

Going for Growth 2011



Scottish
Chambers of
Commerce
The Ultimate Business Network

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Foreword

The political and economic environment affecting business in Scotland has experienced, and is still undergoing, considerable change.

With the nation beginning to show signs of recovery from the recession, we should ordinarily be in a position of some optimism. However the local and central Government cuts will only start to be felt as the year progresses.

This document articulates in detail, what Scottish Chambers believe is a pathway to getting the economy restarted and sustained for the future.

We would ask all politicians of whatever allegiance to carefully consider the economy and to encourage measures to boost business and thereby employment.

The vast majority of people are employed by SMEs. The rafts of legislation and regulation on employment, taxation, business rates etc. are currently all conspiring to dampen and curtail any enthusiasm for expansion and in particular to increase employee count.

We therefore entreat all elected representatives to look for ways to reduce these burdens (some of it will be at zero cost) and to find other ways to encourage economic development across the spectrum.

Social Justice is very important in our society, but more important is the creation of employment with the concomitant increase in self reliance, self respect and personal responsibility. There is also a related increase in the tax take!

Rather than 'invest' in the current account, could we encourage all who have budget responsibility or influence to invest in infrastructure for which a return can be demonstrated.

In summary, provide an environment which will encourage business, and thereby employment, to flourish by providing the means for business to connect, communicate and develop.

Mike Salter
Chairman
Scottish Chambers
of Commerce

Introduction



Scotland is a place of change. As the nation prepares for the fourth round of elections to the Scottish Parliament, we do so in the shadow of one of the longest and deepest economic recessions of modern history – a recession on a scale that few would have predicted when the current Scottish Government came to power in May 2007.

Scotland's economy shrunk for five consecutive quarters during 2008 and 2009 and then again by a further quarter in 2010. The effects on business have been enormous. Much of the ownership of Scotland's two largest banks now lies with the UK Government and bank lending has undergone a period of rapid change. High profile business failures have altered the face of our High Streets, the housing market has stagnated and Scottish unemployment has reached high levels.

The UK Government has set out its path towards tackling our substantial budget deficit, which has been caused in large measure by the public sector spending beyond its means. Rebalancing the budget will result in further pain, particularly in the public sector, and business will not be immune from the effects, particularly in Scotland where the majority of spending in the economy has its roots in the public purse.

Our politicians therefore have a tough task ahead. They must do more with less. They must fashion a public sector that supports significant growth in the private sector and they must deliver a Scotland that is an attractive place to do business both for indigenous businesses and for inward investment.

This challenge is coming at a time when the Scottish Parliament is at the start of a process that will lead to it being given more powers, more responsibility and more accountability. It is an institution that is growing up fast and which is gaining even greater capacity to be a force for economic change in Scotland. We are about to embark on an era of opportunity – a chance for Scotland to take the economic initiative, building a strong business base and creating the wealth that will drive us forward, economically and socially, for years to come.

The priorities for business are:

- An attractive tax regime
- High quality innovation support (including a world class University sector)
- Reliable and affordable infrastructure for transport, energy and communication, both internally and internationally
- Clear encouragement for wealth creation in our key industry sectors
- Driving up productivity across the Scottish economy
- A skilled workforce (good basics from school, sound vocational skills from CFE's and continuing professional development)
- Willing and able banking partners
- Support for export and identifying and maximising global competitive advantages
- A welcoming climate for inward investors
- An investor friendly planning system

The Levers of Growth

The Scottish Government controls many of the key levers which can transform the nature of the Scottish economy from an over-reliance on public spending to a business-led engine of growth. Key among these powers is its responsibility for our public enterprise bodies and investment in economic development. In developing a model agile enough to respond to rapidly changing economic circumstances, regard has to be paid to a number of issues.



Enterprise services need to be more joined up – the ‘one-stop-shop’ approach

Despite recent restructures to streamline and improve efficiencies, there is still room for improvement. Businesses across Scotland consistently cite the need to simplify and align the different government funding bodies to make it easier to find and gain support. We recognise the good work many of these agencies deliver; however, creating a more user friendly and coordinated system is likely to have positive effects on business growth.

Local councils should work more closely with Chambers of Commerce

Local authorities have been given an important role in the provision of business services across Scotland. However, local authority areas vary in their resources (including skills) for supporting and growing enterprise. For this reason SCC believes it is imperative local authorities work more closely with local Chambers of Commerce as an extant national network crossing boundaries of size and sector of company, to leverage their connectivity to local businesses and their ability to deliver first class services. National support to local authorities and other local partners such as Chambers to expand the range and quality of business support provides a basis to encourage new enterprises to start learning the skills needed for successful performance. The public sector is not always the most appropriate vehicle to provide business support.

Enterprise support

It is essential that the Scottish Government clarifies its intentions for business support across Scotland with regard to short-term and long-term goals. Effective enterprise support is essential to business growth therefore it is imperative we get the right mix of services needed to foster business development.

Scottish Enterprise

The restructuring of Scottish Enterprise (SE) introduced three years ago has no doubt resulted in efficiencies and cost savings across the board. However Chambers of Commerce can help establish partnerships with public bodies to introduce innovative, efficient delivery models – resulting in further cost reductions. This could also help to address the perception that Scottish Enterprise has weakened its local connections across Scotland.

The SE account management process has proved to be popular with many of those businesses which have been identified in the growth pipeline of key sectors. However a number of potentially successful businesses sometimes miss out and slip through the net. There needs to be a more comprehensive way of routing support to these businesses which currently fall between the cracks. The policy of 'backing winners' is the right one, but this should not mean 'backing certainties' – business is about taking risks and, necessarily, so must be business support.

Highlands and Islands Enterprise

A priority in the Highlands is the need to maintain communities in areas where they are dispersed. Many measures have been enacted to aid this process (e.g. ferry subsidies) as well as the efforts of the enterprise network. There is a strong feeling in Highland and Island Chambers that HIE has been a very important contributor to local economic development for many years. SCC believes the Communities remit of HIE warrants roll out to the rest of Scotland. It is a leading example of best practice and one which Chambers of Commerce are well placed to supplement or deliver.

Dispersed Chambers in the HIE area are more likely to feel that HIE has such a large area to cover that local issues are sometimes lost in the overall regional picture. They are also conscious that severe budgetary limitations restrict Highland Council's ability to tailor services to local need.

One example quoted was from Caithness where the use of relatively low paid consultants meant there was adequate support for start-ups in well understood markets such as the manual trades, but a lack of support for more complex business propositions. Therefore there is concern that any further amalgamation of enterprise support will leave their needs even more remote from national policy.

Business Gateway

It is important that the Business Gateway (BG) activities and other support services provided by the SCC network meet seamlessly with direct SE service provisions to ensure the next generation of high growth businesses is being adequately supported, identified at an early stage and assisted to progress through the growth pipeline to account managed services where appropriate. The BG experience for business customers across the country requires to be of a more consistent quality, whilst retaining local knowledge and flexibility. With the current BG contracts coming up for renewal and local authorities facing a further squeeze on spending, businesses need assurances that these contracts will continue to be suitably resourced for purpose.

Importance of catering to the middle band of businesses

It has become increasingly evident that medium sized businesses are under catered for within the enterprise support network. Business Gateway has effectively targeted business start-ups, whilst the account management programme offered through SE has proved successful. SCC believe there are missed opportunities to develop established, yet mid tier, organisations to new levels of growth. The Business Mentoring programme delivered by SCC is one such initiative that effectively assists and grows Scottish business. Such a programme can be considered a framework and example of best practice for helping this category of business.

International trade

It is largely agreed that recovery from recession should be export-led. As such, policy on exporting support needs to be better integrated between various trade support organisations and the Scottish Government. SCC would argue that the government needs to improve access overall to international trade support programmes which includes new, small scale exporters.

Initiatives such as Intelligent Exporter and Chamber-led Smart Exporter programmes should be considered examples of best practice and replicated to effectively assist higher numbers of Scottish businesses.

Equally, the Export Credit Guarantee system requires a review as it is seen to stifle risk-taking in new start-ups. Access to trade credit and credit insurance still remains an issue as companies find it difficult to pay for or receive goods.

Finally, a greater push to increase the exporting of Scottish business services would be valuable to the economy and assist with diversifying away from manufactured based products. The sector currently accounts for £2.3 billion and is amongst Scotland's top five exports.



Skills for our Future



Scotland has long been a world leader in delivering skills and qualifications. However, despite our successes, we need to ensure we continue to provide and support the right skills and expertise that will contribute to the growth of our economy.

For this reason we believe the skills agenda must be demand-led and more employer-focused. It should be informed by business and reflect its needs.

Skills development in Scotland should be business-led

In order to ensure we are producing the right type of skills, it is crucial that employers' needs are at the heart of the skills agenda. Skills policy and Scottish qualification strategies should be based on sound industry intelligence and a proper understanding of the labour market. Ongoing consultation with business and its representative bodies is essential if we are to ensure that skills policy is to be truly industry and demand led.

There should also be greater collaboration between business organisations/employers and skills bodies such as Skills Development Scotland (SDS), Scottish Qualifications Authority (SQA), Scottish Credit and Qualifications Framework (SCQF), Alliance of Sector Skills Councils (ASSC) and the Scottish Funding Council (SFC) to provide recommendations as to the right skills mix which, from a business perspective, is needed for the Scottish economy to flourish.

It is vital that funding is directed at future need rather than past performance.

Parity of esteem between academic and vocational qualifications is needed to reflect the true needs of society in general and business in particular.

Scotland is currently faced with too many graduates and not enough jobs. This again highlights the importance of focusing courses (at both college and university) based on industry needs, and a reconsideration of the type of career guidance issued to our school leavers: for instance, university is not the only option. There should be a more general collaboration between Further Education (FE) institutions and local employers on the required skills needs and training.

This happens with certain colleges but the picture is mixed and there is a need to promote best practices where it does happen and develop areas of expertise. Employers should be at the heart of skills needs and greater interaction between business and FE is essential. Also more qualifications offered by FE should be formally accredited and available on the SCQF to ensure full recognition of all learners' achievements at a national level, ensuring transferability and credibility.

In Higher Education (HE) there is an even greater need to ensure that curriculum development and courses offered are developed in conjunction with employers to ensure their relevance, credibility and currency in terms of up to date business practices.

One option is that all courses should require to demonstrate linkage to National Economic Development goals in order to access public funding.

We support in principle the introduction of the Curriculum for Excellence (CfE) and its overall objectives, however, it is necessary that business is involved directly in its development and is present on any strategic management boards or groups, i.e. not just in its roll out but in shaping it as it develops.

SCC recommend a formal committee be established comprising the leading business member organisations to help direct the Scottish Skills Agenda. This should help consolidate the current variety of skills committees resulting in cost savings and more joined up thinking.

The issue of work-readiness

A lack of what is termed 'work-readiness' skills is a recurring complaint from businesses Scotland wide. Whilst it is acknowledged that technical competencies must be developed, we argue that softer, core skills such as working effectively with others, customer care handling, planning and organising, decision making, problem solving and sales skills are equally essential to producing well rounded and 'work-ready' graduates.

By developing and encouraging softer skill sets, new employees are able to start contributing to the organisation far sooner – resulting in an increase in productivity. Productivity amongst Scottish workers is currently two percent behind the UK national levels. A rise of just one percent in Scottish productivity equates to an increase of approx. £1 billion in GDP.

SCC is working hard to improve the work-readiness of students through our commitment to the work placement initiative Education into Enterprise - a collaborative project between business, colleges and universities across Scotland.

We stress the importance of work placements within college and university courses and recommend they be embedded into more, if not all, FE and HE courses to allow for valuable practical experience. It is also vital that international placements are part of the curriculum to ensure international best practice policies are adopted and embraced.

Skills funding

Provide a one-stop-shop for skills funding

Whilst we welcomed the formation of Skills Development Scotland (SDS) in 2008, we believe the skills funding landscape remains cluttered, complex, and confusing to employers, especially SMEs. Scottish businesses are calling for one, united funding agency – ensuring a concentration of resources and expertise –that provides clear and accessible funding opportunities to both public and private sectors. We would also like to investigate new funding models and look at public funding being paid directly to employers who in turn will look at “buying” the best and most appropriate training for their and their employees' needs.

Funding flexibility

The Scottish Government has been successful in offering various incentives to up-skill or retrain employees. SCC believes, however, that there should be more discretion and flexibility with regard to how skills funding is utilised by business. Specifically, we ask that funding be more closely targeted to priority areas, and include flexibility to allow for quick response times and, for example, all age funding and a stronger focus for SMEs. Scotland has

a proud academic tradition and our universities must continue to play a key role in delivering high level skills and contributing directly to our economic success. A range of funding options to ensure the future success of the sector must be considered, including a greater student contribution towards the costs of education.

All public funding for skills and training should be driven by Scotland's skills strategy and linked quite clearly to our economic development plan. If, outside of this, universities for example wish to offer courses not linked to the Skills Plan then should funding come from the individual? There needs to be an open debate on this. As a rule, public funding should be attached to the skills plan and economic development objectives.

Importance of STEM subjects & Foreign Languages

Scotland's ranking in maths and science has fallen near the bottom of OECD countries and despite Scotland's higher per pupil spend attainment levels have flat-lined since devolution. If Scotland intends to compete globally and develop its science and technology sectors, this issue needs immediate attention.

SCC suggests better integration between Scottish Government, Skills Development Scotland, Scottish Funding Council and other public agencies e.g. Scottish Enterprise and HIE to promote science, technology, engineering and maths (STEM) subjects along with their related careers. Schools should also play their part by focusing on developing maths and science skills from an early age – there is a need to ensure that this is a core aspect of CfE.

If export markets are key to recovery and global competitiveness, then self-evidently more willing and able users of foreign languages are vital to leading our export endeavours. The value of modern languages needs to be imparted at primary level so that when curriculum choices are being made at S2 this is seen as a positive step forward.

Migration cap

The SCC network has raised concerns over the potential negative impact felt by the imposition of recent caps to migration limits. To date, businesses have already experienced the effect of the temporary cap, which has resulted in some difficulties in attracting appropriately skilled workers. It is expected that these limits will have serious consequences on key Scottish sectors such as oil and gas and tourism. We argue that the UK requires a flexible approach to the implementation of the annual limit which takes into consideration the requirements of every part of the country, including Scotland's particular labour market needs. The UK's immigration policy requires a holistic approach reflecting the requirements of every part of the country.

Connecting Scotland



All businesses need to be connected to markets and suppliers and Scotland's transport network plays a vital role both in the success of our existing businesses and in fostering new business development. Start-up businesses find it easier to take root in a connected business environment, our freight and logistics sector relies on connectivity, whilst excellent transport links are a key factor influencing inward investment decisions. Transport is of further importance to business as it affords access to employment opportunities, education and training and facilitating tourism in our country.

Scottish Chambers of Commerce welcomes the investment that has taken place in our transport network over the past twelve years of devolution. From road projects such as the M74, M77 and M80 to the significant extension of our rail network in Stirling-Alloa-Kincardine and Airdrie-Bathgate, there have been significant steps forward. Added to this have been key improvements to existing routes such as the investment which has taken place on the A9 and the re-opening of stations such as Laurencekirk.

There is ample evidence to demonstrate that connected economies are successful economies and it is vital that Scotland continues to invest in our infrastructure if we are to maximise our economic potential. Ongoing

projects such as the Forth Replacement Crossing are vital for Scotland and we must act proactively by investing in projects such as High Speed Rail in order to secure Scotland's competitive advantage long into the future.

It is now nearly five years since the publication of the Scottish Government's National Transport Strategy. This was a sound foundation for future transport policy which now requires to be revised alongside the Strategic Transport Projects Review against the need to produce a long term costed and funded plan for future transport investment in Scotland.

We need to move from an unfunded wish-list to a committed, resourced, timed and planned programme.

Roads

Scotland's road network has many similarities to the circulatory system that keeps the human body working. Our large arterial routes serve and connect many smaller links right across Scotland, taking traffic to and from our nation's extremities as well as serving the huge transport needs of our major cities. However like the human body, any blockage or bottleneck in our transport system can lead to serious problems for the network as a whole.

The economic realities of falling public expenditure, and in particular capital budgets, will mean that during the next Scottish Parliamentary term, politicians will require to be extremely circumspect in committing to future road projects. The priority must be to tackle bottlenecks in the system to ensure the overall health of our transport network and to ensure the best possible economic return on investment.

In this context, Scottish Chambers of Commerce welcomes the continued commitment of successive Scottish Governments to the Forth Replacement Crossing scheme. This vital bridge will secure connectivity for the east and north of Scotland and it is essential that the project is delivered on schedule. This is an expensive commitment but its importance to Scotland cannot be overstated.

The cost of this essential project will mean that the capital pot for other projects will be limited and this will require both careful selection of new project commitments and a full exploration of other funding sources. Other essential road projects include:

- Aberdeen Western Peripheral Route
- Upgrade of Inverness Southern Distributor, linking A82, A9 and A96
- A9 Safety Improvements
- A96 Safety Improvements
- A82 upgrade north of Loch Lomond
- A77 Upgrade Between Ayr and the Galloway Ports
- Improved M8/A8 access to Inverclyde ports.

In addition, the Scottish Government should work with the UK Government to ensure that important cross-border routes, such as the A1, are improved south of the border.

Key recommendations:

- Construction of the new Forth Road Bridge must be prioritised and delivered on schedule.
- The new road traffic powers proposed for the Scottish Parliament under the Scotland Bill need to be extended to allow the Scottish Government to increase the HGV speed limit for single carriageway roads from 40mph to 50mph in order to ease congestion and improve fuel efficiency.
- Facilitate the attractiveness of public transport options through the creation of high occupancy vehicle lanes.
- Work with the UK Government to highlight the problems that the high price of fuel is causing to Scottish businesses and to find solutions that recognise Scotland's particular circumstances.

Rail

The recent welcome expansion of Scotland's rail network must continue to be developed. Our railways are important for the movement of both passengers and freight and provide a vital link between communities across the country. The key goals for future investment must be to reduce journey times, particularly between our key cities, to extend the reach of the network and to invest in further electrification.

On a cross-border level, the Scottish Government must work closely with the UK Government in working to create a truly national High Speed Rail network across Britain. The establishment of High Speed connections between Scotland, London and key English regional cities would greatly enhance transport options to and from Scotland and would deliver a significant economic boost. At the same time, existing conventional rail services along the East Coast and West Coast main lines must continue to be supported.

The problems of the infamous 'Carstairs curve', the need for a bridge across the Dornoch Firth, the provision of adequate rolling stock and other bottlenecks in the government and Network Rail remit should be prioritised for investment.

Government has successfully worked with businesses to encourage a shift of freight from road to rail and this has brought many benefits. For example, the transfer of supermarket freight between the Central Belt and Inverness has removed large numbers of HGV journeys from the road and this has contributed to a perceived improvement in traffic congestion on the A9 trunk road.

Key recommendations:

- Completion of the Edinburgh-Glasgow Electrification Project.
- A reduction in journey times from Inverness and Aberdeen to the Central Belt to two hours.
- Improvement in frequency and journey times on Perth-Edinburgh service.
- Completion of the Borders Rail Project with a full plan in place for the utilisation of Tweedbank as a Borders transport hub.
- Full integration of the rail network into other transport modes, including directly linking into our air and sea port facilities.
- A clear programme to bring High Speed Rail to Scotland.

Air

Air transport is vital in linking Scotland both nationally and internationally. Over the past decade, Scotland has increased its number of direct air services linking us with destinations at home and abroad and our airports have grown in terms of the number of passengers using them. Scotland's airports now carry some 22.5 million passengers per year and are an essential asset to our economy.

In order to maximise future business success in Scotland, it is important that our businesses seek to internationalise and the development of our direct air links and links to hub airports are important in facilitating international trade opportunities. The Scottish Parliament has helped in the past to make real progress in this area through the application of a Route Development Fund. We would urge that a new model of such a scheme is implemented.

Many businesses are concerned at the disproportionate impact of Air Passenger Duty on travel to and from Scotland. With six million passenger journeys made by air between Scotland and London each year, our nation relies more heavily on air transport than any of the English regions. SCC had welcomed the Commission on Scottish Devolution's recommendation to devolve Air Passenger Duty (APD) to the Scottish Parliament but this proposal is absent from the Scotland Bill. The UK Government are currently considering regional variations in APD and SCC would welcome a favourable rate for Scotland, reflecting the importance of air transport to our economy.



Key recommendations:

- **The Scottish Government should reinstate an Air Route Development Fund.**
- **Scottish airports should benefit from a lower rate of Air Passenger Duty.**
- **Scotland's airports must be more fully integrated into our road and rail transport networks.**
- **The reduction in air routes between Scotland's airports and London Heathrow is potentially damaging to Scottish business. Efforts must be made to secure slots for domestic air travel.**

Sea

As part of an island grouping, Scotland relies heavily on sea transport for the movement of goods and people both domestically and internationally. Annually, Scotland's ports handle 102 million tonnes of freight and 10.5 million passengers. Alongside lifeline ferry routes to Scotland's many island communities, Scottish ports handle large volumes of freight and key ferry ports link Scotland with Northern Ireland and other North European nations.

In addition to passenger and freight links, Scotland's attractiveness as a port of call for cruise liners should be encouraged and the tourist industry benefits fully exploited. New external ferry routes- such as to Scandinavia and the Baltic States should be explored and encouraged.

Scotland's ports can play a full role in the expansion of renewable energy, particularly in the field of offshore renewables. We call for swift investment in the key ports for this from the Scottish Government's renewables development fund.



Key recommendations:

- Scotland should establish a Freight Route Development Fund to facilitate new trading links.
- The planning system must recognise the strategic role of our ports in developing Scotland's renewable energy potential.
- Scotland's sea ports require to be fully integrated into the wider transport network.

Broadband Revolution

In a 21st century economy, digital connectivity is equally as important as transport connectivity. This connectivity is not an end in itself. It acts as a catalyst for expansion in the business base and the growth of individual businesses.

It is vital in facilitating other social and economic objectives such as anchoring businesses, skills and people in geographically remote or rural areas. Since devolution, Scotland has made significant progress towards extending the penetration of broadband availability throughout the country but much work needs to be done in order to bring broadband quality up to a higher standard. Although this is a reserved function administered by Westminster, the devolved administrations in Northern Ireland and in Wales have both contributed funds directly to add to the central funding. This has not been the case in Scotland.



For rural areas, the immediate priority is to extend the reach of broadband. A large number of businesses across Scotland are still unable to access a reliable broadband connection and that is unacceptable in a modern, developed nation. A variety of ways exist in order to access broadband and these need to improve in availability and quality in order to meet the needs of business. For example, mobile broadband in the UK currently has a comparatively low theoretical download speed of 14.4Mbps – around half the speed available in Germany, Italy or the USA and trailing far behind the 100Mbps available in Sweden. In terms of fixed line broadband, we are not remotely in sight of the 1Gbps being installed in South Korea, whilst the average local system in the UK is lucky to actually deliver 4Mbps. The difference is 250 fold.

In terms of overall broadband quality, the UK is once again trailing our key competitors. Whilst our overall performance levels are good enough for most of today's basic needs, we are unprepared as a nation to meet the needs of tomorrow, including visual networking, HD video streaming and



large file sharing. For these needs, we need to treble our actual download speeds to 11.25Mbps, increase upload speeds from 1Mbps to 5Mbps and reduce latency from 95ms to 60ms – all by 2014. 14 countries have already beaten us to this goal, including Germany, Denmark, Finland and the Netherlands, so our target must be to leapfrog these nations and aim for the top in terms of digital communications.

Even in a UK context, devolved administrations in Wales and Northern Ireland are finding ways of investing in their broadband infrastructure. The Scottish Government must be even more ambitious in this regard.

Key recommendations:

- Governments in Scotland and the UK must work together to set an ambitious goal for the reach and quality of broadband in Scotland and act to make this happen.
- Ultimately this requires a commitment to lay a fibre optic network throughout the country.
- The planning and regulatory environment should facilitate broadband roll-out and encourage competition in the marketplace.
- Minimum download speeds in Scotland should be targeted at 100Mbps by 2020.

Powering the Recovery



Scotland has a wealth of energy resources ranging from oil and gas, forests and peatlands, coal, water, and wind - each of which has contributed to driving the Scottish economy. In addition to these indigenous resources, we also have a long history of commercial nuclear power generation dating back to 1959. However, as we move into this new decade, significant challenges now face Scotland and the energy industry.

The declining levels of North Sea oil and gas suggest our economic and resource dependency on this commodity must be reconsidered. Additionally, electricity generation stations are nearing the end of their life cycle and ambitious carbon reduction targets contribute to the need to rethink the energy agenda. Our priorities for our future energy supply are that it should be:

- Secure
- Affordable
- Efficient

The energy mix

With regulation mandating strict reductions in greenhouse gas emission (42% by 2020 and 80% by 2050), the debate is on as to what the future energy mix should look like and how it can be achieved.

According to the Garrad Hassan models (Low Renewables Case), a realistic projection of the energy mix leading up to 2020 and beyond should include:

Thermal (Coal and Gas): 6GW

Nuclear: 1GW

Renewables (mostly onshore and offshore wind): 13GW

This totals 20GW of installed generation capacity for Scotland, of which 65% is renewables.

The Scottish Government has revised renewables production targets to meet 80% of demand by 2020. This target may be challenging, and even to achieve the Garrad Hassan Low Renewables scenario requires a number of uncertainties to be turned into certainties:

- Approximately 8GW of additional renewables capacity, mainly onshore wind (5GW) and offshore wind (3GW).
- Grid upgrades including the interconnectors from the Northern and Western Isles as well as the Hunterston-Deeside and Peterhead-Humberside links to ensure that the generation has access to the markets to meet target dates.
- For effective realisation of export potential, grid upgrades are also needed in the English Midlands.
- Continued support, without political uncertainty, of the ROCs system.
- A planning regime, onshore and offshore, that will deliver the projects.
- Confidence that in the longer term untried Carbon Capture and Storage will allow continued thermal generation as part of the mix.
- Renewable generation has to be affordable enough to remain within the existing banding system: wave and tidal and offshore wind costs are not fully understood.
- Grid charges have to be equalised across the UK.

There remains a need to secure baseload capacity. With many Scottish power stations due to be decommissioned between 2015 and 2023, this will be a real challenge over the coming decade. Scotland must be positive towards the construction of new build nuclear generation as a means of supplying this baseload power.



Production / Generation

In order for the above to become a reality, there needs to be a focus on the entire renewable energy industry. We need to maximise opportunities in research and development, manufacture and fabrications, office and administration and the ongoing maintenance of infrastructure.

Scotland is progressing with its onshore and offshore wind initiatives with offshore generation passing the 1GW capacity mark. However, England and Wales are ahead on installations in shallower waters and Sweden, Denmark and France are also way in front. Scotland needs to consider the implications of this on its national competitiveness and energy export potential.

The importance of other renewable technologies such as tidal and hydro should not be overlooked as viable contributors to the energy mix. Both sources are plentiful in Scotland and guarantee supply. Scotland has approximately 70 years experience in hydro electricity.

Scotland must be realistic in looking at the costs of renewable electricity. Estimates of the costs of offshore wind have risen from £1.5m/MW in 2008 to £2.8m/MW in 2010 to £3.1m/MW today. This will have direct implications for future energy costs. We will also require to invest further in technology for the storage of renewable energy, such as hydrogen.

The Case for Nuclear

The cost of electricity has risen for the consumer significantly over recent years and is expected to rise again by around 60% in the near future. Whilst there is a heavy focus on developing renewables as a method of meeting the emissions targets, the cost to domestic and business consumers remains an issue.

At present, the cost per unit of renewable energy is well above fossil fuels and nuclear power (approximately double). Whilst the Renewable Obligation Certificate (ROC) payments may help with this, the rising costs for businesses throughout a period of austerity may result in a lack of adoption.

SCC argues that Scotland should be open to nuclear as a viable energy source, based on the grounds of cost, time to market and low emissions. Such a position is supported by the Department of Energy and Climate Change (DECC) report published in June 2010 and the Royal Academy of Engineering nuclear seminar held in 2007. Given the timescales involved, this should be a priority for the Scottish Government.

Importance of Supporting Infrastructures

SCC believes there should be ongoing, 'joined-up' thinking on infrastructure and planning issues between Scotland and the UK. Failure to meet infrastructure requirements will impact heavily on Scotland's competitiveness and may cause multinational manufacturers to relocate.

Ports and Harbours:

The infrastructure, particularly in ports and harbours must be ready to address wave, tidal and offshore wind. There are examples of English offshore projects that have been constructed and supported entirely from mainland European ports with no involvement from the UK. It is imperative we do not let this happen in Scotland. Recent announcements regarding port and harbour improvements are a step in the right direction, however, we need to ensure that the Scottish Government and its agencies continue to make this a priority.

Additionally, we need:

- Effective transmission systems for electricity without which generation is pointless. This includes strengthening cross border capacity.
- To build additional pylons to manage energy distribution.
- An energy grid between the UK and Continental Europe.

Connectivity to National Grid:

As more energy sources become available, they will need to be connected to the Grid.

Current Grid capacity is around 50GW average with capacity to peak at ca. 70GW.

In order to accommodate the shift to electrical energy usage produced by new technologies there must be a major reconfiguration of the Grid design and its capacity. At present, the grid is designed to supply centrally generated electricity to Scotland's extremities. In an era of expanding renewable opportunities, the grid must be designed to cope with the reverse.

Specifically, Scotland requires Grid upgrades including the inter-connectors from the Northern and Western Isles as well as the Hunterston-Deeside and Peterhead-Humberside links to ensure that energy generated has access to market and meet target dates.

Skills:

Industry skills shortages are central to the entire energy debate. A dearth of engineers is a major concern to productivity and the achievement of energy targets. The Royal Academy of Engineering predicts that meeting the demands of grid transmissions alone will require approximately 900 electrical engineers by 2014. SCC believes it is essential engineering as a career is marketed to improve its desirability and that such marketing should not only target school leavers, but also primary and early secondary school students.

Heat

It is important for Government to pay specific attention to the provision of heat as a component of its overall energy strategy. There are numerous innovative solutions which could make heat more affordable for the business and domestic consumer and help reduce the consumption of fossil fuels in the supply of fuel for heating purposes.

In addition, there are significant employment opportunities in the provision of heat solutions which could involve only a modest upskilling of existing skillsets.

Scotland has different needs in terms of heat from the rest of the UK and specific solutions may be needed for our particular climate and geography. This is particularly true of island communities. The use of waste heat from generation activities has hitherto been a missed opportunity.



Oil And Gas

The oil and gas industry is Scotland's largest export sector. The industry contributes £40 billion to the UK balance of payments, provides over 450,000 jobs and accounts for over 30% of the investment made by the UK's production and manufacturing industries. However, activity in the UK Continental Shelf (UKCS) has slowed and business confidence is fragile. If investment into the UK North Sea is not sustained, up to 15 billion barrels of reserves could be left in the ground, negatively impacting both the UK balance of payments and energy supply. It is critical that government encourages investment in Scotland's oil and gas industry to retain its position as European oil capital.

Businesses operating in the North Sea oil and gas sector are among the most highly taxed in the country, and the current regime does not reflect that the industry is now in decline. SCC argues that such shifts be reflected by tax reform. Government should encourage the development of new smaller fields and continued production of mature depleted fields. A fifth of the UK's remaining gas resources lies in the West of Shetland Province and requires a £2 billion investment to bring it ashore. This will ensure that the UK's primary energy needs will be met for future decades.

Decommissioning of infrastructure is an area for major economic opportunity. The Royal Bank of Scotland puts the figure to deal with around 450 offshore structures by 2030, at between £15bn and £20bn. SCC argues that the UK and Scottish Governments should be open to a range of environmentally sustainable options put forward by Scottish industry. This would allow Scotland a competitive advantage over competing decommissioning initiatives.

Key recommendations:

- Businesses operating in the North Sea oil and gas industry are among the most highly taxed in the country. With the industry now in a mature phase, the tax burden must be reduced.
- Government should encourage the development of new smaller fields and continued production of mature depleted fields. SCC believes investment to drill such fields needs to be encouraged through relevant tax incentives.
- Decommissioning of infrastructure is also an area for major economic opportunity. SCC argues that the UK and Scottish Governments should be open to a range of environmentally sustainable options put forward by Scottish industry.
- UK and Scottish Governments needs to recognise the importance of anchoring the oil and gas industry supply chain to Scotland given that oil and gas resources are depleting and the tendency will be for businesses – local and foreign – to migrate to other regions. This should be encouraged by fiscal policy.
- Investment in developing technical staff and graduate engineers is considered critical for the future prospects of the oil and gas industry in Scotland. SCC suggest suitable partnerships be developed between public and private enterprise to ensure appropriate supply of skills for the industry for now and the future.

Welcoming the World

The Scottish tourism industry employs more than 8% of the total workforce and contributes £4.2 billion to the Scottish economy. Further analysis puts this figure at closer to £11 billion when supply chains and day visitors are included. As such, the significance and importance of this industry should not be underestimated, and is a key sector for continued economic growth. Within this context SCC argue the focus of Visit Scotland and its related bodies should be – in addition to its marketing remit – assisting the industry to *grow*.

Confusion over supporting institutions

Scottish businesses have voiced concern over the fragmented representation of the tourism industry across the country with continued uncertainty over what the various public sector agencies do - in particular the role of Scottish Enterprise versus the role of VisitScotland. There is currently a perception within the industry that the two agencies are competing rather than working for a common goal. There are also complaints that business feels the Scottish Tourism Forum (STF) is not sufficiently representative and requires greater buy in.

After a period in which private sector frustration with leadership of the industry was palpable, business leaders in the industry are now working closely with industry bodies and with VisitScotland to inject some fresh thinking into the national strategy for tourism. The Tourism Leadership Group, which has engaged with small, medium and large enterprises throughout the country, including Chambers of Commerce, is introducing new strategies and plans, including Scotland Food and Drink, which will place the customer first and unify the industry with the objective of leading Scotland's economic recovery, generating jobs and supporting communities.



VisitScotland and VisitScotland.com

Out of the total Scottish tourism budget of £100 million, VisitScotland will receive £40 million. It is therefore essential that the agency provides the 'right' resources and support to the tourism industry, and not just see its function as that of marketeer.

VisitScotland needs to support all areas across Scotland and a more localised strategy should be implemented. Local Chambers are well placed to deliver the tourism message and we would recommend a closer collaboration between the Chambers and VisitScotland to help facilitate awareness and drive growth.

Criticisms remain across Scotland of VisitScotland's website VisitScotland.com. In particular businesses note that bookings and enquiries from the site are decreasing, the site is not user friendly, is unable to take direct bookings and is not ranking high in booking engines. Businesses agree it makes sense to have one tourism consumer friendly website for Scotland. However, it needs to reflect the needs of industry by providing the 'right' functions needed to grow their businesses.

SCC recommends VisitScotland consult the views of the industry when looking at new developments for the site. In the current web-enabled world, the consumer conducts more and more business online. It is imperative this tool is not missing the mark.

Staff and training

The tourism Industry in Scotland has always struggled with staffing issues. In many cases the solution has been to employ staff from Eastern Europe or Australia and New Zealand. Such staff are praised for their work ethic and quality of service; however, it remains important to the credibility and authenticity of our tourist offering that a higher level of Scots are recruited into the industry. In order for this to happen, a career in tourism is needed to be given a higher profile and marketed as a legitimate and high status career choice to school leavers and job seekers as is the case in Italy, France and Spain.

Additionally, there is concern that from September 2011, NVQs will no longer be offered full time in colleges. It is expected this will leave a gap in training provision for the industry and limit the opportunities for students preparing a career in food and beverage service. SCC calls for continued commitment to full time training courses for hospitality professionals. It is imperative that the skills required for this industry are not jeopardised by short-term thinking.

Taxes

The tourism industry is particularly hard hit by industry taxes which in many cases have not been thought through and stifle growth. Rises in VAT have undoubtedly damaged the industry and any new taxes must be resisted. SCC argue the often suggested 'bed tax' should be dismissed and that such a tax would be counterproductive to an industry trying to grow.

The Governmental Framework



Planning

The Planning etc (Scotland) Act 2006 was intended to bring the Scottish planning system up to date and ensure that applications could be streamlined whilst affording local communities effective participation in the planning process. It is now five years since this Act was passed but so far there has been little evidence of a heralded culture change within the planning system.

Businesses from many parts of Scotland continue to report slow processing of applications, inconsistent results even within local authority areas and a lack of understanding among planning authorities of the impact of planning decisions on businesses and the economy. Construction is a vital contributor to the recovery and must be encouraged and supported, not disparaged.

This is an area where the Scottish Parliament could make a real difference to the competitiveness of our economy. Priorities for improvement should be in reinforcing culture change in the planning system, providing greater consistency and predictability in the decision making process and action to deal with underperforming planning authorities.



Key recommendations:

- Reduce the number of planning authorities from the current 32 local council areas to 6 large regional planning authorities.
- Introduce private sector representation on to planning authorities.
- More planning services should be contracted out to the private sector.
- Reform of Section 75 agreements, affordable housing requirements and planning gain to more appropriately adapt to changing economic circumstances.



Business Rates

The 2010 non-domestic rates revaluation, and the Scottish Government's decision to abolish transitional relief, has sparked a debate about the ability of our rating system to reflect changing economic and business circumstances through a five yearly valuation cycle. Late announcements of the results of the revaluation and the applicability of reliefs also left businesses with little opportunity to plan for the substantial business rates increases that many of them incurred, whilst there remains unease about the rating system's apparent disincentive to investment. These concerns have been amplified following the threatened introduction of a supplementary business rates levy on large retailers, thankfully rejected by the Scottish Parliament.

At present, business rates is one of only three taxes devolved from the UK Government, the others being the council tax and the tax varying power over income tax. Over the past four years, it has been the only one of these devolved taxes to have increased and, at a time of recession, businesses have been very conscious and sensitive to this. The fact the last the revaluation was based on circumstances at 1 April 2008, at the peak of the market, simply has not reflected the following crash, and the fact that Government did not act to compensate for this has undoubtedly cost jobs and driven some businesses to the brink.

The Small Business Bonus Scheme has been a welcome initiative and has shielded many smaller businesses from the impact of revaluation and the abolition of transitional relief. However this has served to disguise rather than solve underlying issues with business rates and more fundamental reform is required.

Key recommendations:

- The Scottish Government should instigate a full review of the non-domestic rates system with options for future reform.
- In the meantime, the Small Business Bonus Scheme should continue and transitional relief should be restored.

Regulation

Businesses frequently express concerns about the impact of regulation and compliance with regulation on their day to day trade. There is a general feeling that regulations are sometimes put in place without a detailed understanding of their impact – intended or unintended – in particular on smaller businesses.

The Scottish Government's implementation of a Business and Regulatory Impact Assessment (BRIA) should in due course make progress towards addressing these concerns. The BRIA is an important weapon in the battle to achieve culture change in the regulatory process, though it may also be useful to apply it to existing, rather than only new, legislation. Scottish Chambers of Commerce has welcomed the opportunity to participate in the independent Regulatory Review Group and we believe that this body has an important role to play in building a culture of better regulation in Scotland.



Key recommendations:

- The Business and Regulatory Impact Assessment should be developed as a genuine tool for engagement with businesses.
- Regulation should be appropriate to the size of business that is expected to comply.
- Enforcement bodies require to adopt an enabling role to assist businesses in complying with regulation.
- The 'gold-plating' of EU regulation by the Scottish and UK Governments must be curtailed. Government should not go beyond the intention of European regulation by imposing a disproportionate burden on Scottish business.

The Scottish Parliament and the Scottish Government

The late Donald Dewar, Scotland's first First Minister, famously described devolution as a process rather than an event. The past 12 years have proven this philosophy to be correct and the next 4 years will deliver even more powers to the Scottish Parliament as it continues to evolve as an institution.

Businesses have mixed views on this process and in particular on the additional fiscal powers that will be devolved to the Scottish Parliament following the 2015 Scottish Elections. More power does not automatically deliver greater accountability and we are looking for politicians of all parties to develop a platform of policies designed to utilise current and future Scottish Parliamentary powers to stimulate Scotland's economic growth. Scottish Chambers of Commerce believes that this is a prime opportunity to build a competitive advantage for Scottish businesses.

Reducing real terms budgets for the Scottish Parliament over the next four years also provide the opportunity to tackle the overbearing weight of the public sector on the Scottish economy. Government must pare back its functions and interventions to focus on key areas where it can support growth in the private sector, enabling entrepreneurship to flourish and growth in business employment.



Key recommendations:

- The present Scottish Government has defined its purpose as facilitating sustainable economic growth. This must be supported by an annual progress report towards this goal and a clear statement accompanying all Scottish Parliamentary primary and secondary legislation explaining how each instrument will assist in meeting that target.
- The Scottish Government needs to commit to a process of engagement with business.
- Government must focus on its core task of enabling private sector growth in Scotland.

Procurement

Even in the face of significant cutbacks in public spending, procurement of goods and services from the private sector remains one of the most important ways in which the Scottish Government and other public sector bodies can help bolster the Scottish economy and deliver best value for the taxpayer.

Scottish Chambers of Commerce have long argued that cutting public spending does not necessarily have to mean cutting public services. Government must identify what it needs to deliver to the country then set about procuring those services in a manner which best serves its customers and our economy.

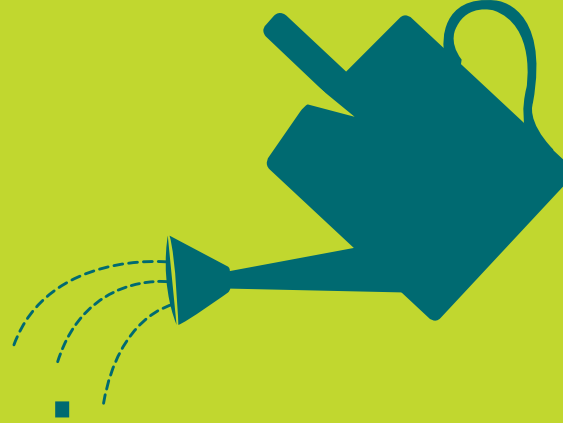
For business, the public procurement process must be simple, transparent and effective. Although Scotland has come some way on procurement over the past four years, there remains a distance to travel and we must get there quickly. Despite the successes of the Supplier Development Programme, many businesses continue to have a perception that public procurement is bureaucratic, impenetrable and geared towards single large scale contracts out of the reach of local businesses. This needs to change.



Key recommendations:

- Establish a single point of entry to all Scottish public sector contracts.
- Publish annual figures on the breakdown of the size and geographical location of all businesses delivering contracts for the public sector in Scotland.
- Design a single PQQ document to enable access to all public sector contracts.
- Ensure that the full economic value of a tender is taken into account during the procurement process, including the value to the local economy of a local contractor and new local skills provision through apprentice provision, education, etc.
- The recommendations of the independent Scottish Supplier Engagement Working Group to improve procurement practice and process must be fully approved and implemented

Speaking with One Voice



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