Scottish Chambers of Commerce
The Ultimate Business Network

Shona Robison MSP
Deputy First Minister and Cabinet Secretary for Finance
Scottish Government
St Andrew's House
Edinburgh

Scottish Budget Submission by Scottish Chambers of Commerce

Introduction

Dear Deputy First Minister,

Scottish businesses continue to face significant challenges in the face of high inflation, high interest rates, increasing economic uncertainty and persistent labour shortages.

Our most recent economic survey demonstrates the consequences of this trend, with a record number of firms in Scotland reporting a pause in investment.

Our recommendations for the upcoming budget urge the Scottish Government to use the progress made through the New Deal for Business to demonstrate that it can listen to business and take action that will support growth.

To support businesses to invest and grow, to support those simply looking to survive, we urge you to use this budget to make Scotland the best place in the UK to do business and globally competitive.

Our recommendations to do this have been detailed in this letter and we look forward to engaging with you and your officials in due course.

Yours sincerely,

Dr Liz Cameron CBE

Chief Executive

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Key Recommendations

- **Growing Scotland's economy:** Unlock frozen investment and stifled growth by creating the conditions that give businesses the confidence to invest and create jobs.

- **Non-domestic rates:** Rule out any uplift in the business rate and set out a timetabled plan to lower the business rate permanently to a more financially sustainable level for firms, and review the system as recommended by the New Deal for Business NDR sub-group.

    - Replicate the 75% discount on business rates for retail, hospitality, leisure firms for RHL businesses in Scotland as recently extended by the UK Government for RHL firms in England & Wales.

- **Personal taxation:** Rule out further changes to Scotland's income tax system and ensure that any benefits from reductions in UK income tax are passed onto Scottish workers.

- **Business taxation & regulation:** Fewer business-related taxation and regulatory policies should be progressed which impact on business during a period of economic uncertainty and high cost of doing business.

- **Labour & Skills:** Enhance and strengthen the role of business in the skills system. Continue to press the UK Government for pragmatic changes to the UK's immigration system that provide relief for labour pressures across sectors such as hospitality, tourism, and social care.

- **Connectivity & Infrastructure:** Clear commitments to and adherence to timetabling of the development of major infrastructure projects such as rail or road improvements and protecting vital aviation routes such as the Aberdeen-Wick PSO.

<u>Non-domestic rates & Income tax</u>

We urge the Scottish Government to adopt a more strategic approach to tax, both in non-domestic rates (NDR) and personal taxation. The work of the tax advisory group (of which SCC is a member) should support this work, but both businesses and consumers are looking for fairer tax systems. Non-domestic rates continues to be a significant cost and is frequently cited by firms as being an 'unprogressive' way of taxation.

That is why we have continued to work within the New Deal for Business framework to ensure that the main form of business taxation is made competitive and fairer for firms. We welcome the New Deal for Business implementation plan containing a commitment to keeping rates reforms under review to ensure the system delivers the most competitive environment in which to do business.

Revaluations

We welcomed the Scottish Government's decision to postpone the 2023 revaluation appeal deadline from 31 July 2023 to 31 August 2023 earlier this year.

Regarding revaluations, we would recommend that in the medium term a move towards annual revaluations with a fixed rate of tax is seriously considered. This may limit the need for the huge variety of reliefs and especially transitional reliefs as the annual updating of the base valuation of a property should assist those sectors struggling and mean those succeeding pay proportionately more when they can.

Changes to the valuation appeal framework introduced via Section 13 of the NDR Act 2020, to reduce appeal rights for businesses that face changing economic circumstances during a revaluation cycle, are bad for business. This major change was not part of any Barclay Review recommendations, there was no consultation with business, no economic impact assessment shared or carried out with business input.

We are already experiencing negative consequences of this change and will continue to do so until it is reversed. Some examples below highlight major material changes which have occurred over the last 10-15 years.

- **Brexit**
- **Forced closures due to the COVID-19 pandemic**
- **The Global Financial Crisis**

As a result of the changes introduced via Section 13 of the NDR Act 2020 and subsequent changes in legislation to appeals, the above issues are now not something that we believe would be deemed to be "Material Change of Circumstances" (MCC) for the purposes of NDR appeals but could have been before the enactment of S13 of the NDR Act 2020.

Any business impacted by material changes through events like those mentioned above could now be forced to wait by as much as 3 or even 4 years before their Rateable Values and thus NDR bills would reflect the impact the material change has had on their property value.

Businesses and others cannot wait this length of time for rateable values to be corrected in the face of such significant events. It is unfair, illogical and impacts on both business survivability and growth.

The main thrust of the Barclay Review was to design a system that responds to changing economic circumstances yet because of Section 13 of the NDR Act 2020 we have a less flexible Valuation

Framework to cope with such Material Change of Circumstances (even with 3 yearly Revaluations) than what existed before.

In recognition of the New Deal for Business, such a major policy change that was not consulted on with businesses should be immediately reversed. This would be a "*good deal*" for business.

The Valuation Framework and Incentives to Redevelop Properties

When property investors and developers are considering redevelopment of major properties in and around Scotland, they believe the application of the Valuation Framework in England is much more favourable than in Scotland.

As an example, if an office property in England is stripped out for redevelopment it will now be likely that it will be removed from the Valuation List until completed, resulting in the investor / developer often being able to reinvest the saved costs of rates charges, whilst the property is incapable of beneficial occupation, into providing a more sustainable building to the benefit of future occupiers ESG requirements.

From the experience shared by investors/developers and their advisors in Scotland, this approach does not happen in Scotland. At the least, it is a protracted or very unclear process for businesses dealing with the assessors. While we accept that assessors will only be adhering to the legislation developed by the Scottish Government and their interpretation of Scottish case law, this is still resulting in missed opportunities in attracting investors to redevelop projects in Scotland and perhaps legislative reform is required.

Also given the need for businesses to meet new environmental targets, properties previously only recently considered as "Grade A stock" could potentially become downgraded. These properties will require modernisation to help meet Net Zero targets and the NDR relief system for New and Improved Properties needs reviewed in this regard.

We want and need to attract property investors into Scotland not only to remain an attractive place for them to deploy their capital but also so they can deliver the modernised quality stock that occupiers will need to have. In this regard we believe there are issues with The Non-Domestic Rates (Relief for New and Improved Properties) (Scotland) Regulations 2022 that benefit New Build over Redevelopment projects of formerly vacant sites/buildings and this needs to be considered by the Scottish Government.

We would request the regulations are reviewed particularly to ensure and clarify that Redeveloped Buildings as well as New Build properties qualify for this relief. We are aware of many cases where this relief has been refused to Developers by Local Authorities for large scale redevelopment projects or improvements of previously vacant buildings.

We would recommend that this legislation should be revisited with more clarity and guidance for local authorities on this issue otherwise redevelopment of older stock may become less viable which may impact on Net Zero targets.

Supporting businesses directly

More immediate action is needed to support struggling firms with the cost of doing business. We urge the government to consider what direct financial support it can provide via the NDR system to SMEs in sectors such as retail, tourism, and hospitality, where our economic data indicates that it is these vital parts of our economy that continue to experience the most severe challenges to jobs and livelihoods.

At the very least, the budget should rule out any uplift in the business rate and set out a timetabled plan to lower the business rate permanently to a more financially sustainable level for firms.

Income Tax

In terms of personal taxation, we urge the Scottish government to back consumers and workers by making no changes to the existing income tax regime and ensure that any benefits from reductions in UK income tax at the Autumn Statement are passed onto Scottish workers.

<u>Business taxation & Regulation</u>

A common piece of feedback that we receive from firms, is the growing tax and regulatory burden created by Scottish Government policies.

The government's direction around the attempted implementation of Scotland's Deposit Return Scheme is symbolic of the concerns that businesses have grown to expect in recent years.

This was a critical policy to support Net Zero ambitions, the principles of which business generally supports, but was designed and implemented in such a way that undermined the confidence of the SMEs who spent millions attempting to ready their business to comply with it.

From recently gone live policies such as short-term lets to others on the way such as the visitor levy and workplace parking levy, can have major impacts on the cost / profit margins that keep businesses running and could dampen Scotland's attractiveness as a place to do business, invest and visit.

Accordingly, as government begins to develop more initiatives to help businesses meet environmental and health outcomes, it is worth bearing the current landscape in mind. Any regulatory changes should not create additional strain for businesses at this time than is strictly necessary, until business conditions improve.

The New Deal for Business has made progress on this issue, with the development of the new Business and Regulatory Impact Assessment toolkit and a promised fundamental review of how policy development impacts business. The voice of business should be involved in the early stage of development around any policy primarily aimed at businesses.

This process should also consider how policymakers should undertake robust testing / scenario modelling to ensure that the proposed policy intervention will achieve its objective; for example, evidence that the workplace parking levy will achieve the modal shift it sets out to.

Other key form of regulation that affects businesses and local communities is the planning system.

SCC believes that National Planning Framework 4 has significant shortcomings in addressing the housing crisis and in supporting economic development.

The framework appears to be heavily focused on environmental sustainability with the social and economic requirements of Scotland being relegated to a lower priority.

The framework would benefit from an enhanced balance between the focus on environmental sustainability and the social and economic requirements that will drive business growth and sustainability within Scotland over the lifetime of NPF4.

On top of this is the ongoing challenge involving resourcing of planning departments, inconsistency in decision-making and planning application decision times that still fall far below Scottish Government targets and statutory timeframes.

We would urge the government to engage with businesses to address existing challenges with NPF4 and tackle its deficiencies.

Another important regulatory issue for firms is the Fair Work agenda, we understand that ministers are considering implementing additional conditionality for accessing rates reliefs and licensing provisions.

Ministers should provide detailed analysis on the impact of conditionality on accessing grants support for businesses. This must be the next step before any plans or policies are introduced which could expand conditionality on other areas such as business rates reliefs and licensing provisions.

Firms are generally supportive of the principles of fair work, most already pay the 'real' living wage but they also wish to understand how these changes could impact their business and wage structure.

Connectivity & Infrastructure

Scotland's businesses support the Scottish Government's ambitions to reach Net Zero emissions by 2045, however, without delivering a fully functioning transport infrastructure that's fit for the 21st century, greater investment in green transport options and support to enable businesses transition, those ambitions become far more difficult to achieve.

The Scottish Government's focus on active travel is right and important, however, getting people out of their cars and onto public transport, cycling and walking requires those services to be reliable, affordable, and accessible. For too many people today across Scotland, that simply isn't the case.

While much of the focus is on climate change, it is important to also consider the role of transport and transport innovation in improving productivity given national and local targets and rising cost and skills base challenges faced by the business community.

Therefore, businesses have a key role to play in delivering the required change, however, only by working in genuine partnership with the government can this happen at the scale and speed required to secure economic recovery and meet climate change ambitions.

Scotland's businesses see investment in low-carbon transport infrastructure as a priority and Scottish Chambers of Commerce have continued to argue for planned investments to be accelerated to unlock economic growth. For example, fast-track rail to the Central Belt will both support economic activity now in addition to helping achieve Scotland's net-zero ambitions in the future.

Government must play its part to support Scotland's national rail operator, ScotRail, which it took ownership of in 2022. ScotRail is at the forefront of a struggling rail sector that is dealing with changing modal behaviour and continually needs additional funding to cover losses.

Government must look to address these losses at the source. The ongoing trial to remove Off Peak fares all day is welcome, and we look forward to seeing if it will drive continued improvement in passenger numbers.

However, there are other interventions that we would urge government to undertake such as improving connectivity between Scotland's eight cities and encouraging the modal shift to public transport while investing further in ScotRail to deliver sustainable and punctual services.

Regarding Scotland's central belt, we would urge quicker delivery of Phase 1 of the Glasgow Metro Airport Link and faster more reliable rail services between the three cities of Glasgow, Edinburgh, and Stirling.

Looking to the South of Scotland, the budget must look to consider much needed improvements to the A75 & A77, both critical connectors to the central belt and to England respectively. These improvements would improve connectivity, freight capacity, and safety.

And to the North of Scotland, we reiterate our long-standing ask for the government to keep its commitment to fully complete the dualling of the A9 & A96. With the A9 being longest trunk road and gateway to the Highlands that now also connects to the Green Freeport of Inverness and Cromarty Firth, and the A96, a key transport corridor essential for Scottish exports.

Another vital part of connectivity in the Highlands is aviation routes. We therefore urge the Scottish Government to commit to an extension of the Wick-Aberdeen Public Service Obligation (PSO) to provide certainty of connectivity for businesses and residents of the North Highlands.

Energy & Net Zero

Just Transition

Scotland is one of the leading countries in the world, when it comes to the growth and potential of our energy sector in leading the transition to Net Zero. We have set ambitious targets of achieving net-zero emissions by 2045, five years ahead of the UK's target.

To achieve this target, Scotland needs to accelerate the transition away from fossil fuels and replace them with clean energy sources like wind, solar, and green hydrogen. There is a lot of potential in these new energies and transitioning to a green energy driven economy by 2045 will require a significant acceleration at scale. This energy transition will in turn require policy changes, significant investment, infrastructural changes, and most importantly, a Just Transition.

The importance of a Just Transition for the energy sector in Scotland cannot be overstated, 80% of our current energy mix continues to come from fossil fuels. The shift to a low-carbon economy has the potential to create significant economic opportunities, such as creating new jobs, driving innovation, and reducing energy bills.

If the transition is not managed carefully, it could also have negative social and economic impacts on communities that are overly reliant on fossil fuel industries, leading to localised job losses and economic disruption.

Therefore, the Scottish Government and governments across the world must keep in mind the danger of unintended consequences of policy measures, when thousands of jobs, and hundreds of millions of pounds of investment are at stake.

That's why there remains concern and doubt within the sector and those out within looking to invest in it, because of the Scottish Government's stated presumption against future oil and gas production as contained in the draft Energy Strategy and Just Transition Plan.

Whilst continued investment to deliver funding through the Just Transition Fund is to be welcomed, the Government must remove this presumption ahead of the final publication of the Energy Strategy.

Firms in the oil and gas sector are actively working towards helping Scotland achieve its Net Zero targets.

However, the changes required to their business model will be substantial and not without challenge over the next decade. For these changes to come at the pace required, firms need to be encouraged to invest, provided policy certainty and support from the Scottish Government.

Not only will this keep firms investing in more carbon neutral practises and technologies, but it will also ensure our energy security throughout the journey to Net Zero.

Renewables

A decarbonised power system is the principal requirement for achieving Net Zero. Access to affordable, resilient, and plentiful decarbonised electricity, is key to a thriving energy secure economy.

Scotland is currently a global leader in the renewable energy industry, and it also presents Scotland's biggest economic opportunity.

Going forward, the industry needs a strong supply chain, investment in grid infrastructure and improvements to the planning system to facilitate delivery of these projects.

The renewables industry is undergoing a period of rapid expansion, helped by an abundance of natural resources and positive Government policy direction. This growth in renewable generation capacity is pivotal to support wider decarbonisation efforts across heating and transportation.

Increases to 2030 and 2045 ambition for offshore wind are needed to support supply chain development and push delivery of ScotWind projects. As most ScotWind projects will be completed after 2030, an interim 2035 ambition should be set to facilitate delivery of the majority of the ScotWind projects.

It was welcome to see the Scottish Government approve development consent for ground-breaking plans from the Drax Group to build a new c.£500m underground pumped storage hydro plant at Cruachan facility in Argyll, a giant step forward for pumped storage hydro capacity in the UK.

Investment in electricity grid infrastructure remains central to connecting new renewable and low carbon generation to the network. A more flexible regulatory framework is needed to unlock timely investment at the scale and pace across renewables required to meet Net Zero targets.

Planning and consenting determination timescales for both renewable and network infrastructure must be considerably sped up. Streamlined procedures and adequate resourcing of planning offices is also needed to process the growing numbers of applications in the pipeline.

We would also suggest that the system prioritises projects that will make the most difference to national energy infrastructure capacity and storage.

Transport

Transport is a significant source of climate emissions in Scotland. At the same time, it provides invaluable connectivity and reach for businesses and the wider economy.

We look forward to seeing the development of the promised Just Transition Plan for the transport sector. Actions to decarbonise our transport networks must be fair and inclusive, while considering the needs of communities across the country.

We would advise that the Just Transition Plan for the transport sector considers some of the transport recommendations from the Just Transition Commission's 2020 'Advice for a Green Recovery' report.

We welcome the Commission's recommendation to "develop an enhanced and accelerated national plan for charging infrastructure for both public and private transport in the context of an overall strategy to support the electrification of road transport".

A much-needed plan to boost and streamline EV charging infrastructure must be accelerated and give commercial operators more flexibility and input to support the rollout.

While aviation is a reserved matter for the UK Government, supporting a mandate of sustainable aviation fuels (SAF) should be a priority for the Scottish Government to call for, to support the long-term decarbonisation of a key transport mode for reducing emissions.

The Scottish Government should set out a separate vision for how it will attract investment in sustainable aviation fuels production and the development of alternative fuel technologies to bring green aviation jobs to Scotland.

We would also support the creation of a Green Airports Fund to support airports through grants and funding for sustainable power and heat generation, electric vehicle charging infrastructure, low-emissions airside vehicle uptake and sustainable aviation fuel infrastructure.

Labour & Skills

Our latest Quarterly Economic Indicator report highlights the many challenges facing Scottish businesses, but none are more pressing than the volatile labour market and the pressure on finding the right skills and talent to help the economy grow.

Strong competition for labour and skills is leaving many firms with job vacancies that they simply can't fill, and that lack of staff is making it difficult for firms to fulfil orders. Inflation is also placing great pressure on businesses to meet growing demands for higher wages, with sectors such as agriculture and tourism experiencing significant impacts from Brexit.

Although official labour market statistics would indicate that the overall employment and unemployment figures have remained stable, our data indicates that businesses continue to face significant challenges hiring the people that they need.

An ageing population combined with the prospect of reduced net migration to Scotland also poses a substantial challenge to Scotland's long term economic prosperity and the needs of businesses to access the necessary skills and talent.

The report published through the Independent Review of the Skills Delivery System highlights the importance of ensuring that reforms enhance and strengthen the role of businesses in the skills system. Business engagement and involvement will be essential if we are to get this right.

The development of a new funding model for post-school education provision is welcomed for improving lifelong learning, this must be balanced with widening access to training and skills across all pathways.

We urge collaboration between business, agencies, and government to clearly understand the outcomes of these significant reforms and ensure that they deliver real impact for Scotland's businesses and people while avoiding unintended consequences.

In the more immediate term, it was disappointing to see £46 million worth of funding removed for Scotland's colleges and universities earlier this year.

The further education sector needs certainty and further investment if it is to do its critical part to help tackle the skills crisis and therein labour shortages across the Scottish economy.

Colleges will be concerned that funding decisions on the Flexible Workforce Development Fund are still unclear.

Feedback from firms indicates that challenges accessing labour and skills remains high, which is impacting and stifling growth. With Scotland's well-documented demographic challenges growing, this is an area that we cannot afford to sacrifice.

Another proven way of investing now for the future is in apprenticeships. Apprenticeships are a tried and tested way to meet skills shortages now and, in the future so they must be a key component of our shared national mission to meet economic ambitions.

The government must continue to back Scotland's apprentices which we believe are vital to fully unlocking Scotland's economic potential, building upon the commitment to 30,000 apprenticeship starts per year.

While it takes time for domestic skills reforms to take effect, SCC continues to urge the UK Government to implement more flexibility and simplicity in the UK immigration system to help plug labour shortages now.

Immigration policy is devolved to Westminster, but we encourage the Scottish Government to support business by continuing to push for these changes.

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