

The Independent Budget Review

April 2010

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

As a lobbying organisation and not a service-delivery body, the FSB is not best-placed to comment on some of the specific questions raised in the Panel's call for contributions. As a business organisation, our primary concern in this debate is about creating the right environment to allow small businesses to grow. It follows then that our main interest in relation to public spending is around specific spend which directly supports and assists small businesses, as well as wider spend on areas which contribute to economic development.

Our response to the Independent Review Panel provides brief comment on a number of issues; largely focusing on spending priorities from the small business perspective and concerns about the implications of tighter public funding for small businesses.

1. Focus on Economic Recovery

Economic strategy in recent years has focused on policies designed to provide intensive support to particular sectors or businesses likely to demonstrate significant high-growth potential. Such a targeted approach is reasonable when resources are limited but runs the risk of attempting to 'pick winners'.

Such strategies were developed during a period of sustained economic growth but focusing on moving out of recession towards economic recovery may require a different response. For example, how do we ensure that Business Gateway contracts and funding, based on targets for growth businesses, remain realistic and deliverable during and after a downturn?

The pattern of economic recovery in Scotland is also difficult to predict. FSB evidence on the financial crisis of the last 18 months highlights the uneven nature of the recession amongst businesses.¹ Uncertainty about recovery is likely to increase as concern grows about future job losses in the public sector (particularly when many small businesses serve communities where the public sector is a major employer).

¹ FSB-ICM, 2010, *Voice of Small Business Annual Survey*

While the public sector has expanded to create new employment in recent years this is clearly not an option for responding to the major challenge of significant unemployment. Small businesses (who account for over half of private sector employment) have a track record of creating new jobs in Scotland² and supporting small businesses to create employment should therefore be a priority for government policy.

Economic recovery in the context of constraints on public sector funding may, therefore, require different approaches and shifts in spending priorities but it must be at the heart of the government's focus on sustainable economic growth.

2. Sustainable Economic Growth

The Scottish Government clearly states that its main objective is sustainable economic growth for Scotland since this is *"the key which can unlock Scotland's full potential and create benefits for all our people."*³

The extent to which this objective directs spending priorities has been questioned by the business community. This debate was heightened during scrutiny of the current Scottish budget since budgets directly associated with economic development were reduced.⁴ The business community has asked the Scottish Government whether certain funding decisions, such as supporting reductions in prescription charges and extending concessionary travel schemes, while removing funding for infrastructure projects such as GARL, contribute to the stated objective of sustainable economic growth.

The FSB recognises that the debate about measures which directly and indirectly contribute to economic growth, both locally and nationally is far more complex than current debate would suggest however this discussion, and the tough spending choices that come with it, needs to be explored further. However, if spending reduces in line with expectations, more businesses will question the affordability of certain policies particularly if they do not primarily contribute to economic growth.

3. Concerns about Public Spending Constraints

While spending on some national projects and priorities (sometimes even those aimed at economic development) may often seem remote to many small businesses there are clearly many areas where public spending can and will directly affect the trading environment for small businesses.

a) Local Government

Local government controls many of the services and functions which directly affect businesses in Scotland, including business support and local economic

² SLIMS Consulting, 2009, *Research into Jobs Losses in Small and Micro Businesses – A Report to the FSB*, p9

³ Scottish Government, *Scotland Performs* website:
<http://openscotland.net/About/scotPerforms/purposes>

⁴ Finance Committee, 2009, *Report on Scrutiny of the Draft Budget 2010-2011*, paragraphs 55-58

development strategy. Indeed, councils hold many of the crucial levers under devolution.

The Concordat between national and local government, while improving the relationship and according local government greater respect, has arguably led to less scrutiny of local government. Combined with a lack of real incentive to prioritise economic growth (because this does not directly lead to increased revenue for the local authority) and with so much focus on protecting ‘frontline’ and statutory services, we have grave concerns about the potential for economic development to suffer in council budget cuts. Creating the right environment for businesses to grow and thrive will be crucial to economic recovery but this is threatened if councils opt to disproportionately increase charges on businesses (for a variety of functions, from waste to car parking) or to reduce staffing in key departments (e.g. planning).

b) Procurement

The public sector currently spends around £8bn on goods and services in Scotland each year. This spend can be a useful tool in promoting both efficient spend and promoting sustainable economic growth. However a careful balance in policy is required in order to achieve both outcomes. The current reform programme has undoubtedly led to greater efficiency but potentially at a cost to economic development, with spending figures for Scottish SMEs remaining broadly static over the last three years.⁵

Again, local government has a key role to play, with a far larger proportion of small businesses supplying councils, compared to other parts of the public sector. We are concerned that the temptation to strive for greater cost savings in delivering goods and services, over and above wider cost/ benefit considerations, will prove too great. In such circumstances contracts are often increased in size and/or centralised and tend not to go to local businesses (or other local organisations) and this further drains money and economic opportunity from the local economy.

c) New Income Streams

We are aware that many publicly-funded organisations, especially the third sector, are increasingly encouraged to move away from their reliance on grant-funding towards revenue generating activities. This approach makes sense but we need to ensure that such activities do not compete unfairly with local businesses. Some organisations, for example council DLOs, do not necessarily have the same overheads and set-up costs of ordinary businesses. For example, the current Scottish Government ‘Third Sector Enterprise Fund’ which describes the purpose of funding as:

“We expect to invest in both capital and revenue items, e.g., buildings, plant and machinery, advice and support on marketing, human resources, accountancy or legal aspects. The revenue support could also include business advice, support for growth management and financial sustainability.”⁶

⁵ Scottish Parliament Written Answer S2W-25618, 27th July 2009

⁶ Scottish Government, 2008, *Third Sector Enterprise Fund and Third Sector Credit Union Fund, Investment Strategy 2008-201*, p2

This raises concern that such organisations will have set-up or expansion costs subsidised. Sponsoring departments should consider that a sensitive approach to adopting new income streams is required to ensure that businesses and other organisations can compete fairly for any new opportunities which may arise.

d) Potential for Efficiency

Understandably, discussion on public sector efficiency has tended to focus on large-scale change programmes, shared services and a wider debate about what the public sector should be delivering. As stated in the introduction, the FSB is not well-placed to comment on these matters however there is no doubt that as an organisation dealing with a range of different government departments, agencies and local government we have come across a number of instances where greater efficiencies could be achieved, albeit on a modest scale. For example:

- Potential duplication in schemes developed to support business e.g. loan/grant funds
- Streamlining the number of publicly-funded bodies which deliver environmental support and advice services to business
- Removing the development at local level of individual paperwork associated with new regulations for business (e.g. licensing law application forms and licences were designed across 32 local authorities rather than using one central form).

4. Conclusion

Focusing on economic recovery in future policies and spending priorities is critical to achieving the Scottish Government's main aim of sustainable economic growth. Without this focus we will not be able to realise our shared vision of Scotland as a place to live, work and do business in.

The debate on responding to the severe funding challenges faced by the public sector has understandably focused on the delivery of key frontline services. However, if economic recovery is, ultimately, central to improving government finances then we cannot afford to sacrifice a focus on supporting small businesses and the right priorities for economic growth.

For further information, please contact Susan Love, Policy Manager on susan.love@fsb.org.uk or 0141 221 0775