CBI SCOTLAND SCOTTISH BUDGET SUBMISSION

DRAFT BUDGET 2020/21

Strengthening the economy is key to delivering shared objectives

It is time for all parties to put the economy at the front and centre of the political debate in Scotland. Against the backdrop of Brexit, measures to strengthen the Scottish economy and encourage investment should be the Scottish Government's top priority for the 2020/21 Budget.

Business is supportive of many of the government's current objectives, notably ensuring that the benefits of increased prosperity are shared equally across society and the ambitious target of achieving a net-zero carbon economy by 2045. Achieving these – and many other policy objectives – will be dependent upon a strong and growing economy. Businesses must be encouraged to invest in the innovation and technologies required to help meet the challenges Scotland faces, while a strong economy is also necessary to raise the revenue needed to deliver the quality of public services we all want to see.

Below, CBI Scotland outlines a range of recommendations over the short, medium and long-term that would support businesses to grow the Scottish economy. Improving productivity remains a key objective and is the only sustainable route to increased wages and improved living standards for people across the country. We encourage all parties to engage constructively in the Budget process and work together to deliver a strong and resilient economy that is fit for the future.

Summary of recommendations

	Short-term (this budget period)	Medium-term (this parliament)	Longer-term (next 5 years)
Skills: boost productivity through people	Allocate a greater percentage of Apprenticeship Levy funds to **support upskilling and retraining.** **Improve transparency** by publishing a full breakdown of where the Scottish Government's Apprenticeship Levy allocation is spent.	Work with employers to reform existing **upskilling initiatives** to make them more **responsive to business** demand. Consider how the Scottish Government can use the powers at its disposal to **incentivise private sector investment** in upskilling.	**Set a target** for 100% of the workforce in Scotland to have **basic digital skills by 2025** and work with business to achieve it. Ensure any **National Retraining Partnership** takes an evidence-based approach and is agile enough to respond to evolving challenges.
Business environment: protect competitiveness and stimulate investment	Ensure there is **no further divergence with the rest of the UK on income tax** to support businesses in attracting talent to live and work in Scotland and protect household disposable incomes. Bring the **large business supplement into line with rest of UK** and make clear that the Scottish Government will **retain control of the poundage rate** to avoid adding complexity and cost to the business rates system.	Recognise the cumulative burden facing employers by committing to **no new or additional levies on business** for the remainder of this parliament. Establish a **Productivity Data Bank** for Scotland that can be used to help find solutions to a range of productivity related challenges.	Create a **single digital business portal** for dealing with business rates, planning applications, business support, and other similar tasks. Take an **evidence-based approach** to developing the new **Foreign Direct Investment Growth Plan** and regularly review successes and failures in collaboration with business.
Infrastructure: build a stronger economy	Work with stakeholders, including housebuilders, to set a **national housing target.** Allocate **additional funding for local authority planning departments** to increase capacity and improve the speed of decision making.	Publish a **bold Infrastructure Investment Plan** that drives productivity improvements on the road to a zero-carbon future. Examine ways of further incentivising business investment in **energy efficiency** measures.	Work with business and the UK Government to deliver **full fibre digital connectivity** across Scotland. **Ringfence revenue** raised through **ADT** to invest in improving sustainable connectivity to our key international gateways.

Skills: boost productivity through people

Decisions government and businesses make now about skills policy will directly impact how people take advantage of the opportunities from technological change in the workplace and how we ensure no one is left behind as artificial intelligence and automation continue to shape the way we work. These decisions will also be key to ensuring businesses are equipped with the skills they need to deliver the innovations required to tackle some of our major societal challenges, including the shift to a net-zero emissions economy.

Short-term recommendations

Allocate a greater percentage of Apprenticeship Levy funds to support upskilling and retraining

Upskilling and retraining remain top priorities for businesses in adapting to the impacts of technological change and an ageing workforce. The announcement that the Flexible Workforce Development Fund (FWDF) will be doubled to £20m – a specific CBI Scotland recommendation – was welcome and business will be keen to see how the additional funding will be delivered in practice.

However, the FWDF remains less than 10% of the Scottish Government's Apprenticeship Levy allocation and the £15,000 cap per employer is a barrier to delivering high quality training. A further increase in the funding available through the FWDF and opening the fund up to include all accredited training providers rather than restricting delivery exclusively to the college sector would broaden the range of training available to employers and workers and increase the fund's impact.

Improve transparency by publishing a full breakdown of where the Scottish Government's Apprenticeship Levy allocation is spent

The skills system has always been important to employers but it has never had as much attention from business as it does today. The introduction of the UK Apprenticeship Levy in 2017 threw an additional spotlight on it, with firms understandably looking for greater return on their increased investment. While there is a recognition from business that there is a great deal of positive activity happening within the skills system, it is not always easy to see where money raised through the Apprenticeship Levy is being spent. Publishing a transparent breakdown would help businesses better understand current activity within the skills system and where support may be available for them to invest in their workforce and develop their future talent pipeline.

Medium-term recommendations

Work with employers to reform existing upskilling initiatives to make them more responsive to business demand

The Enterprise and Skills Strategic Board's plan, published in 2018, called for the skills system to be transformed by integrating and expanding existing upskilling and reskilling interventions. This should be taken forward with renewed vigour and in partnership with employers. Rather than focus solely on new policy, reshaping and better co-ordinating existing activity can simplify the landscape and ensure a joined-up approach to tackling the challenge of the changing world of work. While the National Retraining Partnership should have a role in this, it is important that any new body adds value and avoids replicating activity that is or should be taking place elsewhere.

Giving employers greater flexibility on the age of apprentices is one way of facilitating greater use of apprenticeships for upskilling or retraining purposes. Many employers have highlighted the potential for further expansion of their apprenticeship offer if broader age-ranges are accommodated, which could also help develop those returning to work, looking for part-time training opportunities or requiring more experience to progress in their current role.

Consider how the Scottish Government can use the powers at its disposal to incentivise private sector investment in upskilling

The proportion of employees undertaking job-related training has fallen sharply in recent years, with Scotland now ranking third out of the four UK nations.[1] This is likely to represent constrained ability, rather than reduced desire, among employers to invest in their workforce, with four in five firms across the UK recognising they have a role and responsibility to help train the UK workforce.[2] Financial support, therefore, has an important role to play in facilitating greater business investment in their staff.

The Scottish Government should consider developing a scheme for matching or contributing to an employer's investment in upskilling their staff, where that training is focussed on one of the Scottish Government's priority areas – examples could include digital skills or tackling the climate emergency. This type of scheme could encourage greater investment in training and help to reverse the recent trend, while also contributing to wider government objectives.

Long-term recommendations

Set a target for 100% of the workforce in Scotland to have basic digital skills by 2025 and work with business to achieve it

A recent CBI survey found that two thirds of businesses already have unfilled digital skills vacancies, while 95% expect their digital skills needs to grow.[3] Meanwhile, research from McKinsey shows that technological skills are going to represent almost a fifth of workers' time in 2030, regardless of their occupation, meaning digital skills aren't just needed for specific roles, they are needed across all roles. At the same time, figures from Skills Development Scotland show 1.1 million people in Scotland lack digital skills – half of whom are in work. Bridging the gap between the supply and demand of digital skills will therefore be crucial to taking advantage of the opportunities of technological change and ensuring no one is left behind.

Scotland's further and higher education institutions are already working hard to bridge the gap in digital skills and address wider future skills needs. Business has also welcomed the wider focus on enhancing the role of universities and colleges in working with industry and stimulating inclusive economic growth. The 2020/21 Scottish Budget should recognise the broad contribution our universities and colleges make to the economy and society and support their future ambitions.

Ensure any National Retraining Partnership takes an evidence-based approach and is agile enough to respond to evolving challenges

CBI Scotland has supported the announcement of a National Retraining Partnership but stressed the importance of ensuring it adds value to an already complex skills landscape. A data-led approach will be key to quantify the scale of the retraining challenge we face, identify the sectors and roles most in need of upskilling or retraining opportunities, and the sectors and roles most likely to see an increase in demand in the future. While businesses would like to see a National Retraining Partnership up and running as soon as possible, it must have a clear purpose and be agile enough to respond to emerging challenges. Learning lessons from similar partnerships that exist elsewhere – both in the rest of the UK and internationally – will also be beneficial.

The intention of making the skills system more demand-led and responsive to employer need, outlined in the Future Skills Action Plan, is welcome. Consideration should now be given to what influence a National Retraining Partnership would have over existing policy and funding streams in delivering this aim, alongside mapping how it will fit with existing initiatives.

[1] Percentage of workforce in job related training in past three months, ONS (NOMIS), August 2019
[2] Delivering Skills for the New Economy, CBI, June 2019
[3] Delivering Skills for the New Economy, CBI, June 2019

Protect competitiveness and stimulate investment

Against the backdrop of Brexit, it is more important than ever to ensure Scotland is an attractive place to do business with a stable and competitive system of tax and regulation. A wide range of factors impact on competitiveness and our reputation as a destination for investment – from the ability to attract and retain talent to the cumulative burden facing businesses. Policies impacting business should not be viewed in isolation – instead they should be evidence-based and considered through the lens of how they contribute to a long-term vision for the Scottish economy that supports growth and investment.

Short-term recommendations

Ensure there is no further divergence with the rest of the UK on income tax to support businesses in attracting talent to live and work in Scotland and protect household disposable incomes

Attracting talent to live and work in Scotland remains one of the top concerns facing businesses of all sizes, in nearly all sectors and any further income tax divergence with the rest of the UK risks making this more difficult. Three quarters of firms in Scotland expect to increase their number of higher-skilled roles over the coming years, yet two-thirds already fear there won't be enough sufficiently skilled people to fill them.[4] With employment levels at a near record high, a declining working age population, and the free movement of people from the EU set to end, the Scottish Government should ensure its tax policy supports business in attracting people to live and work here.

Household finances are also an important determinant of economic activity. A notable upside to the most recent CBI UK economic forecast is the expectation of more support to growth from household spending.[5] This has been underpinned by a pick-up in wage growth, as the continued tightness in the labour market finally seems to be pushing up pay. Combined with relatively low inflation, this has given consumers more bang for their buck. Real earnings growth, combined with a continually tight labour market, is set to provide more impetus to spending ahead. Any increase to income tax levels in Scotland would risk dampening this expected increase in economic activity.

Bring the large business supplement into line with rest of UK and make clear that the Scottish Government will retain control of the poundage rate to avoid adding complexity and cost to the business rates system

The overall burden of business rates must be taken into consideration alongside other forms of taxation that impact on business. The Scottish Retail Consortium has highlighted that the overall rates burden is currently at a twenty-year high.[6] Restoring a level playing field with the rest of the UK on the large business supplement (LBS) would address the disproportionately high costs facing employers with large property footprints, stop businesses in Scotland being at a competitive disadvantage and send a strong signal about Scotland as a place to invest and do business. It is also worth noting that the LBS is not restricted to what most people would consider to be a large business. Any business with a rateable value over £51,000 is impacted, meaning many medium-sized firms are also hit with this additional cost.

The Barclay Review remit of 'better supporting business growth and long-term investment' was welcomed by business and new policies should be tested against their likely impact against those aims. Businesses would, therefore, be firmly opposed to devolving control over the poundage rate to local authorities, potentially facing 32 different rates regimes. Adding further complexity to the business rates system, which is already undergoing a process of significant change, would hurt Scotland's competitiveness and damage our reputation as an attractive place to invest.

[4] Educating for the Modern World, CBI/Pearson Education and Skills Annual Report, November 2018
[5] https://www.cbi.org.uk/my-cbi/business-intelligence/articles/uk-economic-forecast/
[6] https://brc.org.uk/media/564392/srcs-scottish-budget-submission-2020-21.pdf

Medium-term recommendations

Recognise the cumulative burden facing employers by committing to no new or additional levies on business for the remainder of this parliament

No form of taxation should be viewed in isolation. Income tax, business rates, the Apprenticeship Levy, the Workplace Parking Levy and a possible tourist tax all have potential impacts on business through direct costs, crowding out investment, the ability to attract people to live and work in Scotland and the wider impact that disposable incomes have on the economy. The introduction of any new policies should be based on evidence and consider the potential negative consequences as well as the intended outcome.

The Workplace Parking Levy was introduced during last year's Budget process with no consultation and despite no impact assessment being carried out. It will result in businesses being taxed twice for parking spaces they provide for staff, given they already pay business rates on those spaces. While businesses support the need to encourage greener transport, penalising employers in areas of poor public transport or people working antisocial hours without direct alternatives available is not the way forward.

Committing to no new or additional levies on business for the duration of this parliament would provide welcome recognition of the cumulative burden that firms already face and give businesses certainty in their financial planning. This should include reversing plans to facilitate the introduction of a tourist tax, which many organisations have already highlighted will be damaging to Scotland's highly competitive tourism industry – a crucial sector in the Scottish economy.

Establish a Productivity Data Bank for Scotland that can be used to help find solutions to a range of productivity related challenges

Making more of our publicly held national datasets available to developers in the private sector in an accessible and attractive format has the potential to stimulate innovation that ultimately helps improve productivity. From HMRC data to commuting patterns and distances and even the NHS, Scotland has a huge amount of nationwide data available that can be used to help tackle a range of productivity related challenges (without the need to disclose any personal details held by the relevant agencies). Such data-led problem-solving could for example be applied to the challenge of helping people and policy-makers find greener solutions to travelling to work, with the ability to reflect on area-specific constraints and opportunities in different parts of Scotland.

The Singapore Government has led the way in taking this approach by creating a data platform that has over 1,000 datasets, with developers actively encouraged to use the data to help solve local challenges.[7] By working with the UK Government to make as much data as possible available in an accessible way that actively aims to attract developers, Scotland could become one of the world's most forward-thinking countries, with an open data platform that drives productivity improvements that benefit people and businesses in all parts of Scotland.

Long-term recommendations

Create a single digital business portal to reduce the administrative burden facing firms

The cumulative burden facing businesses is not solely financial, it is also administrative. From business rates and other taxes to planning applications and business support, employers have to deal with multiple authorities, across many different platforms and often using methods that fail to take advantage of the digital technology available.

Building on current work to create a single, online point of entry for business support, a long-term commitment to creating a single business portal would bring productivity benefits and make a significant contribution to improving the business environment in Scotland. Firms would have a unique I.D. that allows them to access information and deal with all of the different activity relevant to their business. This would also align with the

[7] www.data.gov.sg

findings of the Barclay Review of the business rates system, which recommended that councils move rapidly to digital billing and online payment.

Take an evidence-based approach to developing the new Foreign Direct Investment Growth Plan and regularly review successes and failures

Attracting foreign direct investment (FDI) to Scotland is crucial to achieving sustainable, inclusive economic growth. The latest EY Scotland Attractiveness Survey showed Scotland retains its position as second to London in attracting new FDI projects, with the United States, Germany, Switzerland and Norway the top countries for FDI in Scotland.[8]

The announcement of a new Foreign Direct Investment Growth Plan, to be published in 2020, was welcome and business looks forward to engaging with the Scottish Government as that plan is developed. The Trading Nation report was a positive example of evidence-led policy making and CBI Scotland would encourage a similar approach to be taken with the new FDI Growth Plan. Ensuring the Scottish Government, its agencies, local authorities and businesses present a co-ordinated and joined up vision of why Scotland is an attractive place to invest will be crucial to the success of any strategy. Learning lessons from successes – and failures – will help to attract FDI in the long-term.

[8] https://www.ey.com/uk/en/issues/business-environment/ey-scotland-attractiveness-survey-2019

Build a stronger economy

The journey to a well-connected, low carbon Scotland presents significant opportunities for people, business and the Scottish economy. Setting out a bold vision for the next generation of infrastructure – from housebuilding to full fibre digital connectivity and better sustainable transport links to our key markets – can have a positive impact on productivity and help generate sustainable and inclusive economic growth.

Short-term recommendations

Work with stakeholders, including housebuilders, to set a national housing target

The need for new housing must be recognised alongside the contribution that housebuilding makes to the Scottish economy. The Scottish Government has a target to deliver at least 50,000 affordable homes, of which 35,000 will be for social rent, by March 2021. However, it does not have an overall target for the building of new homes in Scotland.

Businesses in Scotland want to see a more strategic, long-term approach to increasing supply. Current levels of house building are significantly lower than both the pre-recession annual average of 25,000 and the 23,000 annual target that the Commission for Housing and Wellbeing report of 2015 indicated was necessary to meet Scotland's housing needs.[9] Greater ambition alongside a clear target for the provision of new homes should be among government's priorities.

With integrated infrastructure being an absolute necessity, all major new infrastructure projects must be equipped with appropriate digital infrastructure, including full fibre and 5G where possible. Mandating gigabit connectivity in new builds would be a positive step towards achieving better connected communities across Scotland.

Allocate additional funding for local authority planning departments

Better resourced local planning authorities will be essential to the delivery of any national housing target. The planning system in Scotland is regularly cited by business as a barrier to investment, with many applications taking months, or even years, to conclude. For example, at any one time, a Planning Officer in Glasgow can have up to 100 applications on his or her desk.

The planning system must also be designed to support businesses in making the type of energy-related building improvements that will make an essential contribution to meeting the net zero target. A faster, more responsive planning system that can support businesses in making that transition is dependent on additional resource and this should be considered when allocating funds to local government.

Medium-term recommendations

Publish a bold Infrastructure Investment Plan that drives productivity improvements on the road to a zero-carbon future

The publication of a new Infrastructure Investment Plan next year is a timely opportunity to set out a bold vision of how Scotland can maximise the opportunities of the future and deliver modern, efficient and effective infrastructure that meets the needs of both people and businesses, while contributing to the ambitious target of a achieving a net-zero carbon economy by 2045. The new plan should form a key part of co-ordinated and strategic policy development across a variety of areas, including transport, tourism, energy, climate change, planning and exporting.

Earlier this year, CBI Scotland published *Connecting to the Future*,[10] which followed engagement with businesses across the country to identify the next generation of infrastructure priorities that can have a positive impact on productivity and help generate sustainable and inclusive economic growth. The report outlines four

[9] Delivering More Homes for Scotland: Barriers and Solutions, Homes for Scotland, May 2018
[10] Connecting to the Future, CBI Scotland, March 2019

key areas for action and investment from the Scottish Government, UK Government and business that should underpin the new Infrastructure Investment Plan:

1. Prioritise digital infrastructure investment, which is critical to connecting Scotland to the opportunities of the future;
2. Use technology to get the most from our roads and railways;
3. Set out a clear roadmap to a low carbon transport future;
4. Look outwards and improve connections to key markets.

Examine ways of further incentivising business investment in energy efficiency measures

There are many economic and societal benefits to improving the energy efficiency of buildings, which will contribute to the overall target of shifting to net-zero by 2045. Not only are emissions reduced, energy productivity is increased and the amount that businesses spend on energy decreases, boosting economic productivity.

Necessary improvements in energy efficiency solutions for both homes and businesses will require significant investment. Progress in Scotland on domestic energy efficiency is outpacing the rest of the UK, but more action is needed on business energy efficiency. Passing these costs on to electricity bills would not be sustainable, given the cumulative burden of costs faced by business, so other alternatives should be examined, such as better financing options and direct government funding in some cases.

Using standards and accreditation to increase quality is an important way of improving the quality of buildings, based on actual performance rather than theoretical performance of energy consumption. Equally, existing levers like the Business Growth Accelerator, which is encouraging investment in existing commercial property through a 12-month business rates holiday, should be examined for its potential to also encourage further investment in energy efficiency.

Long-term recommendations

Work with business and the UK Government to deliver full fibre digital connectivity across Scotland

Digital connectivity is the number one infrastructure priority for businesses across Scotland. Firms welcome the Scottish Government's commitment to ensuring every residential and business premise in Scotland has access to superfast broadband and meeting that target should continue to be a priority. However, this alone is not enough to fully future proof our economy. A quick rollout of gigabit connectivity is required to support the ambitions of business and maintain our international competitiveness.

Today, around 4% of premises in the UK have access to full fibre broadband compared to 71% in Spain, 95% in Sweden and 97% in Japan.[11] These high levels of fibre access were achieved by fostering private sector investment and competition where possible. Incentivising private sector investment in digital infrastructure must be a priority for both the UK and Scottish Governments, to ensure businesses can rely on UK networks to adopt new technologies, communicate with clients around the world and attract investment in a competitive international market. This should include committing to the public spending necessary to deliver full fibre to remote and rural areas across Scotland, focussed on areas where it is not commercially viable for digital infrastructure providers to go it alone.

Ringfence revenue raised through ADT to invest in improving sustainable connectivity to our key international gateways

With the Scottish Government having announced a U-turn on its commitment to cut Air Departure Tax, it is important to outline what actions it will now take to improve Scotland's air connectivity and boost international

[11] Ready, Set, Connect: Delivering a roadmap to supercharge the UK's digital infrastructure, CBI, December 2018

competitiveness. Airports are not only large employers and crucial to their local economies, airport growth generates a number of wider economic benefits.

Ringfencing revenue raised from ADT would be a way of ensuring there is a direct link between revenue raised from the tax and investment in emission-reduction initiatives directly connected to Scotland's airports. Connectivity to and from airports is important in creating a strong first impression of Scotland for overseas visitors, both tourists and business travellers, and for getting freight to where it needs to be as seamlessly as possible. Sustainable aviation growth has a key role to play in growing international trade. Delivering first-class connectivity to our airports will support the objectives of the Trading Nation strategy to increase the value of exports from Scotland from 20% of GDP to 25% of GDP by 2029. For example, business has long supported the creation of a direct rail link between Glasgow Airport and the city centre. Further delay and uncertainty over the future of this long-anticipated project risks missing out on significant economic opportunities from increasing the capacity of transport infrastructure in the area and reducing congestion on the surrounding road network.