending which aligns with successive Scottish Executive's/ Scottish Government's top priority/ Purpose of increasing sustainable economic growth. A recent paper by the Centre for Public Policy for Regions<sup>1</sup> estimates that Scottish total DEL will have grown at an average of just over 1.5% per year between 1999-00 and 2016-17. However, because spending on health - especially the NHS - grew faster than total DEL and is being ring-fenced as other budgets are now being reduced, all other spending areas will have had an underlying real terms growth rate of less than 1% per year over the same period. A healthy population supports the economy, but protecting the large health budget in a time of austerity means that other spending areas which directly and indirectly increase sustainable economic growth endure far larger cuts than otherwise.

3. With relatively limited room for manoeuvre, the Scottish Government has made some welcome decisions, such as the switching of capital spending to revenue. With the construction sector currently a drag on the performance of the economy as a whole, capital spending can provide a short-term economic stimulus and increase economic output in the long-term. The CPPR has highlighted that while the majority of capital cuts have already occurred, over three-quarters of the real terms decline in resource spend has still to come. The Office of Budget Responsibility has also stated in its 2012 Long Term Report that some additional fiscal tightening beyond the current consolidation plan for the next five years is likely in order to address the long-term fiscal costs of an ageing population. As the pressure on the resource budget increases, it will be important that the Scottish Government maintains its policy of switching some spending to capital. SCDI is concerned about cutbacks to major individual projects such as the Edinburgh-Glasgow Improvement Programme which has reduced their potentially

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<sup>1</sup> [http://www.cppr.ac.uk/media/media\\_237802\\_en.pdf](http://www.cppr.ac.uk/media/media_237802_en.pdf)

transformational benefits for increasing sustainable economic growth. Construction must start of key projects such as the Aberdeen Western Peripheral Route as soon as possible and the pace of implementation with last year's Infrastructure Investment Plan must be maintained or accelerated if possible.

4. An accelerated programme of retrofitting energy efficiency measures to existing buildings would provide a stimulus for the construction sector and help to tackle climate change and fuel poverty. This would be a more cost-effective approach to these issues than ever-increasing, costly standards for new build properties.

5. The Scottish Government's commitment to skills and research is welcome, in particular the competitiveness of Scotland's higher education institutions, and is the funding for apprenticeships and action to tackle youth unemployment. However, SCDI was very concerned by the scale of the budget cut for further education. It is important that the sector receives sufficient funding to enable it to offer opportunities for young people and older workers, and to continue to work closely and effectively with local employers, during its period of reorganisation.

6. SCDI would suggest that the Committee should consider whether revenue as well as spending decisions are aligned with increasing sustainable economic growth. The decisions on business rates in last year's Budget were unexpected and created uncertainty about private sector investment in Scotland. At a time of economic uncertainty, the Scottish Government must be careful not to generate further uncertainty. There are increasing concerns about the business rates system which need to be explored in the Scottish Government's consultation.

***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. There has generally been a greater emphasis on supporting sustainable economic growth across the public sector, including the Scottish Government, its agencies and local government, although that is not always clear to businesses. SCDI continues to believe that the private sector should have a stronger role in designing and delivering Single Outcome Agreements in local authority areas.

8. Within public service reform, the priority appears to have been – understandably to an extent given the immediate pressures - on reducing costs. There has been less progress on the shared services agenda and, indeed, this appears to be slowing down. There is potential for more collaboration which would redesign services and help to reduce costs in the longer-term. The Christie Commission's conclusion that the role of the private and third sectors in service delivery is underdeveloped and recommendation that there should be competitive neutrality between the public, private and third sectors appears to have had limited impact.

9. Consideration of how the £11bn annual public procurement budget can best support sustainable economic growth is welcome, though there is a risk that it is being regarded as a cure for all ills. If the health budget is to be ring-fenced, it is particularly important that the positive impact of this expenditure on the wider Scottish economy is maximised. There is certainly scope for the NHS Scotland to support Scottish-based life sciences companies by procuring more innovative products at an earlier stage. This would require appraisals of the longer-term cost-benefits and not only the short-term cost-efficiencies of products. Support from the NHS would encourage innovation and give Scottish companies a competitive edge in export markets. At present, businesses can find overseas healthcare systems more willing to procure their products than the NHS.

10. While the Scottish Government has been determined to streamline the planning system and has introduced a number of proposals recommended by SCDI, businesses still experience inefficiencies which are a barrier to development. The public sector could, in general, do more to facilitate sustainable development and understand the commercial realities in which the private sector is seeking to invest. In England, trouble-shooters are now being utilised to help broker stalled developments, but SCDI is not aware of anything similar here. There is also a need to ensure that utilities providers support the delivery of development plans.

11. An area of co-ordination which is particularly welcomed by SCDI is the new Scottish Cities Alliance involving the Scottish Government, seven cities and SCDI. International evidence on the important role cities play in creating sustainable economic growth is growing. Globally, governments and investors see cities as key drivers of both regional and national economies, whilst also offering solutions to the social and environmental challenges of the 21<sup>st</sup> century.

***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?***

12. The key challenge for the Scottish economy is a rebalancing from consumption to investment and higher net exports. Statistics show that the Scotland performs poorly (i.e. in the 4<sup>th</sup> quartile) relative to other OECD countries in entrepreneurial activity, business R&D as a percentage of GDP and innovation activity. Scotland needs a broader business base and, in particular, an increasing number of high-growth companies which are successfully exporting to growth/emerging markets.

13. While GDP statistics are volatile and subject to revision, the National Performance Framework shows that progress on its Purpose Targets has been mixed. The Scottish Government had a target to match the UK GDP growth rate by 2011. The latest data show that over the year to 2012Q1 GDP in Scotland increased by 0.2% whilst GDP in the UK increased by 0.6%. This resulted in a gap of 0.4 percentage points between annual Scottish and UK GDP growth rates. The Scottish Government has a target to match the average Small EU state GDP growth rate by

2017. The latest data show that over the year to 2012Q1 GDP in Scotland increased by 0.2% whilst the average GDP of the Small EU states (which include Ireland) increased by 1.3%, a gap of 1.1%. It is important to remember that these differences compound over time into larger differences.

14. Scotland has maintained its position as the top performing country in the UK on labour market participation, but the gap with the top five OECD countries has increased, and the difference with the top quartile for productivity has remained.

15. Knowledge-exchange between academic and businesses will be critical to improving Scotland's performance in those areas where it is currently weakest. There is a need to increase the demand from Scottish businesses for research.

16. SCDI has participated in recent discussions between the sectors on how knowledge exchange can be strengthened. SCDI welcomed the Scottish Funding Council's call for proposals for Scottish Innovation Centres - larger-scale initiatives that have the capacity to stimulate sustainable structural changes in linkages between academia and industry relevant to the key sectors and other areas of strategic importance to Scotland's economy and society. If this call for proposals generates a range of strong proposals which together require more funding than is currently available, this should be a priority for further spending.

17. SCDI called for a target to increase significantly the value of Scotland's exports and we welcome the target which the Scottish Government has set. Key sectors such as oil and gas, whisky and salmon are driving burgeoning international sales. The Scottish Government should continue to increase its support for exporting. It must be ensured that the decisions of the Scottish Government on the Budget are aligned with the targets to grow exports in strategies by Scottish Enterprise and Highlands and Islands Enterprise on behalf of the Industry Leadership Groups, such as for oil and gas, food and drink, and chemicals.

18. Connectivity enables exporters to get services and products to market and compete, and investment in infrastructure generates strong returns for the growth rate. International air route development in Scotland has stalled following the recession and withdrawal of the Route Development Fund, and its reinstatement must be budgeted for as an immediate priority if and when allowed by EU rules.

19. As was recognised at the recent inaugural Edinburgh International Culture Summit, creative industries are growing and have further potential for SMEs to export. Glasgow 2014 offers a unique opportunity for Scottish culture and tourism and spending decisions should ensure that both are positioned to capitalise.

20. Businesses make investment decisions over a timescale of ten years or more. At a time of uncertainty, it is essential that the Scottish Government's commitment to the long-term decisions which would increase sustainable economic growth is apparent to investors. These include: a world-class education system which will produce young people with the skills they will need in the future, such as Science, Technology, Engineering and Maths and soft skills; competitive transport and digital infrastructure; secure and affordable energy; effective and efficient public service delivery; and a simple and competitive tax system.

21. There is a need for a debate on Government revenues and expenditure in Scotland over the long-term linked to the need to bring about a structural change in Scotland's sustainable growth rate. For example, the Independent Budget Review recommended the need to consider the sustainability of the criteria for universal entitlements created in Scotland since devolution in light of demographic projections and the fiscal consolidation. Since its report, the Office of Budget Responsibility, as has already been noted, has identified the need for further longer-term fiscal tightening due to an ageing population. However, there appears to have been no long-term analysis by the Scottish Government of these entitlements and they have been introduced into the revised Government Economic Strategy based on the protection they are said to offer to the economy.

***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?***

22. The latest statistics suggest that the proportion of income received by those at the bottom of the income distribution has increased marginally, while the difference in employment rates between the best and worst performing areas of Scotland has reduced, although the difference is still larger than in 2008-2009.

23. As part of its capital investment programme, the Scottish Government should support a significant programme of social house-building where there are shovel-ready sites and delivery bodies. This would stimulate the construction sector, help to address the historically-low levels of house-building and the potential of a lack of affordable housing to reduce the availability of the workforce in the longer-term, and tackle Scotland's social problems such as deprivation and fuel poverty.

24. SCDI believes that, while partially reinstated, the reduced funding for the Urban Regeneration Companies has been a setback to regeneration in those areas.

25. The Scottish Government has made welcome commitments to increased transport, digital and energy infrastructure investment outwith Central Scotland. These commitments need to be delivered in forthcoming budgets. In terms of regional equity and offering regions the opportunity to prosper, the decision to establish enterprise zones in a wide range of locations was also a positive step.

26. The lack of employment opportunities for young people is a major concern for SCDI and our members. SCDI welcomes the Scottish Government's recent announcement of a package of bursaries and loans to help the most disadvantaged of students. In particular, we have consistently called for a resolution of the funding anomaly restricting the take up of part-time education.

27. Evidence underlines that interventions in early-years education make the most difference to increasing opportunities for the most disadvantaged in society.

***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?***

28. SCDI has not seen much evidence that the National Performance Framework is integrated with the spending plans of the Scottish public sector, including the Scottish Government. It should be clearer how spending decisions are linked to targets and indicators, whether they are decisions to increase, reduce or cease funding. It should also be clearer how the Scottish Government is prioritising in its spending decisions between the 50 indicators currently in Scotland Performs.

***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?***

29. SCDI strongly supports the preventative spending agenda of the Scottish Government following the Christie Commission. It is arguable whether a "decisive shift" in spending has yet been made, but clearly there is a substantial increase in funding and far greater attention on the agenda by all levels of government. The change funds for older people, early years and re-offending appear to be sensible priorities. The Scottish Government needs to ensure that the third sector is treated as an equal partner at a local level in the delivery of this agenda.

***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?***

30. SCDI believes that ensuring that young people can gain the skills needed to make an immediate economic impact upon entering the workforce is essential. Pathways from education into training and work need to be flexible. As was previously stated, the further education sector needs to have sufficient resources to offer high-quality education while developing the regionalisation model. SCDI continues to advocate graduate-level apprenticeships to improve employability.

***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?***

31. Please see SCDI's written and oral evidence to the Committee on employability.