

Local Government and Communities Committee

Inquiry into Local Government Finance September 2009

Introduction

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

The FSB works closely with local authorities across Scotland to encourage a local business environment that can both help new companies flourish and foster entrepreneurship.

Small business owners and their employees are both service users and sellers of goods and services to their local authority. Many of the services delivered by local authorities have a direct impact on local businesses and our submission focuses on how changes to local government finance might affect these services.

With the transfer of local economic development responsibility from the enterprise networks to local authorities in 2008, councils now control a vast number of services key to the success of small businesses, including:

- Business support services and economic development, including Business Gateway, provision of micro-funding and town centre regeneration
- Regulatory powers, including alcohol licensing
- Transport, especially local roads, road works and parking
- Planning
- Procurement
- Non-domestic rates and the Small Business Bonus (administration, promotion and monitoring)
- Waste and recycling facilities for business, especially in rural areas
- Education, including links with business through Determined to Succeed

Small businesses are responsible for over half of all private sector employment in Scotland (indeed 93% of businesses employ less than ten people) and provide

employment and services across all communities. Often described as the backbone of the economy, small businesses will be key to lifting us out of recession. It is therefore important to recognise the impact that local authorities can have on the success, or failure, of local businesses and to ensure they are geared up to create the right environment for local businesses to grow as the economy improves.

1. Main Impact of Recession on Local Authority Finances

Local authorities are clearly best-placed to comment on the effect of the recession on their finances however it seems clear that the necessary cutbacks in government spending will result in tighter local authority budgets and that this will be compounded by reduced income in certain areas e.g. planning fees.

2. Impact on Local Authority Services for Communities

In simple terms, the FSB is concerned that some of the services used by small businesses will be seen as an 'easy hit' when cutting budgets.

Economic Development & Business Gateway

Economic development officials, for example, have commented to the FSB that the non-statutory basis of their service means that it will not be a priority when tough choices exist. In light of the economic development responsibilities now held by councils, and the scale of the challenge for local economies, this is clearly a concern.

While standard contracts are in place for Business Gateway, many councils provide additional discretionary services in their Business Gateway area. These often address concerns about the limited availability of services to businesses through Business Gateway and help provide a more rounded business support system.

In addition, councils can intervene to help businesses in a range of ways e.g. consideration of hardship rates relief for businesses affected by long-term road works or the provision of a local small business loan funds. These may constitute fairly low levels of funding in the wider council budget; nonetheless they can be a lifeline for individual businesses. We hope the flexibility to help businesses in difficult circumstances is not lost as a result of budget constraints.

Fees and Charges

Businesses also suffer when local authorities increase fees and charges for a range of services. The recent controversy regarding the cost of new alcohol licensing fees highlights how fees can become a brake on business activity. Councils charge for the licensing and enforcement of a range of services, from car parking to licensing window cleaners, and while many charges are supposed to operate on a cost-recovery basis, this may not always be the case. Certainly there does seem to be a wide variation in charges across the country. Businesses fear that these charges will be seen as a source of revenue-raising for councils.

Procurement

With Scotland's councils responsible for a significant proportion of the £8bn spent annually on goods and services by the public sector, they also represent a large market for small businesses. The FSB has broadly supported Scotland's public procurement reform process. A more professional, transparent and accountable

system was necessary but references to achieving best value should capture the value and quality from delivering services locally, as well as considering the economic benefit of retaining that business in the local community. The reform process should be about addressing all these factors; instead we fear it has become too focused on savings to be gained through bulk-purchasing across the public sector. While this makes sense for certain commodities, it cannot be applied across the board and small businesses need time and support to adapt to new procurement processes.

The FSB does not expect favours for small businesses but we do want them to be able to compete on a level-playing field with larger competitors where appropriate. We are concerned that over-riding pressure to gain greater efficiencies will accelerate procurement reform, leaving small businesses behind.

The FSB's concerns about the impact of local government finance constraints could therefore be summarised by two points. Firstly, that services which interact with businesses will not be a priority for scarce resources and could be used to raise revenue and, secondly, that this will leave businesses less able to take advantage of the upturn with knock-on effects for new employment and economic growth opportunities.

3. Main Mechanisms Available to Alleviate this Impact

The FSB believes it is important for local authorities to consider making funding choices that will allow them return to growth more quickly. This means using the levers outlined above to encourage economic growth including:

- An efficient planning service
- A considered approach to procurement reform to look at opportunities for local businesses
- Implementing a local better regulation agenda, meaning less duplication and more efficiency
- Investment in local infrastructure to encourage business development
- Ensuring businesses are paid promptly by the council
- Supporting businesses through business support services, including streamlining business interaction with councils for accessing services.
- Effective consultation with local businesses on services

Many of these measures contribute to more efficient local government as well as supporting economic growth. We therefore hope local authorities will support this approach to adapting to financial constraints, rather than adopting some of the measures outlined in section two.

4. Scottish Government Action

We have to accept that because of the Concordat central government can no longer intervene as it might have done in the past however it does have a responsibility to ensure that when new legislation is agreed, or new burdens for local government created, the capacity exists at local level to enforce these appropriately.

Considering the range of tasks now carried out by local government, we are concerned that local authorities may be asked to do too much. This is not to imply

that services should be transferred away from local government but to suggest that we think about how local government delivers those services more efficiently. Local government has already begun this process by examining shared services; however from a business perspective we think there is scope for more efficient legislation.

Scottish legislation that impacts on small businesses tends to involve services that will be enforced or co-ordinated by local authorities e.g. recent legislation on sunbed parlours, knife licensing, alcohol licensing and smoking. The Scottish Government and the Scottish Parliament should ensure that inefficiency is not built into legislation i.e. allowing all 32 councils to develop their own forms and policies. In many cases there is a need for a degree of local flexibility but the FSB considers the current approach to be inefficient and unsustainable.

The Scottish Government should also consider whether additional funding streams will be necessary to support local economic development as we move out of recession e.g. initiatives designed to support or create employment opportunities.

Lastly, we believe it may also be worth considering what additional benefits local authorities could achieve if they successfully support economic growth. The Scottish Government could consider whether the Local Authority Business Growth Incentive (LABGI) scheme operating in England (whereby local authorities are able to retain a portion of any increase in rateable value in their area), or a similar model, might work in Scotland.

5. Longer Term Demands

As discussed above, we believe that local authorities must ensure they retain capacity to support a return to economic growth, rather than focusing solely on the immediate impact of the recession.

In the medium term we do have some concerns about the future of Business Gateway services and how these will be supported by councils as and when services are reviewed and contracts come up for renewal.