

# Economy, Energy and Tourism Committee: Scottish Government Spending Review and Draft Budget 2012-2013

**October 2011**

## Introduction

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

We welcome the opportunity to submit comments to the Economy, Energy and Tourism Committee on the Scottish Government's spending plans.

Last year we highlighted the need for a Scottish budget that focused on economic stimulus to ensure Scotland remained competitive and returned to growth. We focused on the importance of having a broad base of businesses to sustain and create jobs across the country<sup>1</sup>.

The past year has seen an increase in the number of small businesses created<sup>2</sup> but the increase is accounted for almost entirely by the increase in self employed individuals, masking the fall in the number of small registered enterprises. This presents a bleak economic outlook. In line with the latest official statistics on GDP, employment and inflation, the latest evidence from FSB members across Scotland signals a decline in business confidence in the third quarter of 2011<sup>3</sup>. With business and consumer demand already low, public sector spending cuts could present a further risk to

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<sup>1</sup> <http://www.fsb.org.uk/News.aspx?loc=scotland&rec=6758>

<sup>2</sup> Scottish Corporate Sector Statistics 2011

<sup>3</sup> <http://www.fsb.org.uk/News.aspx?loc=scotland&rec=7359>

economic recovery. This may be a particular problem for small businesses for whom public bodies and their employees are a key market<sup>4</sup>.

With economic recovery stalling, focusing the budget on measures designed to promote economic growth remains critical. Rather than provide comment on every aspect of the budget that might impact on business our comments in this response refer to some of the measures which affect small businesses, as well as looking at the impact on small businesses of wider spending decisions, particularly the impact of local authority spending.

## **Enterprise Issues**

### **Enterprise Agencies**

While small businesses use Scottish Enterprise and HIE services, such as the Scottish Manufacturing Advisory Service, overall a limited number of businesses work with the agencies. SEn and HIE play a valuable role working with an elite group of companies and key sectors but linking their spending allocations with support for business does not tell the whole story. The role of local authorities and their economic development spend, including Business Gateway funding, are of greater relevance to small businesses.

### **Enterprise Areas**

With limited information available about the Scottish Government's plans we are unsure about the extent of opportunity for small businesses. The evidence on the introduction of enterprise 'zones' elsewhere (both in the UK, EU and US) suggests that the impact can be limited with serious risk of displacement. The budget allocated to enterprise areas suggests they may be fairly restricted in scope and while not unwelcome, their impact on economic growth is uncertain.

### **Non-Domestic Rates**

Funding the Small Business Bonus (SBB) is vital and we welcome the commitment of the Scottish Government to maintain this crucial scheme. It should be acknowledged that the SBB has made a real difference to thousands of Scottish businesses. Indeed, according to 2009 research, around one in four of our members now don't pay rates due to this scheme<sup>5</sup>, while many more receive a significant discount. Our members attest that the SBB eased cash-flow worries when bank lending was constrained, late payment was rife and bad debts increasingly common. With average savings of £1403 we have no doubt it made the difference between survival and failure for many of our members<sup>6</sup>.

The Small Business Bonus scheme has helped to address the imbalance in the rates burden between small and large businesses, particularly in retail but there is more to

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<sup>4</sup>As many as 50% of FSB members say that over half their sales take place in the local area – Lifting the Barriers to Growth in UK Small Businesses, Scotland Report, 2006

<sup>5</sup>p18, The FSB-ICM 'Voice of Small Business' Annual Survey, Scotland Findings 2009

<sup>6</sup>Small Business Bonus Scheme Average Savings 2008-2010, The Scottish Government, 2010

do. The latest proposal to introduce a Public Health Levy on larger retailers, following on from last year's proposal to introduce a levy on large retailers, may be helpful in this regard, however, we are concerned about the link between taxation and products sold. While small businesses will not be affected by the proposal, the precedent has been set and thresholds could easily be lowered in future budgets.

We also cautiously welcome moves to amend empty property relief, having called for a review in our recent manifesto<sup>7</sup> as a step towards solving some of the chronic problems in our high streets. However, we are aware that the property relief system is highly complex and believe that further modelling of the impact of the Scottish Government's proposals is necessary before changes are introduced. Some form of impact assessment for this proposal would be helpful. This is to ensure that the proposal effectively targets areas where rents remain stubbornly high for empty units and considers any unintended consequences.

We recognise the projected rise in income from non-domestic rates, noting that this is largely due to inflationary increases and economic growth. We are concerned that income based on growth projections seems somewhat optimistic but recognise that the NDR income projections are revised on an annual basis.

There is no doubt that the expected annual increase in the poundage rate (in line with inflation) will be a blow for those businesses currently paying business rates. The increase should not come as a surprise but clearly any rise in tax for businesses at a time when other costs are rising sharply will be difficult. Under these circumstances, we welcome the Scottish Government's ongoing commitment to maintain poundage rate parity with England but would urge them to go further and enhance Scotland's competitiveness by setting a poundage rate increase that is lower than the rate of inflation.

In our paper assessing the 2010 Revaluation process we outlined the need for a wider review of the non-domestic rates system in Scotland<sup>8</sup> and therefore warmly welcome the Scottish Government's commitment to take this forward.

## FE

Colleges have a key role to play in economic growth, not least in providing apprenticeships and training, but also in relation to business creation and entrepreneurship. We recognise the need for colleges to operate more efficiently and for greater collaboration however we are concerned about the dramatic decrease in funding for further education and whether this will impact on the delivery post-16 education reforms.

## Local Authority Spending

Over and above economic development funding, councils help or hinder businesses through a broad range of services, actions, charges and regulations and their crucial role in creating the right environment for local businesses to grow must be seen in

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<sup>7</sup> p23, The Journey Back - FSB Scotland Manifesto 2011

<sup>8</sup> Revaluation 2010 Discussion Paper, FSB Scotland, 2010

the round. Budgetary pressures on local authorities could therefore have a severe impact on small businesses.

### **Increases to Fees and Charges**

Councils are responsible for regulating and licensing a range of business activities (from pet shops and window cleaning, to street vending and tattoo parlours). Fees for such licences can vary from council to council – often for no apparent reason.

Councils also charge businesses for a range of services, such as car parking and waste collection.

These charges are certain to be targets for cash generation but the temptation to use local small and micro businesses as a source of income must be resisted. At the very least, local authorities must introduce a rigorous impact assessment regime to ensure options are considered and fully-informed decisions made by our councillors. Such assessments should consider the cumulative effect of charge increases, rather than viewing each one in isolation.

### **Trading and Commercial Ventures**

We understand that local authorities must examine opportunities to maximise their income but engaging in activities which divert money away from local businesses is a zero sum game and will do nothing to improve economic growth in Scotland.

For years local businesses have been concerned about the appearance of unfair competition from local authorities who directly compete with them in a range of commercial activities, such as sign-making, printing and catering. We are aware that local authorities are being actively encouraged to explore this area of income generation, including ‘asset sweating’. We believe that this approach could pose a serious threat to local businesses and must reiterate our view that councils conduct a full impact assessment of their plans prior to decision-making. The routine use of a thorough impact assessment (for example, the Scottish Government uses the BRIA process from the earliest stages of the regulatory process) is the minimum expected of national government and it does not seem unreasonable to expect the same of local government.

### **Spending Cuts**

Councils will aim to avoid severe cuts to ‘frontline’ services and compulsory redundancies. It follows then that cuts are more likely in other areas, including spending which currently supports business and economic growth. For example:

- Business support (including services complementary to Business Gateway contract activities which have proven crucial to small businesses<sup>9</sup>)
- Economic development spending (including regeneration and infrastructure spending, such as business premises)

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<sup>9</sup> See FSB response to Economy, Enterprise and Tourism Committee’s Enterprise Networks Inquiry, September 2010 [http://www.fsb.org.uk/policy/rpu/scotland/assets/cr\\_ef\\_enterprisenetwork\\_sept2010.pdf](http://www.fsb.org.uk/policy/rpu/scotland/assets/cr_ef_enterprisenetwork_sept2010.pdf)

- Tourism (spending on visitor attractions and local marketing, support for local groups and attractions, including Tourist Information Centres)
- Business finance (small-scale grant and loan finance schemes for local businesses)
- Town centres (investment in regenerating town centres, such as signage and marketing but particularly maintenance, including cleansing and repairs<sup>10</sup>)
- Road network (including ongoing repairs to the local road network and winter weather schemes)

Spending cuts are almost certainly unavoidable in these areas but could be carried out in a strategic way, with a view to the impact on local economic strategy, rather than 'salami-slicing' on a departmental basis.

## Efficiency

More efficient working at local authority level creates both threats to and opportunities for small businesses.

While we are not directly engaged in the debate around more shared service provision and joint-working, we are disappointed at the apparent lack of progress on this issue over the last four years. Nonetheless, we believe that there are opportunities to create a better business environment. For example, more shared working around regulation at a local level.

Good practice in regulation is a key factor in creating a supportive business environment<sup>11</sup> but much of the responsibility for this lies with local authorities, since they implement and enforce most Scottish legislation that impacts on business. The FSB has been critical about the lack of progress on local better regulation in Scotland, as have a number of recent reports<sup>12</sup>. For example, the balance between ensuring an element of flexibility to respond to local circumstances and developing 32 sets of forms, guidance and fees as the default arrangement has been utterly lost.

Regulatory services, such as planning, trading standards and environmental health, have experienced sustained but uncoordinated decline in recent years and this is likely to be exacerbated by forthcoming spending cuts. Rather than continued decline, a strategic approach to our regulatory services and ensuring a good regulatory environment is now required. A national discussion about how we ensure consistent and efficient regulation by local authorities is long overdue.

Local government has also seen savings as a result of the post-McClelland procurement reform programme in Scotland.

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<sup>10</sup> FSB repeatedly highlighted the need for the £60m spent through the Town Centre Regeneration Fund to be matched by ongoing maintenance or the investment would be far less effective.

<http://www.fsb.org.uk/News.aspx?loc=scotland&rec=5091>

<sup>11</sup> One of the six strategic priorities in the Scottish Government's Economic Strategy

<sup>12</sup> Audit Scotland report on planning 2011, Regulatory Review Group report on the Licensing Act 2010, Consumer Focus Scotland review of Trading Standards 'Up to Standard' 2010, SOCITM report on the Services Directive 2010

The FSB supported many of the aims of the procurement reform programme, including a more professional approach, consistent practice across the public sector and accessibility of contracts to small businesses. Progress has been made on many of these issues. However, the opportunity for local authorities to purchase goods and services via the consortium approach (using Scotland Excel) has led to the aggregation of contracts and exclusion of opportunities to small, local businesses. Ultimately, reliance on too few suppliers will drive out competition and lead to higher prices for the public sector.

While savings through efficient purchasing are necessary in the economic context, we must urge caution in seeking ever-increasing savings through this route. While the Scottish Government is working to improve access to opportunities for small businesses, their figures show that 92% of our businesses receive only 7% of Scotland's public sector spend<sup>13</sup>. If precious public spending is to be used as a lever for promoting growth, it must be deployed in a sophisticated manner, using best practice and not as a clumsy money-saving tool.

For further information on any of the points raised in this submission, please contact Susan Love, Policy Manager e: [susan.love@fsb.org.uk](mailto:susan.love@fsb.org.uk) t: **0141 221 0775**.

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<sup>13</sup> Public Contracts Scotland Dataset Analysis