

Scottish Budget 2010-2011 Economy, Energy and Tourism Committee

October 2009

Introduction

The Federation of Small Businesses is Scotland's largest direct-member business organisation, representing around 20,000 members. The FSB campaigns for an economic and social environment which allows small businesses to grow and prosper.

We welcome this opportunity to offer some initial comments on the Draft Scottish Budget to the Committee. Our submission offers some brief thoughts on certain aspects of the budget likely to impact on small businesses, though largely focused on the Finance and Sustainable Growth portfolio.

Finance and Sustainable Growth Budget

Since the publication of the draft budget there has been debate about the impact on economic growth of reduced spending in the Enterprise, Energy and Tourism heading.

Scottish Enterprise and HIE

Clearly any reduction in spending on a range of policy areas associated with supporting economic growth is disappointing. We note that part of the decrease arises from a reduction in Scottish Enterprise and HIE budgets following transfer of local economic development functions to local authorities. While Scottish Enterprise still manages a substantial budget, much of this work is focused on a smaller number of high value projects, working with a limited number of businesses. The accelerated capital projects were probably a necessary response from the Scottish Government however their impact on the majority of businesses is limited.

Small Business Bonus

We are pleased that the Scottish Government has committed to maintaining the Small Business Bonus scheme. The scheme has been a lifeline for

thousands of businesses and its removal in the current financial climate would be catastrophic for small businesses.

Transport & Climate Change

While the cancellation of GARL is a blow, particularly to businesses operating in the surrounding area and those looking to maximise the economic benefits of the 2014 Commonwealth Games, the retention of successful projects for ferry and air travel to some of our islands will be welcomed by small businesses. Any restriction to further extending these schemes in future would be a missed opportunity. On the other hand, businesses might question whether additional funding to extend concessionary travel schemes is in line with the focus on economic growth.

In tackling climate change, the Scottish Government has contributed resources to continued advice and support for small businesses, particularly in relation to energy efficiency. We believe this investment is worthwhile but could be delivered more effectively (and probably more efficiently). Although funded by relatively modest budgets, we firmly believe that there are too many publicly-funded organisations offering environmental/resource efficiency advice to small businesses. This leads to a confusing landscape and weakens awareness amongst small businesses of what support is available and where to access it. While the picture is confused by certain organisations being funded by Westminster and some by the Scottish Government, changing this should not be insurmountable.

Third Sector

We also note substantial funding for the third sector, a proportion of which is intended, we understand, to support third sector organisations to become less grant-reliant. We are concerned that an unintended consequence of this may be that some organisations are funded to directly compete with existing businesses. This is likely to be regarded as deeply unhelpful by many local businesses.

Access to Finance

Lastly, and perhaps most importantly, accessing affordable finance remains a key issue for many businesses. Indeed, the Scottish Government's own SME Access to Finance report recently highlighted the difficulties faced by many firms. At this stage, there does not appear to be any reference to this issue in the budget. Should any government-led schemes be introduced, it may be that funding could be secured from alternative sources e.g. European funding, however we do not know where this leaves the potential expansion of the Scottish Investment Bank, let alone specific schemes such as funding for investment in tourism businesses.

Local Authority Funding

Undoubtedly one of our greatest concerns relates to local authority budgets. In many ways, the funding decisions of local councils can have a more immediate and direct impact on small businesses than decisions made by the

Scottish Government. For example, increases in charges that affect businesses, such as waste services, seem likely in light of restraints in council spending. Equally, reductions in revenue spending by councils on vital services for economic growth could have an impact. Capital investment in town centres, for example, was much needed and we welcomed last year's substantial Town Centre Regeneration Fund. However, to ensure the effectiveness of that spend, adequate maintenance budgets for town centres is also required.

Councils also have an important role in delivering business support services, particularly supporting or funding additional local schemes which supplement the basic Business Gateway offer. This is crucially important at a time when we need to support existing businesses back to growth, let alone identify high growth new starts. Councils are well placed to identify what additional support is required for their local economy, depending upon local sectors or circumstances; however this requires a focus from local government on returning the economy to growth.

It is now necessary to consider what additional incentive can be given to local authorities to promote economic growth as a local priority. We have previously suggested looking at the LABGI scheme that operates south of the border but would welcome further discussion.

The spending power of local authorities is also an important consideration in local economic development. The draft budget refers to further collaborative procurement. This will certainly achieve some short-term efficiencies for local authorities but it will also certainly reduce opportunities for local businesses and local spend. As we have said before, this is not to suggest that local businesses are entitled to expect this business but they should be given a chance to compete, and for the additional benefit of local delivery of goods and services to be given fair consideration.

Flexibility

The last year has demonstrated that government needs to be able to react quickly to changing circumstances. This flexible approach will be required in the coming year in order to offer the correct support to businesses returning to growth and, particularly, to reduce unemployment.

Given the restrictions on spending there will also be a renewed focus on effective spending. We recognise that there will be limitations on funding for new initiatives however we hope the Scottish Government will be open to suggestions about how to re-prioritise within existing spending limits. For example, the FSB recently published a report suggesting how improvements to the current system of Modern Apprenticeships could encourage more small businesses to take on apprentices. We want to ensure that additional money allocated for apprenticeship places is used as effectively as possible.

Likewise, we identified the potential for an increase in graduate internships hosted by small businesses. A similar scheme was recently announced in England with funding to support wage contributions for these places. We hope that the Scottish Government will be open to discussions on similar schemes which can help assist small businesses to grow and use the potential of Scotland's many small businesses to create jobs in our communities.

Conclusion

On balance the Draft Budget, as it impacts on small businesses, largely represents a continuation of existing schemes. While we recognise the efforts made by the Scottish Government to keep the Economic Recovery Plan updated, more concerted action will be necessary to kick-start the economy. We believe that further action would be possible both in terms of business access to finance, and creating employment. Both will be difficult to achieve without additional funding.

Cuts to local authority spending, coupled with accelerated use of collaborative procurement, represent a clear threat to local economic development and we must step up discussion and engagement about how to ensure economic development remains at the heart of spending priorities for Scotland's councils.

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