



**Scottish Parliament Economy, Energy and Tourism Committee**

**Inquiry into Scotland's Economic Future Post-2014**

**Written Response by Scottish Chambers of Commerce  
in collaboration with Aberdeen & Grampian Chamber of Commerce**

## **Introduction**

Scottish Chambers of Commerce (SCC) is the umbrella organisation for 22 local Chambers of Commerce across the country, which has a membership of around 10,500 businesses. These members are businesses of all sizes, drawn from all sectors of the economy, from sole traders right through to large multinationals, and employ over half of Scotland's private sector workforce. Scottish Chambers of Commerce and our constituent local Chambers exist to serve the needs of our members and to represent their interests. Scottish Chambers of Commerce welcomes the opportunity to contribute towards the Economy, Energy and Tourism Committee's Inquiry into Scotland's Economic Future Post-2014.

Scottish Chambers of Commerce is a politically impartial organisation and our remit is to represent the interests of our members. As such, we have not and will not adopt a stance either in favour of independence or in favour of the union. Our approach can best be described as one of 'policy not politics'. We are working to ensure that our members' views on policy issues help to guide the actions of politicians and government irrespective of Scotland's constitutional status and we are also aiming to ensure that our members are as informed as possible of the issues surrounding the constitutional debate in advance of the referendum in September 2014. The network of Chambers of Commerce across Scotland has hosted numerous events bringing together businesses with politicians, academics and others with a view on the independence debate and has sought to make the debate accessible to as many businesses as possible. This is a very welcome inquiry, giving the opportunity for us to highlight in particular some of the issues which are high priorities for business, whatever the outcome of the 2014 referendum.

This submission has been compiled in collaboration with Aberdeen & Grampian Chamber of Commerce (AGCC). AGCC has taken a lead role in the North-east to provide businesses with impartial information on the independence debate and what that may mean for members in the event of a 'yes' or 'no' vote.

## The Context of Scotland's Future

Over the last 18 months there has been wall to wall media coverage on Scotland's future. Increasingly, the businesses that the Chamber represents in this debate are asking for our guidance and insight. How do they factor uncertainty into their planning? How can they inform their staff without appearing partial? What are the business consequences of each referendum result? When will we get some detailed answers on the many questions that we have?

We have been trying to work our way through this challenge with partial success. One of the issues with the current debate is that there is only a 'yes' and 'no' discussion. There is no option of gradual devolution which may in time lead to further change.

It also appears that the 'yes' and 'no' groups are not clearly communicating that Scotland is already different, and will continue to be different no matter the outcome on 18<sup>th</sup> September 2014.

The political nature of the debate presents us with (only) two options, whereas in reality at least six are available for consideration: the current devolution settlement; less of it; more of it, as much as possible of it, a federal UK and independence being the most obvious.

One conclusion we have considered is that the current politically-led approach means that there will be no clear answers to the questions being raised. However, the remainder of our document presents our thoughts, queries and questions and hope these areas are addressed impartially and openly.

Our comments focus on:

- Taxation
- Currency
- European Union
- Planning & Regulation
- Connectivity
- Education and Skills

## Taxation

**In a poll carried out in June 2013, members of the Chambers of Commerce across Scotland rated taxation as the number one policy area where they are seeking more information from politicians in advance of the referendum.** We expect this to be a priority for the respective campaigns.

No matter the result of the referendum, Scotland's fiscal regime must deliver for our businesses and stand as an example to the rest of the world as to how Government can support business.

Currently taxation is principally a matter for the UK Government, with the Scottish Government having responsibility only for Business Rates, the Scottish Variable Rate of Income Tax (never used) and local authority administered Council Tax (frozen since 2007). The sole fiscal change made by the Scottish Government since the 2010 spending review has been to increase revenue from business rates by 22%. The policy of increasing Business

Rates has also been pursued in England and it is partly the fact that additional fiscal revenues have been derived solely from Business Rates in Scotland that has magnified perceptions and highlighted the challenges of having a limited range of tax raising powers. **However, the basket of Scottish taxes is changing and politicians on respective sides of the debate need to detail how Scottish and/or UK taxes can be used to deliver a competitive edge in terms of business operating costs, irrespective of the outcome of the referendum.**

The economic events of the past six years have shown that the basis upon which **Business Rates** are charged, and the duration of the revaluation periods have resulted in Scottish businesses being faced with rates bills (during a period of economic downturn and stagnation), which were based upon the rateable value of their premises at the peak of the market. This is economically damaging. With Business Rates being described by the Scottish Government as a 'pence in the pound' tax rate, in these terms ratepayers are currently paying a baseline tax of 46.2%, rising to 47.1% for larger businesses and 60.1% for those paying the Public Health Levy. These rates are extremely high in comparison to Income and Corporation Tax.

Since 2011, the Scottish Chamber network has lobbied for reform of Business Rates, and there appears to be a growing lobby across the UK for reform of the Rates system. In particular, Scottish members are keen to see simplification of reliefs, re-introduction of transitional relief, improved transparency in the appeals process and increased availability of data. In addition, Aberdeen & Grampian Chamber of Commerce has suggested that Local Authorities are encouraged to retain a higher proportion of their rates due through a strengthened Business Rates Incentivisation Scheme.

**We welcome the commitment from the Scottish Government to consult further on reform of the Business Rates system, however, we are concerned the reform will not go far enough in making the Scottish business environment more competitive. The Scottish political parties must set out what their future intentions are for Business Rates.**

Tax powers are also scheduled to be supplemented by Scottish Rate of Income Tax, Land and Building Transaction Tax and a Scottish Landfill Tax in 2015/16. At the time of the referendum, businesses will not know the effect of these additional taxes. **We call on the Scottish Government to set out as far in advance as possible, what the likely cost implications of these taxes will be on Scottish businesses.**

Depending on the result of the referendum on 18 September, there are a number of potential outcomes for **income tax**. If Scotland votes to become independent, Scotland can choose to mirror the system used in the rest of the UK in terms of rates and allowances, or it can establish its own rates and allowances. While the Scottish Government states its intention to simplify the entire tax system in its White Paper, it does not confirm any specific proposals for income tax.

Meanwhile, the outcomes facing Scotland in relation to income tax if it votes against independence is the status quo; with a measure of income tax becoming devolved in 2016, or it could be fully devolved. Devolution of income tax in particular could have a significant impact on businesses. **We urge all politicians to spell out the changes they would make to Income Tax to make Scotland a better place to do business. Politicians must be clear on how they would use Income Tax to benefit Scottish businesses, whether or not Scotland is independent.**

There has been considerable debate regarding whether or not **Corporation Tax** could be devolved to Scotland. In the case of independence the question becomes one of how Scotland could use it to our advantage. Our members ranked corporation tax third in the variety of taxation issues which have an impact on business, behind general business taxes and Income Tax. While the Scottish Government has already committed to a post-independence rate 3% lower than the UK rate, and the UK Government is making moves towards a low Corporation Tax economy, there has been little recent discussion of the prospect of devolving the tax to Scotland should Scotland vote no to independence.

**We need more detailed analysis of the short, medium and long term effects of all the potential outcomes for Scotland on Corporation Tax rates.**

We also ask that both sides of the debate address **Air Passenger Duty (APD)**, which could be devolved in the absence of a 'Yes' vote and could be used in connection with other areas of devolved power such as tourism, inward investment and route development support. Scotland could benefit from control over taxes such as APD which complements existing devolved powers. **We welcome the Scottish Government's White Paper commitment to reducing then eliminating APD. We call upon the pro-Union parties to commit to full reform of APD across the UK or, if this cannot be done, to devolve control over APD to the Scottish Parliament.**

## **Oil and Gas**

It is very important that this inquiry considers the future of the oil and gas industry given its significant contribution to the Scottish economy. The oil and gas sector has also been a focus of the respective referendum campaigns.

The industry, no matter the result of the referendum relies on a stable fiscal and regulatory environment. AGCC's Oil and Gas Survey has shown that stability (or instability) has a knock on effect on confidence and activity levels on the UK Continental Shelf (UKCS).

The Scottish Government has indicated that it will adopt the same regulatory system used in the rest of the UK, however, we would welcome clarity about whether the Scottish Government will adopt the same approach if the recent recommendations from the Wood Review are implemented.

Research conducted by EY, in partnership with AGCC showed that a majority of oil and gas businesses expected the industry to become more regulated in the event of a Yes vote so we believe that the Scottish Government must be clear about its intentions for the regulation of the industry. We would also urge the UK Government to urgently clarify whether it will implement the recommendations of the Wood Review.

As the UKCS becomes a more mature basin, it is also important that the taxation of the sector is appropriate to maximise recovery of the remaining reserves. The Chamber welcomes the establishment of the Fiscal Forum by the UK Government to undertake collaborative work in relation to the future fiscal regime but members are concerned that future taxation changes will make the UKCS unviable for extraction.

We also welcome the clarity given in the Scottish Government's White Paper which states that they have no intention to increase the tax burden on the industry, but further

information is needed on how they will approach decommissioning and other allowances if Scotland becomes independent.

It is worth reiterating that to date the debate on taxation has not outlined all the potential options fully, these are presented below:

- Taxation, with the exception of taxes currently devolved to Scotland and the additional taxes set out in the Scotland Act 2012, continues to be the responsibility of the UK Government.
- Following implementation of the new Scotland Act, in future years further tax powers (such as income tax) are devolved to Scotland and others continue to be reserved to the UK Parliament.
- Scotland becomes fiscally autonomous from the rest of the UK.
- Scotland establishes its own taxation system, which has parity with the tax system in the UK.
- Scotland establishes its own taxations system, which is entirely different to the system used in the rest of the UK.

## Currency

A central economic issue in an independent Scotland is **currency**.

The economic implications of this are wide ranging - it affects trade, fiscal policy, monetary policy and financial stability, and therefore has far reaching consequences for economic policy. If the outcome of the referendum vote was in favour of independence, Scotland would enter into a process of transition.

The SNP has indicated its intention to continue using the pound-sterling as the currency in an independent Scotland. However, upon implementing independence a new economic governance structure would be required including a 'new relationship' with the Bank of England.

This new structure has significant implications for both an independent Scotland, and the remaining part of the UK. **The rest of the UK is Scotland's number one trading partner, accounting for £47.6 billion of exports in 2012. Whether Scotland becomes independent or remains within the Union, the best solution for business would be to maintain sterling as our currency.**

The formalisation of a Sterling zone, with a single shared central bank would require a joint governance structure, with monetary policy decided under this structure. Monetary policy decisions are currently decided by the Monetary Policy Committee (MPC). An independent Scotland would require formal representation on the MPC in order to safeguard its monetary interests.

It is important to point out, with this issue in particular, that the final outcome following a Yes vote would be subject to negotiation with the UK Government. As such, it is possible that the favoured position of the Scottish Government, which people base their voting decision on, is not the actual outcome come independence if negotiations fail. **As such we call on the UK Government to clarify how it would approach negotiations on this issue.**

It will also be important to outline how decisions taken by the Bank of England in the event of a currency union might impact on an independent Scotland – we do not feel that has been made clear to date.

We believe that to date the debate has not covered all the potential options for the future fully, these are presented below:

- The current arrangements continue, with Scotland still a part of the UK.
- Scotland remains part of the UK, and the whole of the UK joins the Single European Currency in future years.
- Scotland enters into a currency union with the rest of the UK.
- Scotland continues to use Sterling as its currency, but without a formal agreement in place with the rest of the UK.
- Scotland joins the Single European Currency.
- Scotland sets up its own currency.

## European Union

A survey of member businesses conducted by Scottish Chambers of Commerce has shown that **Scotland's future relationship with the European Union** is one of the key priorities for businesses in terms of the referendum debate in Scotland, and the wider political debate in the UK as a whole. Our members also tell us that they wish Scotland to remain a part of the EU.

It is beneficial to Scottish business for Scotland to be a member of the EU, in order to access the single market, free movement of labour and structural funding which comes with being a member. Scotland, whether the result of the referendum is Yes or No, faces a host of potential outcomes in relation to membership of the EU.

As no other EU state has experienced a similar constitutional change, we can say that no direct comparison can be drawn. However, the Scottish Government clearly has a favoured outcome, which is that Scotland assumes EU membership, and renegotiates whilst a member. **This raises the question of whether or not the opt-outs that the UK Government has secured in relation to some EU legislation or treaties, could be retained if Scotland were to become a new member.**

As with currency, the outcome of a Yes vote would be subject to negotiation and if negotiations were drawn out or difficult, it is possible that the likely outcome which voters are basing their decisions on is not the resultant outcome.

There is also uncertainty facing Scotland's membership of the EU if the result of the referendum is No. The Conservative Party at a UK level has already pledged to hold a referendum in 2017 on the UK's continued membership of the EU should they win next year's UK General Election and this perhaps poses more of a risk to Scotland's membership than even the referendum.

Again it is worth reiterating that to date the debate has not covered all the potential options fully, these are presented below:

- The UK remains a full member of the EU.
- The terms of the UK's membership of the EU is renegotiated, and a referendum is held based on the renegotiated settlement.

- A referendum is held in the UK without renegotiation, which results in the UK remaining in the EU.
- A referendum is held in the UK without renegotiation, which results in the UK leaving the EU.
- Scotland automatically assumes EU membership, with the same terms.
- Scotland automatically assumes EU membership, and re-negotiates terms whilst a member.
- Scotland has to apply to join the EU with the same terms. All EU states agree to membership.
- Scotland has to apply to join the EU and has to re-negotiate terms. All EU states agree to membership.
- Scotland has to apply to join the EU, an EU state vetoes membership.
- Scotland does not join the EU.

## Planning & Regulation

The way in which the public sector deals with powers such as regulation, planning and public procurement directly impacts businesses in Scotland and sends a message to potential inward investors with regards to how business-friendly we are. As the majority of these powers have already been devolved to the Scottish Parliament, these are areas where businesses expect to see a clear path of progress between now and 2017.

The use of planning functions as a tool of economic development must be more agile. Scotland requires a planning system that is quickly adaptable to meet economic need. Planning is an area that is already devolved to Scotland and regardless of the outcome of the referendum, **faster progress must be made to make the planning system more consistent and efficient.**

**Scottish Chambers of Commerce believe that the number of planning authorities should be reduced from 34 to 8, as Scotland currently has too many.** Scotland currently has 34 planning authorities (32 local authorities and 2 National Park authorities) - some of which are poorly resourced and under-performing. Scotland requires a streamlined and cost effective planning system with single, Scotland-wide approach towards the governance of planning applications. Developers should have confidence in a consistent and straightforward planning system, to make planning more business friendly.

Scottish businesses are subject to regulation by all tiers of government from Local Authorities right through to the EU. While Scotland has responsibility for some regulatory functions, for example in relation Scotland's waters and the environment, other regulatory functions, such as health and safety and the conduct of industries continue to be reserved to Westminster.

In the event of a Yes vote, the Scottish Government has already made its preferred outcome for regulation clear in its paper *Economic and Competition Regulation*. However, if the result of the referendum is No there are also implications for Scottish businesses. Over recent years, we have seen gradual reform of the business regulatory environment controlled by the UK Government. In addition, the UK Government has also been progressing a Deregulation Bill and pushing for reform of the regulatory environment at EU level. We therefore think it is likely that further reform to the regulatory environment will take place at a UK level over coming years.

Whatever the outcome of the referendum, businesses need a stable regulatory environment to do business fairly and safely, but without excessive cost burdens. The Chamber network believes that the most effective regulatory environment involves the regulators assisting compliance rather than enforcement. **It is essential that regulators, whether in a new regulatory structure within an independent Scotland or within a reformed environment within the UK, are adequately resourced to deliver this support.**

## Connectivity

Scottish Chambers of Commerce believe that the most effective way in which the Scottish Government can support long-term growth in Scotland's private sector is to ensure that capital investment is maximised and that the focus of this spending should be on **enhancing connectivity within Scotland and to link Scotland to foreign markets.**

**Transport policy must recognise the economic importance of our road, rail, air and sea networks.** Scotland's businesses have welcomed a series of investments made in our road and rail networks but more needs to be done, including increased funding for cross border routes, particularly the A1 in England in order to facilitate cross border travel and trade.

New transport routes must also be future-proofed to meet demand. A lack of capacity is resulting in congestion at key points on the road network and if unaddressed will have an economic cost.

Creating capacity in the rail network is also essential to provide improved services. A number of key rail routes require to be upgraded if passenger growth and needs are to be accommodated. For example, single-track sections of the main lines connecting Inverness, Aberdeen and Dundee with each other and with the Central Belt urgently require to be upgraded.

In terms of air travel, Scotland needs to maximise its domestic and international connectivity, ensuring adequate services linking Scotland with the rest of the UK and a strong focus on international services both direct and through hub airports. We support in principle the High Speed Rail 2 proposals, on the condition that it secures additional air access to Heathrow airport in particular from the North and North East of Scotland which at present are unlikely to benefit directly from HSR.

**Digital connectivity** is equally as important as transport connectivity as it acts as a catalyst for expansion in the business base and growth of individual businesses. Since the turn of the century, Scotland has made significant progress towards extending the penetration of broadband availability throughout the country. Again, the North of Scotland in particular suffers from poor broadband provision, with poor speeds (even within Aberdeen itself) and up to 20,000 properties within Aberdeenshire not able to access broadband at all.

We want to see Scotland become the best performing nation in terms of broadband reach and speed. We support both the Scottish Government and UK Government initiatives which will deliver improvements to broadband provision in Scotland, however, we believe that both government's need to coordinate better with each other to maximise the benefits across the country. **The immediate priority must be to extend the reach of broadband to rural areas and to deliver improved speeds in areas of concentrated business activity.**

## Education and Skills

Scotland's education system has always been distinctive from that of the rest of the UK, with its own management and funding systems and qualifications. In order to grow Scotland's economy our businesses need:

- Parity of esteem for vocational and academic learning.
- An education system that values and nurtures entrepreneurship.
- An emphasis on international skills and experience, so that our young people can support the Scottish economy, including looking into making an international element of study or work a mandatory part of all Scottish university degrees.

**We must challenge the attitude that differentiates academic and vocational learning, preferring the academic and thus discouraging many young people to do what they are best at. Furthermore, we must challenge Scottish businesses to grow, taking advantage of international markets where real growth potential lies.**

Research indicates that work experience speaks volumes to employers. It enables school leavers and graduates to beat the competition to a job, as well as ensuring that they know what they will encounter in the workplace. The optimum model sees students undertake work placements, relevant to their skills and accredited as part of their work course, that also benefit the host business. **Scottish businesses and government must work in partnership to achieve a skills and education system that responds to business needs.** Similarly, an important piece of the jigsaw joining up skills and businesses is ensuring that the best possible intelligence is available about future requirements to influence the advice and funding given to higher education. We must also be conscious of where degree courses can be shortened as well as more flexible.

As well as improving our homegrown talent, we must too, ensure that our rules and structures around **migration and immigration** are responsive to business needs. Scotland's companies need access to the best talent to enable them to compete across the world. Scotland needs migrants with certain skills. The system must be structured to allow employers to judge migrant workers' value and contribution.

If Scots vote yes to independence, this creates an opportunity to design an immigration system that is responsive to the needs of Scotland's economy. The Scottish Government has already signaled its intention to create a points-based system targeted at the needs of Scotland and lower current financial thresholds and salary requirements. **We would welcome further clarity on what agencies will be set up to monitor and process immigration requests.**

Many Scottish businesses are concerned about the politicisation of immigration at a UK Government level, and it is likely that there will be further restriction of the number of migrants permitted to come and live in the UK over the next few years. This will not meet the needs of Scottish businesses. What Scottish businesses need in the event of a No vote is for the Scottish and UK Governments to work together to make sure that business growth and global competitiveness are not inadvertent casualties of an overzealous policy response to concerns expressed largely elsewhere in the UK. **Only by working in partnership with business can policy makers hope to support a culture and a system that will engender prosperity for Scotland and its business community.**

