



Scottish  
Chambers of  
Commerce

The Ultimate Business Network

## **STRATEGIC SCRUTINY OF THE SCOTTISH GOVERNMENT'S BUDGET**

### **Consultation by the Scottish Parliament's Finance Committee**

### **Response from Scottish Chambers of Commerce**

#### **Introduction**

Scottish Chambers of Commerce (SCC) welcomes the opportunity to give evidence to the Finance Committee's inquiry into future Scottish Government spending. SCC believes that Government at a local, devolved, national and supra-national level has a vital role to play in dealing with the current economic recession and preparing Scotland for the opportunities that will emerge in the period of recovery. It is important to remember, however, that it will be business, not Government, that will lead Scotland out of recession and Government's role must be to support economic development by helping to create the environment in which enterprise is stimulated and businesses can thrive.

#### **SCC's View**

The effects of the credit crunch and the ensuing recession have been apparent in Scotland for some time. SCC's Quarterly Business Survey began detecting declining

trends in orders in the construction sector in the fourth quarter of 2007 and levels of work in progress have been declining since then. Last year also saw the downturn spread to other sectors, with poor summer weather contributing to disappointing results in the tourism sector. It therefore came as no surprise when figures recently released by the Scottish Government officially confirmed that GDP had declined in both the third and fourth quarters of 2008, meaning that Scotland had technically entered a recession.

The effects of recession on business have been exacerbated by severe restrictions in the availability of credit and a sustained period of rising cost of credit, against a background of Bank of England base interest rates being reduced to record low levels. The UK Government's response to the banking crisis was swift, expensive and necessary in order to ensure the survival of some of our key financial institutions and to ensure that the banking sector would be in a position to support our businesses through the challenging times ahead. This direct investment in supporting one of our key service industries together with the package of stimulative measures implemented since the time of the Pre-Budget Report last November have contributed towards a massive deterioration in the public finances, high levels of borrowing and a need for the UK Government to prepare plans to repay this debt in future years. This will likely result in a combination of higher taxes and reduced Government spending.

As a result of the Barnett Formula, reduced public spending and greater efficiency savings at a UK level will create pressures on the Scottish Budget in future years, leading to tough decisions in terms of the Scottish Government's spending plans. SCC believes that the Scottish Government have made a bold and correct decision to place the need to increase sustainable economic growth at the very heart of public sector policy in Scotland, and this must remain the central focus in future years and this must continue to guide Government policy and spending.

In response to the present recession, the Scottish Government have created a six point plan to mitigate the effects of recession and this has been welcomed by SCC. In particular, we welcome the acceleration of capital spending into the current year from 2010-11, although we recognise that this will necessarily mean a reduction in future years' budgets. It is therefore vital that new capital projects are investigated and progressed following a model to leverage private investment. Clearly the Scottish Government favour the Scottish Futures Trust to accomplish this, but business, and particularly our construction industry, cannot wait indefinitely until new contracts are awarded under this scheme and other options must be pursued in the meantime. Many of those in the construction sector predict that current orders may be exhausted in 12-18 months time. Projects such as the new Forth Crossing are not only vital in terms of our transport infrastructure, but also for Scotland's construction industry and its supply chain and must be progressed as soon as possible.

It is also important that the Scottish Government, local Government and the public sector redouble their efforts to widen the accessibility of public procurement opportunities for small and medium sized firms. This is a crucial way in which the private and public sectors can work together for mutual advantage, yet issues over access to public contracts remains one of the most frequent complaints for SMEs in Scotland.

The difficulties in the banking sector have had a marked effect on the finances of a number of Scottish local authorities, particularly those which had invested in the Icelandic banks. This may have long term implications on the ability of some local

authorities to finance future spending plans, and this is a particular concern given councils' increasing responsibility for local economic development.

Given the nature of the expected squeeze on Scottish Government spending over the next few years, it is easy to say that Government must engage in a round of efficiency savings. This may be true in general terms, however if Scotland is to really maintain its status on the world class stage and is to have an effective presence in the world economy it is important to realise that not all publicly funded bodies can take much more in the way of efficiency savings which in some cases could see irreversible damage being done to key sectors in the Scottish economy. Getting the balance right is difficult however moving forward in this difficult economic climate will create challenges and indeed opportunities that we should not forget about. The life sciences sector in particular is becoming more and more important but certainly needs some public funding to ensure the private sector can attract and retain the skills base and also have access to a skilled workforce.

There is also the issue over the high cost of public sector pensions, which now appear to business to be out of proportion to the realities of the private sector. It is clear that the public sector must aspire to become leaner as a whole over the years to come.

## **Conclusion**

The Scottish economy has faced a challenging time over the past 18 months, and the likelihood is that this will continue for some time to come. Government at all levels has spent in order to minimise the immediate impact of the recession, but the price of this will be that these costs will have to be repaid in the long term and business will and must become less reliant on Government for support. However Scotland is fortunate to be home to some exceptionally innovative people and businesses and the potential is there to build strong growth in our private sector.

## **About Scottish Chambers of Commerce**

Chambers of Commerce comprise the world's largest business support organisation. In the UK, membership is voluntary and the Scottish Chambers, along with the British Chambers of Commerce, are prominent members of the worldwide movement of Chambers.

Membership is open to any firm or company irrespective of size. The current membership ranges from the country's largest companies to the smallest retail and professional operations. The present membership ranked by market capitalisation, includes 23 of the top 25 companies, and 38 of the top 50 companies in Scotland. Together Scotland's Chambers provide well over half the private-sector jobs in Scotland and provide an unequalled geographical and sectoral representation throughout Scotland.

The Scottish Chambers of Commerce is the umbrella organisation of the local Chambers of Commerce. Its prime functions are to promote and protect the interests of local Chambers and their member companies throughout the length and breadth of Scotland. It helps promote co-operation between the local Chambers in the provision of services

and represents the common interests of Chambers at a national and international level. The President of the Scottish Chambers of Commerce is Her Royal Highness, The Princess Royal.

Scottish Chambers policy is determined by a Council on which all Chambers have equal representation, and is executed under their direction. Policy groups, formed from a wide cross section of member Chambers, are used to develop policy initiatives. The national body represents the interests of members to the Scottish, UK and European Parliaments, opposition parties, the Scottish Government and other Government officials, Enterprise bodies, COSLA and other public bodies, and works with other private-sector business support bodies in Scotland on areas of mutual interest.

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