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Cabinet Secretary for Finance
The Scottish Government
St. Andrew's House
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Dear Cabinet Secretary,

CBI Scotland economic recovery priorities for 2021-22 Scottish Budget

As you prepare the 2021-22 Scottish Budget in an extremely uncertain time, I wanted to contribute ideas and insights from our members and share CBI Scotland's priorities for the coming year.

A strong economy that delivers growth and skilled jobs is the only sustainable way of raising wages, living standards and ultimately delivering prosperity for all across Scotland as we recover from the pandemic. Together we must develop a prosperity agenda that focusses on inclusive economic growth and competitiveness – one that enables the businesses that underpin our economy and society to succeed.

Even before the pandemic, Scotland's economy had slower growth than the rest of the UK and we cannot afford to lose sight of the long-term structural issues our economy faces. COVID-19 has exacerbated the need for action to address those challenges – from poor productivity to an ageing workforce and the transition away from a reliance on north-sea oil. The global economy is evolving, and we can't wait until the crisis is over to implement change. Bold and ambitious action is needed now if we are to reach our goals.

Firstly, we need to inject some certainty, where possible, in the immediate term to support businesses to keep trading and protect jobs especially if the economic recovery lags in 2021.

Secondly, we should act now to secure the foundations for an inclusive, growing economy and those lie in funding flexible and demand-led skills interventions for the long-term.

Thirdly, we need to see commitments now that set the economy on a path to net zero. There are actions that can and must be taken instantly to achieve the 2045 net zero target, as well as intermediate targets on petrol and diesel cars and decarbonisation of heat.

1. Cement short-term support for businesses to keep trading and protect jobs

As we entered the festive period with parts of the country struggling under Level 4 restrictions and worrying about further restrictions to trade in the New Year, it is important to ensure support remains in place for all businesses experiencing hardship, directly or indirectly.

Parts of the economy have experienced two or even three rounds of closures and every round of restrictions leaves the business with less cash reserves and more uncertainty. This year's Scottish Budget must ensure that businesses are compensated for these forced closures and given certainty that they can count on government support in 2021 if restrictions to trade continue. It includes making sure there is no business rates cliff edge for businesses currently exempt and that grant support continues to be accessible and evolve with the needs of firms.

- No reinstatement of business rates in full in April 2021 for businesses currently exempt. As businesses' ability to trade returns, the government should consult with businesses in receipt of an exemption to find a supportive way to gradually phase in non-domestic rates that helps firms to keep trading and protect jobs.
- Confirm effective freezing of business rates for 2021/22 to give business certainty. As the UK Government confirmed non-domestic rates would be frozen for 2021/22, it would be welcome if the Scottish Government

could also give businesses comfort that their rates liabilities will not increase during the coming year, which will be focused on securing an economic recovery.

- Broaden the net of business rates relief to mid-size businesses. The government should consider how rates relief can be used to support businesses of any sector that have seen considerable negative impact on their turnover as a result of the pandemic. If the recovery lags in 2021, the government should look at extending business rates relief to mid-sized businesses regardless of sector to reduce fixed costs and protect jobs.
- Evolve grant schemes to reach businesses with speed and simplicity. If businesses' ability to trade continues to be impeded by government restrictions in 2021, business support should be made available at the same pace as restrictions are implemented. The effectiveness of the schemes will depend on how quickly cash injections can reach firms in immediate need of support. This should go hand in hand with rates relief for as long as businesses experience restrictions on operations.
- Capitalise on increased appetite for technology. By supporting more firms to embrace tried-and-tested digital technology, the Scottish economy can reap important gains both in business resilience and productivity. With £11.8m in government funding announced towards digital technology and business support, the effectiveness of support must be tracked to make sure the objective of helping more firms invest in digital technology is realised.
- Avoid income tax rises to encourage people to keep supporting Scottish tourism, hospitality, and retail. The recovery will partly rely on people's ability to support struggling sectors like tourism, hospitality, and retail. The government has some levers that can bolster demand through avoiding any income tax rises at a time when consumer confidence remains weak in many areas.

2. Invest in people to give them the skills and support they need

Scotland needs an education and skills system that is agile, flexible and responsive. Funding should be more closely aligned to industry needs and strike a better balance between undergraduate learning, work-based learning and short, sharp provision to support continual upskilling and rapid retraining. It is also necessary to look at the broader impact on people's lives and what support is needed to protect people's wellbeing and Scotland's productivity.

- Radically scale-up existing upskilling and retraining initiatives such as the Flexible Workforce Development Fund and the Scottish Funding Council's upskilling fund. In the next 10 years, nearly 400,000 workers will need radical retraining as jobs fundamentally change, while nearly 2.5 million will need some form of upskilling. Action must recognise the scale of the challenge.
- Commit to a long-term role for the National Transition Training Fund as a key part of the skills system. While the fund was introduced in response to the pandemic, there was already a need to get ahead of the curve and support people to develop the skills they need to move from vulnerable sectors to those with the greatest potential for growth. A long-term funding commitment will help secure a clear vehicle for retraining in Scotland.
- Deliver greater funding flexibility for further and higher education to respond to industry needs. Funding models must support greater flexibility for colleges to work with industry to meet skills needs, including recognition of the importance of part-time provision to upskill and retrain those already in work. Flexible provision in higher education will also be crucial to the recovery and will require extra resource to deliver.
- Extend apprenticeship support beyond the end of March. We know young people are disproportionately impacted during economic downturns and business and government must do everything possible to create opportunities for school and college leavers and maximise the chances of them entering the workforce. The announcement of £25m to support apprenticeships through the Apprenticeship Employer Grant and Pathway Apprenticeships was welcome and should be extended beyond the end of March.
- Prioritise the mental health backlog within the health system to address long-term effects of pandemic. CBI Scotland work on Scottish productivity has highlighted the need for investment in mental health as part of

the nation's wellbeing and productivity agenda.¹ Addressing the mental health support backlog, alongside physical health, is critical as experts warn of ticking timebomb of mental health challenges.

3. Prioritise immediate actions that will set us on the path to a net zero economy

Now is the time to fast forward progress on delivering Scotland's world leading net zero target and provide global leadership at next year's COP summit. A whole system approach is needed, with all policy levers pointing in the same direction, including a focus on incentivising consumer demand. Clear funding commitments that translate into practical actions today will help both the economic recovery and Scotland's path to net zero.

- Fast-track funding and planning for a rapid expansion and acceleration of electric vehicle charging infrastructure. Infrastructure investment should sit alongside an increased incentive package to help boost demand for electric vehicles and facilitate the change in behaviour required to meet the target of phasing out new petrol and diesel vehicles by 2032.
- Build a nation-wide incentive scheme that retrofits all homes for low carbon heating. By putting government weight behind a national programme to upgrade homes with a high standard of energy efficiency, the Scottish Government will lay the foundations for low-carbon domestic heating, which would make a significant contribution to the net zero target, create jobs and deliver energy savings for households.
- Use the business rates system to help accelerate progress in decarbonising buildings. Buildings make up around 40% of the UK's total carbon footprint and the business rates system can be used to incentivise more rapid decarbonisation. Examples include using rates reliefs to incentivise investments that improve a property's energy efficiency with time-limited exemptions of low carbon technologies from the NDR system, on top of the Business Growth Accelerator, such as solar panels, wind power and heat pumps. A broader plant and machinery review could be used to set out how the NDR system could align more clearly with decarbonisation objectives.
- Connect Land and Building Transactions Tax to domestic energy efficiency to incentivise new home buyers. Offering reductions to LBTT dependent on energy efficiency choices could help to incentivise energy efficient choices in new homes, such as encouraging more home buyers to invest in heat pumps as an alternative to gas boilers.

I would welcome the chance to discuss our proposals and continue to build the partnership between business and your government to deliver them.

All best wishes,



Tracy Black
Scotland Director

¹ CBI Scotland, CBI/KPMG Scottish Productivity Index 2020: Building resilience through long-lasting productivity gains, December 2020