

# CBI Scotland Submission

## 2023-24 Programme for Government

**“Improving Scottish productivity: Creating sustainable growth is key to Scotland’s economic success.”**



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## **CBI Scotland submission: 2023-4 Programme for Government**

### **Who we are:**

#### ***WE SPEAK ON BEHALF OF EVERY SECTOR IN THE ECONOMY***

There's no organisation quite like the CBI. We speak on behalf of 170,000 member businesses of all sizes and sectors, across every region and nation of the UK. This includes over 1,100 corporate members, plus nearly 150 trade associations. Corporate members alone employ over 2.3 million private sector workers. That's a lot of people with a lot to say, coming together with common priorities and a shared vision, on critical economic and national issues.

### **What we do and why we do it:**

#### ***ENSURING SUSTAINABLE GROWTH FOR THE BENEFIT OF SOCIETY***

We serve as the catalyst between industry and government to drive positive change. We speak for businesses of all sizes and sectors across the whole economy, in every UK region and nation, ensuring sustainable growth for the benefit of society.

# Improving Scottish productivity – Creating sustainable growth is key to Scotland's economic success

## Introduction

Ahead of the Programme for Government announcement in September, this paper looks at ways the Scottish Government can work with industry to help improve economic performance, focusing in on four key areas: decarbonisation; infrastructure and connectivity; labour market activation and productivity; and creating a competitive business environment.

### **Decarbonisation**

The Scottish Government must take Scotland's strengths in energy to develop the green growth sectors needed to deliver the net zero transition. For too long Scotland's potential has been talked about - now decisive action must be taken. Failing to accelerate efforts will see that potential chipped away, as the race to net zero by 2045 draws ever closer.

Scotland has an opportunity to lead in areas such as offshore wind, carbon capture utilisation and storage (CCUS). Examples of where Scotland has achieved this, as mentioned in the [Independent Review into Net Zero](#) by Chris Skidmore, include, The North Sea Transition Deal, ScotWind and the Acorn Cluster. It's time to ensure policies and incentives align so these opportunities can be realised.

The Climate Change Committee report stated "*The Scottish Government urgently needs to provide a quantified plan for how it's policies will combine to achieve the emissions reduction required to meet the challenging 2030 target.*"<sup>1</sup> - business stands ready to work with government to take bold action now, to deliver, so that Scotland can capitalise on new and emerging markets, over international competitors.

The USA and Europe are outspending the UK when it comes to green growth – whether that's on heat pumps, EV-charge points, or carbon capture and storage. While Scotland, and the UK as a whole, may not be able to outspend the competition when it comes to attracting green investment, we can outsmart it. The CBI's recently published report, "[Going for Green: The UK's net zero growth opportunity](#)", estimates that by 2030, a non-exhaustive list of 27 green growth 'prizes' could contribute £37-57 billion to annual GDP alone. Scotland must ensure that it benefits by taking its fair share of the prizes available.

*Scotland must move at pace now to offer targeted incentives and deliver much-needed confidence-boosting measures.*

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<sup>1</sup> Climate Change Committee, 2022 Progress Report, <https://www.theccc.org.uk/publication/2022-progress-report-to-parliament/>

### **Infrastructure and connectivity**

Working with business, industry, and the UK Government, the Scottish Government must ensure that our country's infrastructure is fit for purpose going forward, through improvements to broadband connectivity, sustaining transport infrastructure for both people and goods, and the construction of new homes.

We need to ensure that our country remains connected, to the rest of the UK and the global markets, to enable the growth and success of Scottish business.

*Scotland's infrastructure must support the transitioning economy of the future, whilst also supporting delivery and connectivity today.*

### **Labour market activation and productivity**

We need to do more to ensure our highly educated workforce delivers sustainable economic growth, by focusing on leadership skills, digital skills, green skills, and adopting new technologies to drive workforce productivity and ensure employees can transition into higher paying roles.

*To do this, the government must support long-term investment into re-training and up-skilling opportunities for Scotland's workforce.*

As well as addressing skills and productivity, the Scottish Government should look at increasing participation in the workforce. More than three years on from the start of the COVID-19 pandemic, the way we work, and the way employers and employees approach the workplace has changed. We know that good health is a precondition for economic growth. Without healthy and happy employees, industries' access to a stable and thriving labour market is limited.

In CBI Scotland's 2022-3 'Scottish Productivity Index,' figures show that "Scotland's percentage of economic inactivity due to long-term sickness increased from 29.6% in 2021 to 31.9% in 2021 – up 2.3% in under a year. Scotland's rate is above the UK average of 25.8%. England's rate (24.2%) brings down the UK average while Wales's (34.0%) and Northern Ireland's (34.2%) rates bring this average up"<sup>2</sup>.

*The Scottish Government needs to consider policies that will help those that want to get back into work and ensure that Scotland has a healthy and productive workforce.*

### **Competitive business environment**

Key to Scotland's economic recovery, will be the Scottish Government working in partnership with business. The 'New Deal for Business,' announced by the First Minister in April this year, is a good first step. It is essential policy decisions do not create unintended consequences or barriers to investment.

A clear and stable policy environment is key to building business confidence, which in turn allows for positive investment decisions that lead to sustainable, economic growth.

The Scottish Government must also use the powers it has to make Scotland an attractive place to run and scale-up a business, as well as to live and work. To do this, the government should set out a long-term tax strategy, that considers four key principles, as outlined in

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<sup>2</sup> CBI-KPMG Scottish Productivity Index 2022-23

CBI's recently published, '[Business Tax Roadmap](#)' - certainty; simplicity; proportionality; and international competitiveness.

Firms across Scotland know that by securing long-term, sustainable growth it will help support life opportunities, fund vital public services, and deliver on the Scottish Government's priorities.

*The First Minister now has two and a half years before the next Scottish Parliament election; it's essential that a clear economic growth plan is delivered.*

**Creating sustainable growth is key to Scotland's economic success.**

**By securing long-term sustainable growth, we can support life opportunities, fund vital public services, and deliver on the Scottish Government's priorities.**

# Achieving a decarbonised economy

*A whole system approach, fast action and collaboration will be key to driving Scotland towards a greener future. Creating a policy environment that gives business the confidence to innovate and invest in a low carbon future will encourage more ambitious plans from across the private sector, help unlock trapped investment, and create a race to the top.*

## Scotland needs to stop talking about big ambitions and start delivering against its 2045 net zero target.

### 1. Take a 'whole system' approach to delivering a net zero economy.

- Achieving a net zero economy by 2045 will require all policy levers pointing in the same direction. While the National Planning Framework 4 (NPF4) represents a significant and positive step forward by putting climate change at the heart of decision-making, longstanding barriers within the planning system must be urgently addressed to enable the aims of NPF4 to be implemented on the ground.
  - Planning/consenting remains a key risk to Scotland's green leadership ambitions – the average offshore wind farm currently takes 12 years to deliver and major network infrastructure can take even longer - Beaully-Denny took 14 years.
  - The business rates system should be used to accelerate and incentivise progress in decarbonising buildings. Examples include using rates reliefs to incentivise investments that improve a property's energy efficiency and excluding low carbon technologies, such as solar panels, wind power and heat pumps, from the NDR system technologies.
- The Scottish Government should use the powers at its disposal to create competitive advantage – such as swift planning processes – to attract investment to Scotland by making it the fastest place in GB/Europe to develop critical low-carbon projects.

### 2. The Scottish Government should take immediate action on green growth policies, whilst ensuring alignment with UK Government strategies.

- A rapid expansion and acceleration of electric vehicle charging infrastructure should be delivered through fast-track planning and funding. The measures taken by the Scottish Government earlier this year, to make the installation of charging points in car parks less bureaucratic, demonstrates what can be done. This sort of approach needs to be repeated across the country to deliver a network of charging infrastructure that can meet ambitions set out in Scotland's Climate Change Plan to phase out the need for petrol and diesel cars and vans by 2030. As recommended within the Climate Change Committee Progress report, *"Develop an implementation plan to deliver the Scottish Government's vision for the public EV charging network..."*

*delivering 6,000 charge points by 2026 and approximately 24,000 charge points by 2030”<sup>3</sup>.*

- The Heat in Buildings Strategy has a bold ambition to make homes and buildings cleaner, greener and easy to heat. Retrofitting all residential and non-residential buildings with a high standard of energy efficiency and laying the foundations for low-carbon heating would make a significant contribution to the net zero target, create jobs, and deliver energy savings for households and businesses.

However, a comprehensive strategy does not exist to give policy certainty and clarity, enabling investments to support the development and deployment of energy efficiency technologies. In order to provide this, the publication of the delayed monitoring and evaluation framework for the Heat in Buildings Strategy is needed.

- Any policies should also factor in the UK Government's incentives and regulations to drive improvements in energy efficiency, such as the development for a clean heat market mechanism and the Great British Insulation Scheme. Meanwhile the work of the Energy Efficiency Taskforce can also help to quickly identify barriers and opportunities in driving demand and solutions for initiatives needed on energy efficiency and clean heat deployment for Scotland.
- The development of hydrogen projects and carbon capture and storage will require greater government support and the Scottish Government should prioritise delivery of the projects in Scotland that are part of the UK Government's Energy Security Plan. This includes the CCUS - Acorn project in Aberdeenshire, as well as the recently announced Net Zero Hydrogen Fund (NZHF) projects which includes SSE's Gordonbush project in Sutherland; Scottish Power's Whitelee Green Hydrogen Project, Octopus Energy's Lanarkshire project; Falck Renewables, green hydrogen hub project; and Getech's project in Inverness.
- The development of offshore wind continues to offer investment opportunities in Scotland. With the announcement of the £160 million fund – Floating Offshore Wind Manufacturing Investment Scheme – for projects to build the port infrastructure needed.

### **3. Collaborate and co-ordinate across the UK and with other stakeholders to drive emissions reduction.**

- Delivering a net zero economy in Scotland by 2045 cannot be achieved by the Scottish Government alone. The Scottish Government should work closely with the UK Government to ensure climate change plans are integrated and press the regulators, such as Ofgem, to have net zero within their remit and allow investment in key infrastructure ahead of need.
- The CBI is calling on the UK Government to develop a 'National Plan' for planning, which should be consulted on and developed with industry. The Scottish Government should consider how this would benefit the planning system in Scotland.
  - The planning system in the UK is confusing and inconsistent. This is exacerbated in Scotland with 32 Local Authorities all able to interpret

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<sup>3</sup> Climate Change Committee 2022 Progress Report : <https://www.gov.scot/publications/securing-green-recovery-path-net-zero-update-climate-change-plan-20182032/>

legislation independently. Any national or international company looking to invest immediately has several hurdles in planning, depending on the geography of any project.

- Introducing a 'National Plan' for planning would provide cohesion and consistency across the planning system. The 'National Plan' would be informed by recommendations from agencies such as the National Infrastructure Commissions in both England and Scotland and would support the Infrastructure Investment Plan in Scotland.
- An effective planning system is fundamental to delivering large scale nationally significant infrastructure like offshore wind, solar, and CCUS, and supporting local decisions on low carbon infrastructure. This point was also highlighted within the [Electricity Networks Commissioners review](#) that came out at the beginning of August.
- Planning reforms to unlock green investments should include:
  - Developing mechanisms that enable financial benefits for communities that accommodate critical net zero infrastructure rapidly.
  - Legislating for regular reviews of the National Policy Statements for Energy.
  - Working with industry to modernise and standardise the environmental impact assessment process in the new Environmental Outcomes Report regulations.
  - Ensuring all decision makers in the planning system have a remit or duty to support the transition to net zero.
- Scotland has at its disposal some of the world's leading academics in climate change and sustainability, as well as research departments and university spinouts developing many of the low carbon innovations and technology for the future. The Scottish Government should work with business to leverage that knowledge and expertise as both a force for good, but also as a key opportunity for economic growth and prosperity. An example of where this has worked in the past is the Climate Change Plan Advisory Group that was brought together in response to the Climate Change Committee recommendations.

**“Scotland needs to stop talking about big ambitions and start delivering against its 2045 net zero target.”**

## **KEY RECOMMENDATIONS: Achieving a decarbonised economy.**

### **Scotland needs to stop talking about big ambitions and start delivering against net zero targets.**

1. Take a whole system approach to net zero, with all policy levers pointing in the same direction – starting with the planning system.
2. Use the business rates systems to accelerate and incentivise progress in decarbonising buildings.
3. Rapidly expand and accelerate the roll-out of electric vehicle charging infrastructure and develop a targeted incentive package, for example grant funding to help boost demand for electric vehicles.
4. Publish the delayed monitoring and evaluation framework for Heat in Buildings Strategy.
5. Make every home a green home by retrofitting all to a high standard of energy efficiency and use LBTT to incentivise energy efficiency improvements in homes.
6. Secure and co-ordinate investment in the electricity grid at local level (not just national) to ensure there is grid capacity to deliver the electrification of heat required in our homes.
7. Work with the UK Government to ensure climate change plans are integrated, and to press for regulators such as Ofgem to allow investment in key infrastructure ahead of need.

# Infrastructure and Connectivity

*From gigabit broadband to modern public transport and building new homes, the next generation of Scotland's infrastructure must equip us for a transitioning economy, while supporting delivery and connectivity today.*

## Update and future-proof Scotland's infrastructure to ensure that it delivers for the economy.

### 1. Fast track gigabit broadband for first-class connectivity.

- Digital connectivity is the number one infrastructure priority for businesses across Scotland. The Scottish and UK Governments should work together to deliver a digital revolution that sees gigabit-capable broadband - such as full fibre - rolled-out across all of Scotland by the end of the next parliament.
  - Delivery will require the removal of barriers to the roll-out of gigabit connectivity. Restrictions, such as challenges around accessing buildings with multiple occupants, to deliver new digital infrastructure should be eased at pace, ensuring that future telecoms infrastructure, such as 5G, falls under permitted development.
  - Figures from CBI Scotland's 'Scottish Productivity Index'<sup>4</sup> shows 41% of homes in Scotland are now served by a full fibre connection – just over one million. This is a significant increase of 14-percentage points from 2021 – one of the largest in the UK. However, Scotland remains one-percentage point below the UK average (42%), while Northern Ireland forges ahead with a rate of 85%.
- With changing working patterns meaning more people are reliant on their home broadband for work, gigabit connectivity should be mandatory in new builds. Bringing forward legislation to ensure access to gigabit-capable connections in tenant properties, where providers are unable to gain access to land through written consent, will also help ensure everyone has the digital connectivity needed to work from home, supporting labour market participation and ensuring no community is left behind.

### 2. Recognise the role of the built environment in building a stronger economy and set out a strategy for retrofitting existing infrastructure.

- At this critical juncture, the need for new housing must be recognised alongside the contribution that housebuilding makes to the Scottish economy. Setting a national target of building 25,000 new homes each year across all tenures would set a strategic direction for decision-makers at a local level, generate a much-needed increase in supply and create wider social and economic benefits.

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<sup>4</sup> CBI-KPMG Scottish Productivity Index 2022-23

- Better resourced local planning authorities will be essential to the delivery of any national housing target. Resources must be allocated to local authorities to facilitate faster, more responsive decision-making. In May this year, analysis from the Royal Town Planning institute states, “A quarter of planners left the public sector between 2013 and 2020. Meanwhile, the private sector experienced an 80% increase in the number of employed planners.”<sup>5</sup>
- Scotland's Digital Strategy for Planning is a welcome step forward in creating a planning system with technology and data at its heart. Business would welcome a more ambitious target for achieving the whole-system digital transformation of planning than the current five-year commitment.
- The majority of Scotland's infrastructure today will still exist in 2045, making a focus on resilience essential. A strategy should be developed for refurbishing and repurposing – rather than replacing – infrastructure across Scotland. From switching gas boilers for heat pumps to repurposing road and rail networks, the Scottish Government should package up projects and set out a plan for maximising existing infrastructure that business can support and invest in.

### **3. Use technology to get the most from transport and prioritise connections with key markets.**

- There is a long overdue digital ticketing revolution needed in Scotland with multi-modal fare options to help give customers a better experience and encourage more people to choose greener modes of transport. The focus should be on developing a system that revolves around smart payment structures that give travellers a seamless journey across all modes of transport, at the best possible price.
- While better digital connectivity reduces the need for travel, improved links between Scotland and cities across the North of England presents a significant economic opportunity. For example, linking Glasgow, Edinburgh, Newcastle, Leeds, Manchester, and Liverpool creates an economic area with a population in excess of ten million. Reducing travel times between these major economic hubs would give firms access to a wider range of markets and suppliers and make it easier for firms to get goods and people to where they need to be.
- For many firms that export, freight connectivity to deep-sea ports is vital. Improving rail connections between Scotland and deep-sea ports in other parts of the UK would give firms greater flexibility between using feeder ports in Scotland and accessing main ports directly by train, supporting firms to get their goods to market efficiently.
- Scotland's airports are crucial economic hubs, and the aviation sector is worth £4 billion a year to the Scottish economy.<sup>6</sup> It is also vital to the success of the Scottish Government's existing exporting and inward investment strategies. The Scottish Government has yet to publish its updated aviation strategy, after completing a

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<sup>5</sup> <https://www.rtpi.org.uk/news/2023/may/local-authorities-struggle-as-over-a-quarter-of-planners-depart/>

<sup>6</sup> [Back to business: how aviation can boost economic recovery across the UK](#), WPI Strategy, October 2020

consultation 12 months ago. A clear strategy is required to help support the industry attract new routes to Scotland, assess ways to make greener journeys possible, and continue trials of new technologies – such as electric flights serving the island communities of Scotland. The CBI calls upon the Scottish Government to publish their aviation strategy as a priority.

**“The next generation of Scotland’s infrastructure must equip us for a transitioning economy, while supporting delivery and connectivity today.”**

## KEY RECOMMENDATIONS: Infrastructure and Connectivity

### Update and future-proof Scotland's infrastructure to ensure that it delivers for the economy.

1. Update Scottish infrastructure to ensure it is fit for the future. The Scottish and UK Governments should work together to deliver a digital revolution that sees gigabit-capable digital connectivity rolled-out across all of Scotland by the end of the next parliament.
2. Set a national target of building 25,000 new homes each year across all tenures and deliver additional resource to local authority planning departments.
3. Develop a strategy for refurbishing and repurposing – rather than replacing – infrastructure across Scotland.
4. Transport infrastructure investments should focus on improving connectivity to key markets, including the rest of the UK.

### Invest in innovation and build on the appetite for tech adoption.

1. Simplify the innovation support landscape and increase awareness of organisations such as *Interface* to help to improve business' understanding of the collaboration opportunities available to them.
2. Update procurement mechanisms across government to incentivise innovation adoption, placing emphasis on value, not just cost.
3. Promote the Business Gateway Digital Boost programme to help SMEs reap the benefits of productivity-enhancing digital technology so more firms can benefit, particularly those in rural areas that have the most to gain.
4. Increase funding for universities' knowledge exchange activities to strengthen applied research in Scotland and leverage greater industry R&D investment.
5. Consider how an enterprise partnership between universities in Scotland could be created to help turn more great ideas into successful growth businesses.
6. Deliver a digital ticketing revolution with multi-modal fare options to help give customers a better experience and encourage more people to choose greener modes of transport.

# Labour market activation and productivity

*Scotland is in an enviable position of having a highly educated population. However, Scotland needs to ensure that its workforce is future-proofed so that it can take advantage of the opportunities that net zero offer. With workplaces, and the wider economy, changing at a rapid pace, now is the time for a new, bold approach to equipping people with the skills they need to succeed and enhance workforce productivity.*

## Scotland needs to future-proof its workforce.

**Invest in people to give them the skills they need for today and tomorrow.**

### **1. Create a flexible, demand-led system that supports lifelong learning.**

- Scotland needs an education and skills system that is agile, flexible, and responsive. Funding should be more closely aligned to industry needs and strike a better balance between undergraduate learning, work-based learning, and short, sharp provision to support continual upskilling and rapid retraining.
- In the next ten years, nearly 400,000 workers in Scotland will need radical retraining as jobs fundamentally change, while nearly 2.5 million will need some form of upskilling.<sup>7</sup> Action must recognise the scale of the challenge if we are to get ahead of the curve and support people to develop the skills they need to move to sectors with the greatest potential for growth.
  - Radically scaling up existing initiatives – such as the Flexible Workforce Development Fund, the Scottish Funding Council's upskilling fund and the National Transition Training Fund would be a positive start and create a new sense of priority and momentum.
  - However, this alone will not be enough. Moving away from the current model, where the majority of learning occurs before people turn 22, to a system where people are incentivised to continually invest in their skills throughout their career, is essential. Whether this is via an apprenticeship or up-skilling route. Creating a 'skills wallet' – where people are financially supported to invest in their own skills at key points in their life – would help deliver the step change needed in our approach to lifelong learning. The current Individual Training Account model provides a template that could be expanded quickly.<sup>8</sup>

<sup>7</sup> [Learning for life](#), CBI, October 2020

<sup>8</sup> Skills Development Scotland – Individual Training Accounts  
[www.skillsdevelopmentscotland.co.uk/what-we-do/employability-skills/sds-individual-training-accounts/](http://www.skillsdevelopmentscotland.co.uk/what-we-do/employability-skills/sds-individual-training-accounts/)

- There have been several recent reviews completed by and for the Scottish Government, including the National Discussion on Education; Skills Delivery Landscape Review; Independent Review of Qualifications and Assessments; Professor Muir Report on the replacement of the SQA; and Grahame Smith's Careers Review Programme. From these the Scottish Government needs to produce a consolidated action plan, outlining the role business would play working with government and education authorities to implement changes.
- Research from McKinsey shows that technological skills are going to represent almost a fifth of workers' time in 2030, regardless of their occupation.<sup>9</sup> With the vast majority of the 2030 workforce already in work, digital upskilling will be crucial. Setting a target for 100% of the workforce in Scotland to have basic digital skills by the end of the next parliament would close an important skills gap and ensure no one is left behind. For most businesses, this means computer literacy such as familiarity with Microsoft Office, handling digital information and content, core skills such as communication and problem-solving, and understanding how digital technologies work.
- The CBI is calling on the UK Government to announce at the Autumn Statement a two-year pilot of turning the Apprenticeship Levy into a broader "Skills Challenge Fund," allowing firms to spend the levy on a more flexible variety of accredited and modular training and skills. The Scottish Government should ringfence any future Barnett consequential for skills investment.
- The CBI is also calling on the UK Government to publish data on the distribution of Apprenticeship Levy Funds to provide employer confidence, funding transparency and streamlined process. This should allow the Scottish Government to identify the monies available more easily.
- A cultural shift towards lifelong learning must also address the fact that individuals with the greatest training needs are the ones least likely to undertake any form of training. A new campaign should aim to identify the reasons why many people are apprehensive or reluctant when it comes to new training. This would help to highlight and remove barriers to accessing training whilst encouraging individuals to take ownership of their training and development needs.

## **2. Help give young people the skills they need for the modern world.**

- Creating great learners is key if people are to continue to develop new skills throughout their careers. Essential skills – such as communication, collaboration, and critical thinking – should be embedded across all learning, including at both primary and secondary school level.

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<sup>9</sup> [Skill shift: Automation and the future of the workforce](#), McKinsey, May 2018

- Digital skills will underpin the economy of the future. Digital learning should be embedded in every subject across the curriculum, including at primary school, with funding provided to schools to invest in the technology needed to deliver this.
- Every young person must have access to high quality careers advice, especially those from disadvantaged backgrounds, to help them make the connection between their choices at school and opportunities in the world of work. This was highlighted as part of the Independent Review of Qualifications and Assessments.
- Apprenticeships will continue to play a crucial role in helping young people build the experience and skills that employers need. The expansion of apprenticeships should be demand-led, and agencies should work with employers to develop a more flexible apprenticeship offering that creates opportunities in a wider range of subject areas and sectors.
  - The expansion of Graduate Apprenticeships must be matched with sufficient, additional funding for universities to support delivery and ensure the financial sustainability of apprenticeship programmes.
  - Most leading countries which lead in apprenticeship training normally fully fund the off-the-job training of apprentices.<sup>10</sup> Scotland should look to follow this model and allow employers and apprentices to drive the quantity and mix of apprenticeship provision.

### **3. Maintain our world class universities and boost colleges.**

- Universities and colleges are one of Scotland's greatest strengths and should be harnessed to their full potential to support economic growth. They will play a critical role in driving the jobs of the future, where both creative minds and practical skills will be needed for a high-skill, high-wage economy. As a sector, universities alone deliver over £7 billion of gross value added to the Scottish economy,<sup>11</sup> while Scotland's colleges generate additional value worth £20 billion for the Scottish economy in the long term.<sup>12</sup>
  - Funding models must support greater flexibility for colleges to respond to industry needs, including recognition of the importance of part-time provision to upskill and retrain those already in work.
  - A significant scaling up of agile, short courses in higher education will be crucial to support Scotland's economic growth, and will require extra resources to be made available.
  - All training courses should be regularly evaluated to ensure they are fit for purpose and continually evolve to equip people with the skills businesses need.

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<sup>10</sup> [Strengthening Skills in Scotland](#): OECD Review of the Apprenticeship System in Scotland, August 2020

<sup>11</sup> [Going for growth](#), Universities Scotland, August 2017

<sup>12</sup> [The value of college graduates to the Scottish economy](#), Fraser of Allander Institute, September 2017

## **Scotland needs to future-proof its workforce.**

**“In the next ten years, nearly 400,000 workers in Scotland will need radical retraining as jobs fundamentally change, while nearly 2.5 million will need some form of upskilling.”**

## **KEY RECOMMENDATIONS: Labour market activation and productivity**

### **Invest in people to give them the skills they need for today and tomorrow.**

1. Skills funding should be more closely aligned to industry needs and strike a better balance between undergraduate learning, work-based learning, and short, sharp provision to support continual upskilling and rapid retraining.
2. Increase visibility on how Apprenticeship Levy funding is used in Scotland. This starts with the UK Government publishing what Levy funds are made available to Scottish Government via Barnett Formula – and will be a key CBI ask within our Autumn Statement submission to Westminster.
3. Introduce a 'skills wallet' for everyone over the age of 25 to incentivise lifelong learning by supporting people to invest in their own skills at key points throughout their career.
4. Meta and digital skills should be embedded across all learning and a target set for equipping all workers with basic digital skills by the end of the next parliament.
5. Ensure the expansion of apprenticeships is demand-led and creates opportunities in a wider range of subject areas and sectors.
6. Support our universities and colleges with the funding and flexibility needed to increase short, sharp, industry-led courses to help people rapidly upskill and retrain.

# Competitive Business Environment

*To turn the dial on sustainable growth, we must go further and faster, to create the most competitive business eco-system. Unpicking systemic issues that are preventing both domestic business investment and FDI. There are several levers the Scottish Government can pull to unlock trapped investment – including boosting exports and creating a competitive tax environment. Exporting boosts productivity but Scotland is heavily dependent on a small number of firms and sectors for exports. Developing the skills needed within the workforce and looking at international examples of incentive models would help diversify the exporting base and provide a much-needed boost to Scotland's international activity. While creating a long-term tax strategy will give firms the confidence to invest.*

## Scotland needs a clear and stable policy environment to build business confidence.

### 1. Boost Scottish business on the world stage.

- Set out a long-term tax strategy that attracts people to live and work in Scotland.
  - Business recognises the strain on public finances that has been exacerbated by the COVID-19 pandemic and the cost-of-living crisis. However, it is important to take a long-term view of tax policy that avoids prioritising short-term revenue over long-term economic recovery.
  - As remote working increasingly becomes the norm in many sectors and workers no longer need to live within an hour of an office, Scotland has an opportunity to attract the talent needed to grow the economy. Setting out a competitive tax regime for the long-term, that avoids any further income tax divergence with the rest of the UK, would support businesses in attracting talent to live and work in Scotland. It would also protect household disposable incomes at a time when stimulating demand in the economy is key to recovery.

### 2. Free up firms to focus on creating jobs and investing in the future.

- Government should work with firms to reduce the cumulative costs of doing business that are holding companies back. Business rates remains one of the biggest fixed costs facing property-based companies. The Scottish Government should maintain a focus on the changes it committed to in response to the Barclay Review, with the objective of simplifying the system for ratepayers and making it more focused on attracting investment. In addition, government should:
  - Restore a level playing field with the rest of the UK on the large business supplement, as promised in the SNP's 2021 manifesto. This would address the disproportionately high costs facing employers with large property footprints, stop businesses in Scotland being at a competitive disadvantage

and send a strong signal about Scotland as a place to invest and do business.

- Taxes, levies, and regulation impacting business must not be viewed in isolation. The work of the New Deal for Business and the newly formed Tax Advisory Board should ensure that any policies introduced do not cause unintended consequences that ultimately hinder businesses and in turn harm Scotland's economy.

### **3. Develop the domestic skills base to create an outward-looking, exporting culture.**

- Equipping people with an understanding of the principles and practicalities of exporting can drive international ambitions and help firms to operate more successfully in overseas markets. Consideration should be given to the role that could be played by secondary, further, and higher education institutions in offering opportunities to study commercial international trade.
- Foreign languages are an important tool in operating internationally and securing new opportunities. Increasing the uptake of foreign languages at school is a key strand of ensuring Scotland has the skills to be an outward-looking, exporting nation.
- International exposure at university is a core discipline that builds Scotland's ability to perform as a trading nation. The Scottish Government should consider what more it can do to support initiatives that enable students to experience living and studying abroad.

### **4. Think global to support local.**

- More must be done to increase the international ambitions of firms in Scotland. The Scottish Government should work with the UK Government to examine international support models, that could be replicated in Scotland to help encourage more firms to take their first step into international markets.
- The Scottish Government should explore new levers to incentivise exports, including setting up joint working groups with the Department for Business and Trade (DBT), HM Treasury, industry bodies and business. By working together both governments can explore new or growing opportunities for exports, but also protect existing export levels and maintain market share.
- Maximising trade missions and funding for trade shows, with a particular focus on countries with new Free Trade Agreements with the UK, will help companies in Scotland identify and exploit opportunities in new international markets.

## 5. Work with business to showcase Scotland's strengths as an investment destination.

- Global provision of digital services presents a real opportunity for Scotland. Increasing the number of people equipped with advanced digital skills each year to at least 10,000 would set Scotland up to make the most of that chance.
- Following the publication of the inward investment strategy, the Scottish Government should work with business to identify specific priorities that would improve the investment climate in target sectors.
- Involving business in 'showcase sessions' with potential investors would help improve Scotland's attractiveness by demonstrating peer support, providing honest testimonials, and presenting a joined-up message from government and business to firms that are considering Scotland as a destination for investment.
- Universities' global connectivity and collaborations provide a competitive advantage that needs to be leveraged further to promote Scotland internationally, attract talent and enhance inward investment.

## 6. Invest in innovation and build on the appetite for tech adoption.

- Increasing R&D investment is key to driving long-term sustainable growth, particularly in future-focused sectors like life sciences and tech. Innovation will be essential in supporting Scotland to address labour market challenges, reach net zero and lead in new and emerging markets. Now is the time to accelerate our R&D ambitions and capture the appetite for tech adoption, so Scotland can reap the benefits.
- Simplify the support landscape to help boost business' innovation adoption.
  - Scotland spends 3.13% of its annual output on all forms of research and development, compared with 2.67% across the OECD. Scotland's rate for business enterprise R&D is comparable to the OECD average, at 1.91%, with the UK slightly better at 2.11%<sup>13</sup>.
  - However, momentum must be maintained by introducing a national mission to increase R&D spending. This should start with a simplification of the support landscape, which is fragmented and hard to navigate, especially for smaller businesses. Increasing awareness of organisations such as *Interface*<sup>14</sup> will help to improve business' understanding of the collaboration opportunities available to them.

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<sup>13</sup> Gross expenditure on research and development Scotland 2020  
<https://www.gov.scot/publications/gross-expenditure-on-research-and-development-scotland-2020/documents/>

<sup>14</sup> Interface website: [www.interface-online.org.uk](http://www.interface-online.org.uk)

- Use the powers of the Scottish Parliament to support the development, commercialisation, and adoption of innovation.
  - Public procurement is an important mechanism for driving innovation. Procurement mechanisms should be updated across government to incentivise innovation adoption, placing greater emphasis on value not just cost.
  - COVID-19 has rapidly accelerated tech adoption among business, with research suggesting three years of innovation took place in just three months. However, the up-front costs can be a barrier to small and medium sized businesses. Restarting support packages like Digital Boost, that help SMEs reap the benefits of productivity-enhancing digital technology, should be available so more firms can benefit, particularly those in rural areas that have the most to gain.
  - Scotland has rich data sets, that includes public sector data about people, places, health and businesses. By making that data available to both the public and private sectors, innovative solutions can be developed from health care, to transport and decarbonisation to name a few. National open datasets also attract inward investment and entrepreneurial activity to the benefit of the Scottish economy.
    - Research Data Scotland (RDS) is potentially a powerful entity that could stimulate growth for Scotland's economy. The current RDS mandate should be expanded to better support entrepreneurial activity and private sector investment in Scotland, including better business representation on the Board to better develop the business proposition.
- Boost business-university collaboration:
  - The quality of Scotland's Higher Education institutions and the research they produce is a competitive economic advantage that can be better utilised. Increased funding for university knowledge exchange activities would strengthen applied research across Scotland, provide support for more businesses and leverage greater industry R&D investment.
  - In addition, supporting our universities to develop an enterprise partnership, based on the successful SET squared example, could boost the social and economic impact of research activity, and help turn more great ideas into successful businesses.

**Scotland needs a clear and stable policy environment to build business confidence.**

**“Following the publication of the inward investment strategy, the Scottish Government should work with business to identify specific priorities that would improve the investment climate in target sectors.”**

**KEY RECOMMENDATIONS: Business Environment**

**Make Scotland a great place to live, work and do business.**

1. Set out a long-term tax strategy that attracts people to live and work in Scotland.
2. Continue to reform the non-domestic rates system to make it more focused on attracting investment.
3. Restore the level playing field with the rest of the UK on the Large Business Supplement.
4. Look at activity that could have a damaging impact on Scotland’s economic recovery, such as the Transient Visitor Levy and short-term let regulation.
5. Mandate a government-wide commitment to open data for better informed policy solutions that can boost productivity and wellbeing.

**Support Scotland’s firms to trade internationally.**

1. Develop the skills needed to create an exporting culture by increasing the uptake of foreign languages at school and considering the role of secondary, further, and higher education institutions in offering opportunities to study commercial international trade.
2. Consider what more can be done to support initiatives that enable students to experience living and studying abroad, which can help increase international awareness and ambition.
3. Work with the UK Government to examine international support models that could be replicated in Scotland to help encourage more firms to take the first step into international markets.
4. Help companies in Scotland identify and exploit opportunities in new international markets by maximising trade missions and funding for trade shows, with a particular focus on countries with new Free Trade Agreements with the UK.

5. Research Data Scotland's mandate and Board should be re-visited to ensure that barriers are not being formed, which could stifle innovation particularly from the private sector.
6. Set a target of equipping at least 10,000 people each year with advanced digital skills to position Scotland as a leader in the global provision of digital services.

*CBI Scotland and its members are always willing to meet with ministers and officials to discuss any of the above, and how business and government can work together to help deliver an inclusive, green economy to benefit the people of Scotland.*

For queries or further information about this submission please contact **Mags Simpson**, Deputy Director of Policy Scotland: [mags.simpson@cbi.org.uk](mailto:mags.simpson@cbi.org.uk)

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