

CBI Scotland's response to the Scottish Government's consultation on its Draft Budget 2009-10

INTRODUCTION

1. CBI Scotland is Scotland's premier business organisation, representing firms of all sizes and from all industrial and commercial sectors. We welcome the opportunity to respond to the Scottish Government's consultation on its Draft Budget for 2009/10.
2. Business has a crucial interest in the budget of the devolved government, as funders of government in their own right but also as beneficiaries of many of the spending decisions taken. We published our business manifesto¹ ahead of the 2007 Holyrood elections, setting out our members' recommendations and aspirations for how the devolved government should prioritise its spending and reform the way it operates.
3. We recognise that all tiers of government are operating within a tighter financial climate, just like businesses, and as such have to cut their cloth accordingly. Nonetheless, their significant remit and budget, and the freedom they have over how that expenditure is deployed, means the Scottish Government has a valuable and pro-active role to play in helping the economy not least through the current economic slowdown which is proving to be very challenging for many businesses.

CBI SCOTLAND RECOMMENDATIONS

General

4. CBI Scotland believes that the devolved government's budget ought to be a more effective catalyst for growth. The report on 'Business Growth' published by Holyrood's Enterprise Committee demanded a re-balancing of public spending, with a greater proportion of taxpayers' money used on investment that supports wealth creation, such as skills and infrastructure e.g. transport, ICT. **CBI Scotland endorses this and wants to see the Scottish Government set out a timetable for achieving this goal.**

¹ CBI Scotland's manifesto, 'The Scottish Economy: The Priority of Priorities: Agenda for a growing economy in Scotland', 2006

David Lonsdale – Assistant Director

DL: 0141 223 6763 E: david.lonsdale@cbi.org.uk



5. **The Scottish Government should review new policies and spending decisions against a single benchmark: will it aid the economic recovery?** Can we say with confidence that all spending decisions are taken in the context of the devolved administration's welcome growth objectives? Moreover, each year each devolved government department and public agencies should publish a statement demonstrating their contribution to the economic growth objective and the value for money they have provided.

Specific actions

6. **The devolved government and its agencies should review their own capital expenditure plans, and encourage local authorities to do likewise, to see whether those that can contribute to the productivity of the economy can be accelerated and indeed whether any additional projects can be undertaken which prioritise economic growth.** The Scottish Government's recent and welcome decision² to accelerate £100m from the social housing capital programme, to be spent during 2008/09 and 2009/10, is the model that ought to be used. Once implemented this will help to deliver planned projects more quickly, and provide much needed work for the construction sector, but will also ready the economy for the recovery when it comes. Other opportunities to accelerate the approval of budgeted activity should similarly be explored as a matter of urgency. Those projects identified in the revised National Planning Framework and the Strategic Transport Projects Review should be the starting point. In order to get our transport system fit for purpose in a modern economy, Ministers should also provide a timetabled commitment to upgrading the M8 to a three-lane motorway, start construction of an M8 spur to Edinburgh airport, complete the dualling of the A9 from Perth to Pitlochry with increased passing opportunities north to Inverness, and tackle the growing backlog of local authority road repairs.
7. **Ministers should ensure, while its proposed Scottish Futures Trust funding model continues to be developed, that there are no delays to progressing public sector building projects funded through other mechanisms.** CBI members have voiced concerns that the current hiatus in agreeing what the Scottish Futures Trust will do, and how it will do it, is unhelpful to the construction sector. Many firms made a conscious effort to diversify into PPP/PFI activity, and if there was more certainty then it would help provide some relief to Scotland's hard-pressed construction industry and help retain much-needed skills in the sector.
8. **Ministers should seek to reduce firms' costs by cutting business rates, e.g. by fully funding the Small Business Bonus Scheme (SBBS) themselves and eliminating the £18m business rates supplement which firms pay towards the funding of the SBBS.**

² First Minister, August 2008

CBI Scotland welcomed the introduction of the Small Business Bonus Scheme, and the decision to implement it in full in 2009/10, and firms should be encouraged to check their entitlement. We welcomed too the commitment to retain poundage rate parity both during and after the next commercial property revaluation. Ministers should resist the use of the tax-varying power as it would place a costly and complex administrative burden on both businesses and public sector employers alike.

9. **We endorse the UK Government's new commitment³ to ensuring that all public agencies pay suppliers within 10 days, and ask that Scottish Ministers ensure a similar commitment is forthcoming from publicly funded bodies and local authorities north of the border.** This builds on the principles which underpin the widely adopted 'CBI prompt payment code'.

10. **The Scottish Government should seek to obtain better value for the money it spends by adopting a more coherent approach to public sector reform, involving far greater private sector delivery of public services.** Market-based reforms to the provision of public services in Scotland ought to be widened and deepened. The benefits of such an approach are clear, making services more responsive to their users and customers, spurring innovation in service design and working practices, and making services more affordable over the long-term. This is not about removing government involvement, but about modernising the nature of that involvement. The devolved government should retain the critical roles of principal and funder, but should increasingly look to others to provide services, e.g. local authorities have yet to contract-out the management and maintenance of their roads networks as the devolved government has successfully done. Similarly, the proposal to ban commercial firms from providing GP services is a step backwards. The sheer size and scope of Scotland's public sector is an opportunity to be world-class in this area of public policy, whilst simultaneously providing new opportunities for the growth-oriented businesses Scotland so badly needs.

11. **The new framework for business support introduced earlier this year needs to be nurtured and supported, and in these challenging economic times the specific support on offer to manufacturers, exporters and tourism must be maximised.** Exporters will be crucial to our future success when the recovery comes, and the Scottish Manufacturing Advisory Service should be an early candidate for any expansion of support schemes. Grant schemes should be reviewed to ensure they are easy to apply for and widely known amongst potential beneficiaries.

12. **The devolved government should examine the case for introducing Tax Increment Financing and the Local Authority Business Growth Incentive Scheme.** The downturn in the house-building sector will mean house-builders are less able to

³ BERR statement (21 October 2008) on helping firms through the economic slowdown

contribute financially in future to the funding of local infrastructure, e.g. school extensions, local roads, play parks etc. TIF (which allows local authorities to borrow against future revenues associated with new development in order to forward fund infrastructure) is one of a range of possible solutions and is worthy of examination. CBI Scotland welcomes Ministerial commitments to reform the planning system, but local authorities and key agencies must be required to give greater weight to economic considerations in decisions on planning, to help speed up much needed commercial and public infrastructure investments. Furthermore, LABGIS (which allows local councils to retain any growth in non-domestic rates revenues over and above an agreed threshold) could help incentivise local authorities to support economic development.

13. **The devolved government should privatise Scottish Water, which would free up £182m of devolved government funds each year - as well as provide a useful one-off capital receipt - which could then be used for GDP-enhancing investments.** The lack of any Barnett Formula monies coming to Scotland to fund this annual taxpayer support for Scottish Water, due to the fact that English water authorities are already in the private sector, is an added incentive for moves to either privatise or mutualise the ownership of Scottish Water.
14. **The Education Maintenance Allowance should be reformed to incentivise young people to study science and maths.** The EMA, worth £36.5m next year, should be reformed⁴ to incentivise more young people to study science and mathematics in order to sow the seeds of future growth in key industries e.g. electronics, energy, life sciences, aerospace and defence. This would complement the welcome introduction of the Science Baccalaurate. Consideration should also be given to introducing bursaries for those who take up science undergraduate degrees.
15. **All new legislative proposals from parliamentary committees and backbench MSPs should be subject to Business Impact Assessments.** The new regulatory reform agenda, advanced by the industry/government Regulatory Review Group, is to apply to government inspired legislation and regulation. However this should equally apply to proposals emanating from backbenchers and parliamentary committees. The Regulatory Review Group's annual report should also be debated in Parliament.
16. **The devolved administration should commit to ensuring that any 'Budget Consequentials', and any cash windfalls, which emanate from the UK Government should - for the remainder of the Strategic Spending Review period at least - be directed towards GDP-enhancing investments.** While this source of revenue is likely to be much less lucrative than in the past due to the UK public spending deficit, a clear commitment along these lines would reinforce the Scottish Government's commitment to prioritising the needs of the economy.

⁴ CBI Scotland submission to the Science & Innovation Strategy

- 17. Ministers should scrap proposals for a Local Income Tax.** According to the Draft Budget, the LIT is set to cost the Scottish Government £20m⁵ in 2010/11 in preparatory and set-up arrangements alone. This cash should instead be deployed for GDP-enhancing investments. The strategy of freezing the Council Tax for three years is timely and welcome, and Ministers should also consider removing the barriers⁶ which prevent local authorities from providing council tax rebates to those who make their homes more energy efficient.
- 18. The devolved government should better stimulate commercial innovation by putting in place a more effective approach to capturing innovation through public procurement⁷.** A new approach and new guidance is required so that the public sector becomes a much more effective procurer of innovative goods and services supplied by businesses. This new approach should be achieved through early business involvement in drawing up tender specifications, and the publication by the Scottish Government of an 'Innovation Procurement Plan'. Each public authority should be required to identify an 'innovation champion' to better embrace and monitor its purchasing of innovative products and services from both large and small companies.

**CBI Scotland
October 2008**

⁵ P25, Scottish Government's Draft Budget 2009/10

⁶ CBI Scotland's submission to the parliament inquiry on "Scotland's energy future", September 2008

⁷ CBI Scotland's speech on innovation in public procurement, May 2008