29 September 2011

Last week’s Spending Review confirms the practical measures and actions this Government is taking to accelerate growth and strengthen Scotland’s economy. The review confirms this Government’s policy to maintain the unparalleled support offered to small businesses through the Small Business Bonus Scheme. It also reiterates our commitment that Scotland will remain the most competitive place to do business in the UK.

In these tough financial times, we remain focused on business and as such, this open letter to every business in Scotland sets out the facts, and our actions to support growth and employment.

We are prioritising support for growth and we are working hard to create the jobs our people need. We are targeting our efforts at –

- boosting public sector capital investment;
- improving access to finance and encouraging new private investment;
- enhancing economic security to support confidence across the Scottish economy; and,
- taking direct action to tackle unemployment.

However, we lack many of the key job creating powers open to other governments. We have therefore urged the UK Chancellor to also take decisive action in these priority areas to protect growth.

The Scottish Government has acted decisively to support Scotland’s economic recovery and to protect our vital public services at a time when they are needed the most. Business recognises capital investment is vital to economic recovery and we have taken further steps to boost investment in the infrastructure Scotland needs to prosper, supporting jobs and promoting growth.

The Annex to this letter highlights the positive impacts on business arising from the announcement last week.
One of the key elements of our Budget is our determination to counter the deep cuts in capital spending imposed on us by the UK Government. As a consequence of shifting resource spending into capital and taking forward the Non-Profit Distributing model the Government has been able to increase the Capital Budget. This will be good for businesses and for the economy.

Our enterprise bodies play a significant role in supporting this Government’s purpose of increasing sustainable economic growth. The Enterprise budget is focused on supporting growth companies, sectors and markets and this budget will provide a competitive, supportive business environment, delivered by our enterprise bodies, that has the right infrastructure in place to support growth and deliver jobs throughout Scotland.

It is true that some businesses will pay more as a result of my budget - very large retail properties that sell both tobacco and alcohol and some empty premises. I think it is entirely fair and reasonable that other tax payers do not subsidise the owners of empty properties and that large retailers contribute more to tackling the social and health issues associated with alcohol abuse. Aside from these two new proposals and the normal annual inflationary changes in the pence in the pound tax rate (poundage), which is a consequence of setting the same rate as that in England, there is no uplift to existing businesses rates bills. The Budget will not suppress GDP, employment, investment and exports as a recent Centre for Public Policy for Regions report implied.

Despite our limited economic powers, we have taken decisive action to support businesses in Scotland. For seven years up until 2006-07, the Scottish poundage rate was above that for England. In 2000-01, for example, the poundage rate was 10% higher in Scotland than in England. Let me clearly state what that meant for business. In 2000-01, every single ratepayer in Scotland was paying 10% more than they would have in England. This damaging policy put each and every rate paying business in Scotland at a competitive disadvantage for 7 continuous years. Following our re-election in May 2011, we again committed to match with the English poundage. We have done so in every year since 2007. The Scottish poundage rate remains lower than that in Wales. In addition, we have continued to provide rates relief schemes which are far much more generous than elsewhere in the UK. The package of reliefs in Scotland includes the Small Business Bonus Scheme, which has removed or reduced the rates burden for one in every three commercial premises in Scotland. We also offer the only renewable energy relief scheme in the UK.

I very deliberately opened my Parliamentary statement by acknowledging that this Spending Review falls at a defining moment. It is a moment that is uniquely challenging - with a fragile global economy and savage reductions in the real value of the Scottish budget. Yet at the same time it is a uniquely hopeful moment - in the optimism that exists in our country and the trust placed by the people in this government. I know that the business community in Scotland is resilient, entrepreneurial, and eager to create wealth and jobs, with appropriate support from government. I remain committed to increasing sustainable economic growth and accelerating economic recovery, and I will continue to do all I can to provide the government support you need.
A BUDGET FOR BUSINESSES

• **Supporting economic growth** - Scottish businesses are the primary driver of sustainable economic growth. Our ability to succeed as a nation depends critically on the competitiveness of our businesses – both large and small.

• **Supporting growth** – We will focus on supporting growth companies, sectors and markets providing a competitive, supportive business environment, delivered by our enterprise bodies, that has the right infrastructure in place to support growth and deliver jobs throughout Scotland.

• **On exports**, targeting support to help Scottish companies internationalise is a key priority. Exports are a vital source of growth and will be essential to our future prosperity. Set a target for Scottish businesses to deliver a 50 percent increase in the value of international exports by 2017, and the efforts of our Enterprise bodies will be directed toward achieving this ambition.

• **On business support**, working with our local government partners to ensure that the services provided through Business Gateway can be accessed easily and are joined up effectively with those offered by Scottish Enterprise, Highlands & Islands Enterprise and VisitScotland (VS). We have maintained the operating budgets of the Enterprise bodies and VS despite tight overall Spending Review settlement for Scotland so that they can continue the important work they undertake in implementing the GES, focusing on supporting growth companies, sectors and markets and increasing sustainable economic growth.

• **On supporting small businesses**, prioritising support for small businesses, in addition to continuing with the Small Business Bonus Scheme, taking forward a range of policies to help SMEs grow and, through Skills Development Scotland, to make it easier for SMEs to hire staff and take on apprentices.

• **On innovation and commercialisation**, streamlining the services for innovation and commercialisation in the coming year to ensure that the support to businesses and universities is better aligned. Creating a dynamic infrastructure for research and innovation alongside this will also enable Scotland to compete in those industries such as low carbon, life sciences and digital set to drive the global economy in the years ahead.

• **Addressing access to finance**, looking to remove constraints on the supply of finance, by working with banks to improve supply, as well as providing advisory support to help companies improve their chances of securing funding.

• **Direct action to improve access to risk capital**, Scottish Investment Bank will work with companies which have the greatest opportunity for sustained growth and exports, using the loan and equity finance with additional funding from banks and other private sector resources.

• **Introduce four Enterprise Areas in Scotland**, including sites with a particular focus on low carbon manufacturing opportunities so as to maximise their economic impact and attractiveness to investment.
• **Encourage the social enterprise model**, and support the Third sector, ensuring its important role in developing programmes of preventative spend in order to improve employability prospects and opportunities for young people.

• **On infrastructure** – we are investing massively in our infrastructure – we will be spending over £7bn on our capital programme over the next three years to deliver new schools, hospitals, houses, roads, water infrastructure, community facilities and improved availability of high speed broadband across Scotland. Our capital investment will support 36,000 jobs in Scottish economy this year, including around 20,000 in construction sector.

• **On Digital** - Establish a (£50m) Next Generation Digital Fund to accelerate the roll out of super fast broadband across Scotland, with a particular focus on rural areas. The fund will seek to maximise public sector investment in broadband infrastructure and leverage maximum levels of private sector investment to improve broadband coverage in Scotland.

• **Extend the success of Public Contracts Scotland** - a free-to-access portal which has improved access to public contract opportunities – by establishing a new unit to help SMEs apply for public sector contracts.

• **Transition to a Low Carbon Economy** – we will invest a further £60 million of new capital in renewables over the next 3 years bringing planned total spend on renewables to £200 million and overall energy related spend to £300 million. Targeted investment in renewable energy in partnership with our Enterprise bodies will act as a key motor of the Scottish economy.

• **Streamlining the delivery landscape for energy efficiency** to ensure more effective action at local level. Complementing the significant investment in renewable energy, we will invest £75 million over the next three years on low carbon technologies and energy efficiency for businesses.

• The next **European Structural Fund** programme comes into effect in 2014, and will represent a significant source of income for Scotland. We intend to continue a more focused approach, on renewable energy and digital infrastructure, as well as close alignment with other EU Funds to ensure we are directing all funds to where they can make the biggest difference.

• **Investing in our young people** through ‘Opportunities for all’, we are supporting our young people to remain in training or education to better enable them to take up a job and make a full, constructive contribution to Scotland. This spending review is putting in place the funding to ensure there is sufficient capacity in the system to deliver on our commitment of ‘Opportunities for all’ to our young people.

• **On planning** – We are maintaining our commitment to the implementation of a modernised planning system which supports sustainable economic growth and is a key priority in the Scottish Government’s Economic Strategy. Our focus on a planning and development regime which is joined up, ensures greater certainty and speed of decision making is vital in supporting business and achieving lasting sustainable economic growth for Scotland.

• In order to support the shift to **preventative spending**, we have looked to increase revenue for this purpose. Scotland’s health and social problems associated with alcohol
and tobacco use are well documented and are something we are firmly committed to addressing. These problems affect not only the health of population, but create additional burdens on policing, local authorities and the NHS. As such, we propose that the business rates paid by large retail properties with a rateable value of over £300,000 that sell both tobacco and alcohol will be increased by a supplement from 1st April 2012.