



A POST-BREXIT
ACTION
PLAN FOR
SCOTLAND'S
JOBS AND
ECONOMY

A post-Brexit action plan for Scotland's jobs and economy

Introduction

The decision of the United Kingdom to vote to leave the European Union is the biggest political event of our lifetime. It has created an unparalleled constitutional, economic and political crisis. Whilst the initial panic has settled, the uncertainty about the future remains.

Scottish Labour campaigned to remain in the EU, but we accept the decision that has been made. We must also recognise that Scotland, like London and Northern Ireland, voted in favour of remaining in the EU. We should look to see how we can work together to secure the best possible deal for people across the UK. That's why we support the efforts of the Scottish Government to secure Scotland's place in Europe.

Our manifesto ruled out a second referendum in this parliament and we won't be changing that position any time soon. Equally we don't think it is a good idea for anyone to rush to make kneejerk reactions about Scotland's future in the UK at a time when the future of the UK itself is so uncertain. It makes little sense to consider leaving our largest market with the rest of the UK as a response to concerns about leaving Scotland's second largest export market in the EU.

More than one million people voted leave, but the public debate we've been having since the UK voted leave would make you think that we voted unanimously for remain.

The impact of this momentous decision is already being felt across the country, particularly in the economy. At times of uncertainty like this, government must step up and take action to allay fears and bring stability.

This briefing puts forward an action plan to deal with the immediate economic impact of Brexit for Scotland. It is the case that the Scottish economy has been sluggish over the last year, described by independent economists as 'flirting with recession'. Brexit is likely to make matters worse and both the Scottish and UK Governments must act if our economy is to avoid recession with the consequent impact on jobs and growth.

We hope that the SNP Government in Holyrood and the Tory Government in Edinburgh will take on board our suggestions and work with us in the national interest.



Kezia Dugdale MSP
Scottish Labour leader



Jackie Baillie MSP
Scottish Labour Economy spokesperson

A post-Brexit action plan for Scotland's jobs and economy

The impact of Brexit on Scotland

The financial impact of the decision to leave the EU was immediate. On the morning of Friday 24 June, the pound fell sharply against the dollar and the euro. This has an immediate impact on holidaymakers and makes imports from Europe more expensive.

There was also a substantial fall in the stock market, with £8 billion wiped off the value of construction companies alone reducing the amount of capital available for investment in house building.

Over the past month, the UK's credit rating has been downgraded by rating agencies. Meanwhile, forecasts for GDP growth are mixed and less than optimistic. Several have been revised downwards.

Scottish GDP growth is forecast to decelerate to around 1.3% in 2016 and 0.3% in 2017 according to PwC's main scenario in its latest [UK Economic Outlook report](#).

The [International Monetary Fund \(IMF\)](#) has also recently reduced its forecasts of UK economic growth: to +1.7% in 2016 from +1.9%; and to +1.3% in 2017 from +2.2%.

We are now beginning to see the first response to the EU referendum result from the business community.

The [Fraser of Allander Institute](#) surveyed 320 firms following the UK's vote to leave the EU over June and July. The survey found that more than 60 per cent of Scottish firms believe the Brexit vote will have a negative impact on their business.

The survey also found 67 per cent of respondents saw the resolution of uncertainty post Brexit as a key issue.

Meanwhile, the latest [Scottish Construction Monitor](#) found confidence amongst Scottish construction employers has fallen by 22 points to -19.

According to a survey by accountancy firm [Deloitte](#), some 82 percent of chief financial officers from FTSE 350 and large private companies expect to cut capital spending in the next year. This is the biggest proportion on record and up from 34 percent in the first quarter.

In the Scottish manufacturing sector, confidence has fallen. The [CBI's survey this week](#) found only 17 per cent of Scottish manufacturers said they were more optimistic about the general business situation than three months earlier and 45 per cent said they were less confident.

A post-Brexit action plan for Scotland's jobs and economy

Scotland's economy

The future picture looks unclear but the recent performance of Scotland's economy makes for grim reading.

Statistics published last week raise concerns about Scotland's economy and its performance relative to the rest of the UK. Before the EU referendum, the [Fraser of Allander Institute noted](#) that Scotland is flirting with recession and made a significant downward revision of its estimates for Scotland's economic performance in both 2016 and 2017.

[Economic indicators released by the Scottish Government](#) last week show economic growth in Scotland stagnating and lagging behind that of the UK.

In the first three months of 2016 the output of the Scottish economy grew by 0.6 per cent compared to the same period in 2015. Over the same period UK GDP grew by 2.0 per cent.

In the first three months of 2016 the output of the Scottish economy was flat (0.0 per cent change) compared to the last three months of 2015. Over the same period UK GDP grew by 0.4 per cent. Contractions in the construction and, particularly, manufacturing sectors have been cited as reasons for the sluggish growth.

Productivity is also a concern. Labour productivity is currently around [2.5% below the UK and academic estimates](#) put overall productivity around 10% or more below the UK. This will make meeting the SNP Government productivity target to rank in the top quartile for productivity against our key trading partners in the OECD by 2017 almost impossible. Scotland has already [fallen from 16th in 2006 to 19th in 2013](#).

While [unemployment in Scotland fell](#) over the last quarter, at 5.5% it remains higher than that of the UK. The UK unemployment rate currently stands at 4.9%.

John McLaren, honorary professor at the University of Glasgow's Adam Smith Business School, [said last week](#) that:

"Potential headwinds dominate the landscape and future prospects for the growth of the Scottish economy are bleaker now than at any time since the finance-led crisis in 2008."

So across a number of measures, the Scottish economy underperforms relative to the UK and is facing a tough future. With the added complication of Brexit, independent economists believe that both Scotland and the UK are likely to face recession.

A post-Brexit action plan for Scotland's jobs and economy

Action needed now

The SNP and Tory Governments must act swiftly to bring certainty and stability for businesses and working people. Whilst we continue to support the Scottish Government's attempt to protect Scotland's relationship with the EU within the UK, our governments should be acting now to mitigate the worst impacts of Brexit.

Our action plan for Scotland should be implemented to deal with the immediate impact of the UK's decision to leave the EU. It is not the final word as the future is uncertain and we need to continually monitor the impact on the economy, but it is intended as a starting point to respond to the concerns of business and trade unions.

We hope that the SNP and Tory Governments will take on board our suggestions and work with us in the national interest.

- **Protecting rights at work and securing fair pay**

People in Scotland and across the rest of the UK must continue to be protected at work. The UK Government must commit to retaining the existing rights at work we currently have through the European Union. Working people need confidence that their employment rights and entitlements are secure.

There are around 170,000 EU citizens in Scotland at the moment. They too make a valuable contribution to the social, economic and cultural fabric of our country and deserve clarity on their situation. The Prime Minister must immediately confirm that EU nationals currently living and working in the UK will be able to stay here in the event of Brexit.

Equally, we need to ensure that the rights of Scots resident elsewhere in the EU are protected.

There are now real fears that the lowest paid in Scotland will be adversely affected as a result of the economic uncertainty. As an [IFS report](#) published earlier this week stated, in-work incomes must rise in order to boost living standards. The report also found that poorer households are now more vulnerable to economic downturns and middle-income households with children more reliant on state support to make ends meet.

With such uncertainty, the SNP Government have a duty to go further in making progress for a living wage to help the lowest paid.

Scottish Labour believe that Scottish Ministers should legislate to ensure that the public sector requires contractors and sub-contractors to pay the living wage and, secondly, establish a Living Wage Commission tasked with making the case and winning support for the living wage in the private sector.

Scotland enjoys a significant level of employment from the financial services sector – 84,000 are directly employed in Scotland's financial sector. There are early indications of change following the Brexit vote; for example, [HSBC has indicated that they will move their trading floor in London to Paris](#) if the UK does not remain a member of the single market. Others may follow, transferring jobs and functions to mainland Europe.

We believe the SNP Government should engage in early discussions with the financial services sector to establish what measures can be taken to help maintain the industry in Scotland.

A post-Brexit action plan for Scotland's jobs and economy

- **Use the Scottish Parliament's new powers to invest in our people**

Substantial and wide ranging new powers are coming to the Scottish Parliament over tax and welfare. They must be properly prepared for and the SNP Government must set out how they will use them.

From next April, Scottish Ministers will be able to set the rates and thresholds for income tax. As Labour set out ahead of May's election, we believe that there is a choice between using the powers of the Scottish Parliament to invest in the economy or continuing the cuts to Scotland's future. The Labour Party believes we should use the powers at our disposal to invest in our economy, ending austerity and laying the foundations for strong growth and prosperity in the future.

That's why we proposed putting a penny on income tax, whilst ensuring the lowest paid are protected, and introducing a 50p top rate of income tax for the wealthiest. By making fairer choices on tax and asking the richest 1% to pay their fair share, we could increase investment in our public services.

The single most important economic policy a government can pursue is investment in education. Protecting the education budget in real terms could provide a £2 billion boost to our economy and give everybody the chance to develop the skills they need to compete for the high-tech jobs of the future. At a time of economic uncertainty central government needs to lead by example. Such an investment would demonstrate our commitment to building a vibrant, high-skill economy in the future, and our confidence that this can be done.

We call on the SNP Government to demonstrate their commitment by using the new powers and working with progressive parties like Labour to dispense with short term cuts and instead invest in our future.

The SNP Government also need to come forward with a comprehensive labour market strategy, developed closely with employers and trade unions, to identify and address the skills shortages which businesses have pointed to.

Scottish Ministers should also consider that cost recovery from the Apprenticeship Levy should be for skills investment for existing employees as well as apprenticeships, as there is likely to be a significant challenge both in low and high skills gaps if EU migrants withdraw.

- **Bring forward infrastructure spending**

We urgent action is needed to increase infrastructure investment. To create jobs and growth in the economy, the SNP Government should announce its intention to implement a significant and sustained programme of capital spending.

As part of this, Scottish Ministers should give serious consideration to accelerating existing capital programme commitments and using the parliament's new borrowing powers to increase the overall capital envelope in the upcoming budget. We expect the Scottish Government to urgently explore other innovative financing mechanisms to support Scotland's economy.

As the [National Institute for Economic and Social Research](#) (NIERS) has stated, infrastructure spending strengthens the supply side of the economy – with the potential to create a permanent increase in GDP of up to 0.5 per cent. At a time when Scotland's economy is almost at a standstill, government action here could provide much-needed stimulus.

We believe that any increase in infrastructure spending that is brought forward should focus on housebuilding to support Scotland's construction industry, which has experienced a significant decline. The

A post-Brexit action plan for Scotland's jobs and economy

SNP Government should front-load spending and spend more on affordable homes to match Labour's manifesto commitment to build 60,000 affordable homes over this Parliament.

Further digitalisation will allow Scottish businesses to compete globally. This is another element of infrastructure investment which could be accelerated as part of any government spending plans.

- **Support 'at-risk' sectors in the economy through a Brexit Support Fund**

Business and economic surveys are beginning to show that confidence is dissipating and that uncertainty is the greatest concern for businesses.

The SNP Government should consider what assistance it can provide to encourage stability. This should entail establishing a Brexit Support Fund.

This could be through Scottish Enterprise in the form of loan guarantees, which it has previously done for businesses which are considered strategically important. For substantial levels of support, such guarantees could come directly from the SNP Government to help those sectors and businesses at particular risk from the implications of the EU referendum result.

Developments over the past month show that several sectors will be particularly affected. As the Scottish Chambers of Commerce has said support for Scottish construction businesses must be a priority. Meanwhile, the food and drink sectors in Scotland could be badly hit, with 80% of that sector's export sold in the EU. Many universities have expressed concern about research funding and the impact this could have on innovation and growth in our economy. Anecdotally, there have been reports that there has been reluctance from European institutions to award future research programmes.

Any support given should follow consultation with businesses, their representative organisations, universities and trade unions.

More widely, action on business rates can provide greater certainty to business. The SNP government's review of business rates is welcome. However, Ministers should consider accelerating that process. Bringing forward greater certainty on business rates would be a practical measure that will help businesses with tight operating margins at a time of uncertainty.

The fall in the oil price has had a major impact on Scotland's economy. With [120,000 jobs likely to be lost](#) before the end of 2016, we must do everything we can to protect employment and skills. This is being compounded by the uncertain investment environment created by Brexit.

We have previously called for the creation of a new public body - *UK Offshore Investment Limited (UK OIL)* - to protect Scotland's vital oil and gas industry. This body would identify areas for temporary public investment, as well as conducting an "open book" review with the Oil and Gas Authority to identify assets that have long term viability and profitability. This would allow UK OIL to commit to public investment in strategic infrastructure and potentially profitable assets. Examples of the type of assets that could require public investment include platforms and pipelines that are strategically important for the industry.

We call on the UK Government to support the creation of a UK Offshore Investment Limited (UK OIL).

- **Re-assess the government's Economic Strategy**

The SNP Government should initiate a reassessment of its economic strategy now and publish an update in the Autumn. As the [Fraser of Allander Institute](#) have noted:

A post-Brexit action plan for Scotland's jobs and economy

*“the Economic Strategy’s priorities have been turned on their head by Brexit. It is simply not possible for policy to continue as normal: it is absolutely **not** “business as usual”. Therefore, an urgent re-assessment is required.”*

We support this call and would welcome a cross-party approach to developing Scotland's refreshed economic strategy.