

Supporting Scotland’s economy: Scottish Affairs Committee

November 2010

Introduction

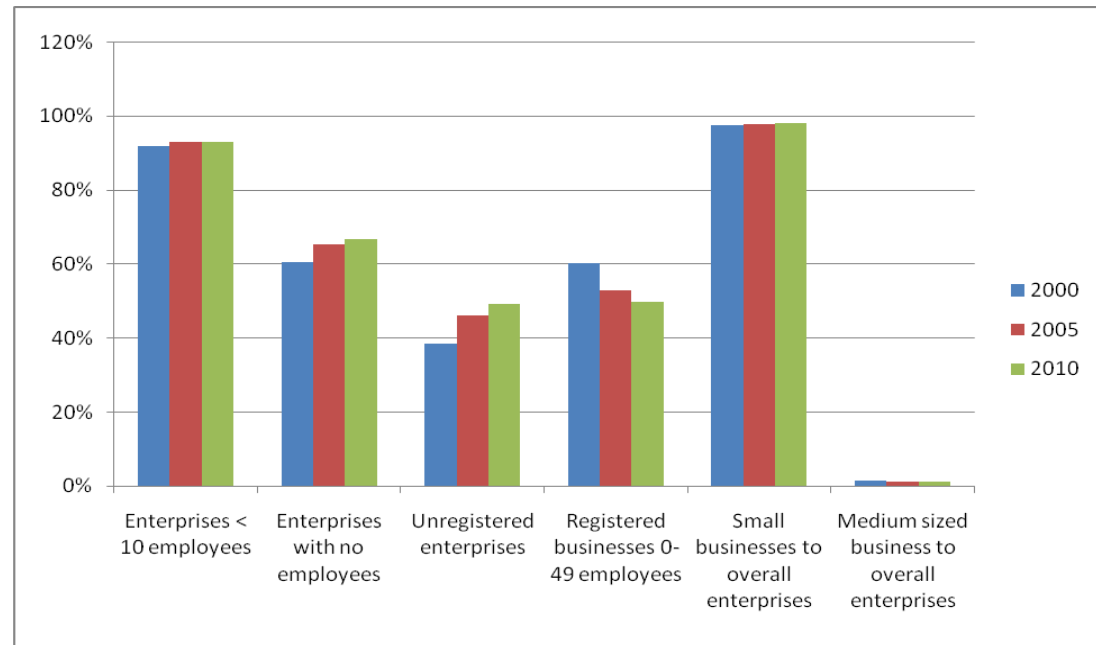
The FSB is Scotland’s largest direct-member business organisation, representing around 20,000 small business owners. The FSB campaigns for an economic and social environment which allows small businesses to grow and prosper. We welcome the opportunity to submit evidence to the Scottish Affairs Committee on the above subject.

Supporting businesses in Scotland

Overview of the small business sector

Micro-businesses (enterprises with fewer than 10 employees) form the bulk of the business base in Scotland. Figure 1 (below) illustrates this, indicating that **93%** of all private enterprises in Scotland are micro-businesses. Most FSB members fall within this category.

Figure 1: Overview of the Scottish private sector by size of enterprise



Source: Scottish Corporate Sector Statistics 2010

Note:

Unregistered enterprises: Enterprises which fall below the VAT threshold (generally sole traders, partnerships with no employees);

Small business: 0-49 employees;

Medium sized business: 50-250 employees.

Using 2009 corporate sector statistics, it is possible to compare the small business sector in Scotland with the sector across the whole of the UK. Below in Table 1 are the headline figures.

Small businesses (0-49 employees) account for:	UK 2009	Scotland 2009
Of total private enterprises ...	99%	98%
Of private sector employment ...	48%	41%
Of private sector turnover ...	36%	28%

Source: BIS Enterprise Directorate Analytical Unit

This shows that Scotland's small business sector has a slightly smaller share of the overall private sector than the UK as a whole and its share of employment and turnover is lower, suggesting that Scotland's small businesses are slightly smaller on average than those in other parts of the UK, both in terms of size and growth. This is consistent with FSB membership survey responses which show that a consistently higher percentage of Scottish respondents employ no staff, compared with members from the UK as a whole.

Economic challenges faced by our members

Small and micro-businesses in Scotland have of late faced many of the same well-documented issues as their counterparts in other parts of the UK, including:

- Tighter access to finance;
- Delays in payment from customers;
- Lack of consumer confidence; and
- Increased costs of complying with regulation and legislation.

In addition to this, Scotland's small businesses face particular challenges around issues such as:

- Lack of competition in the banking sector;
- Broadband, Wi-Fi and mobile coverage; and
- Transport and infrastructure.

FSB has therefore been calling, inter alia, for the following:

- A full investigation into competition in the small business banking sector;
- Assurance that broadband roll-out will reach as much of Scotland as possible, particularly rural areas where purely market-led initiatives would not be realistic or viable;
- More competition between airports, particularly in relation to commuter and business services to London;
- A move away from reliance on short-term debt finance for small businesses to longer term, sustainable finance through, for example, an expanded equity finance market in Scotland;
- Adequate funding for Companies House to implement the powers enshrined in the Companies Act 1985 to tackle late payment;
- Public bodies taking timely budgetary decisions to instil confidence and enable the business community to plan; and
- Smarter, joined-up regulation.

Re-balancing the Scottish economy

While not being directly concerned with the broader questions relating to the balance between the public and private sectors in Scotland, the FSB would caution against allowing communities in Scotland to again become over-reliant on a small number of large employers (whether public or private sector). The FSB believes it is important for Scotland to ensure that its own, broad, locally-grown business base is developed.

In addition to the recommendations set out above, the FSB believes there is considerable potential amongst Scotland's small businesses for contributing to economic stability and growth which could be harnessed with relatively little support. This is particularly true when considering job creation, where small businesses in Scotland have a demonstrable track record.

The promotion of job creation schemes

Over the last decade, Scottish Corporate Sector Statistics show that big business in Scotland shed 34,900 jobs, while small businesses created 67,400. It is encouraging that, even against the current challenging backdrop, around 35% of small Scottish businesses responding to the FSB's monthly survey reported that they were operating at or above capacity. Further, a high proportion (69%) of Scottish FSB members who employ staff expected their staff numbers either to stay the same or increase over the next three months¹. There is therefore scope for small businesses to build on this record and provide the new jobs the Scottish economy needs.

Given the scale of the task, there are several steps which the UK Government should consider in order to facilitate this.

First, we welcome the Regional Employer National Insurance Contributions Holiday for new businesses on their first 10 employees as a sensible move to encourage entrepreneurship. However, we would like to see this extended to all genuinely new jobs created by existing small businesses in Scotland. Not only would this reduce the cost and risk of employing new staff for the business, it would still generate Income Tax revenues which the Treasury would not otherwise raise.

Secondly, we would argue that Scotland's 193,000² strong army of single-member enterprises (i.e. businesses with no employees) represents a significant untapped resource. If only 20% of single-member enterprises in Scotland were to employ one person this would create a further 38,600 jobs in Scotland.

In addition to the capacity figure noted above, there is also an appetite to make the move towards becoming an employer. According to the FSB-ICM survey in March 2010, approximately 48% of small businesses with no staff at present had considered taking on an employee.

¹ FSB Member Survey Panel responses: June 2010 and September 2010 respectively.

² Scottish Corporate Sector Statistics for 2009

In investigating this potential, the FSB identified several barriers preventing single-member enterprises converting this consideration into a reality. In addition to obvious questions of cost, which could in part be addressed through a wider NIC holiday as outlined above, self-employed individuals can find the prospect of becoming an employer daunting. The bureaucracy, extent of one's liabilities, demands on time and other practical concerns can dissuade potential employers from making the transition.

To that end, the FSB has proposed the introduction of an integrated support service for those seeking to take on their first member of staff. The FSB envisages that the service could provide:

1. One-to-one impartial advice to business owners considering taking on an employee to inform them of the requirements on – and potential benefits to – their business and to help them decide whether becoming an employer is appropriate for them.
2. Mentoring and support for those businesses who decide to become employers – easing the process of taking on their first employee, enabling them to manage their new responsibilities and maximise the benefits of additional staff. Such support could include help with recruitment, drafting contracts of employment and setting up payroll and PAYE systems.

While it is accepted that delivering much of this unified business development support will be a matter for the Scottish Parliament to deliver through the devolved enterprise network, the UK government can also play a role by helping ensure that those services provided on a UK-wide basis are effectively integrated into the scheme. The excellent support offered by Job Centre Plus to small businesses seeking to recruit staff is an obvious example.

Promoting Scotland as an investment location for overseas investors

Clearly, the FSB in Scotland's focus is on promoting the interests of Scottish small businesses and the communities and jobs they support. We are therefore not best placed to comment in detail on matters relating to inward investment.

However, for anywhere to be an attractive location to establish a business, it must have a workforce with the correct number of individuals with the right level and of skills. It is for this reason that the FSB in Scotland has recently raised concerns regarding the proposed annual limit on net non-EEA migration, drawing UK Ministers' attention to the particular requirements of the Scottish economy. We believe the cap as currently proposed could have a negative effect across various sectors which are key to the Scottish economy. Potential inward investors with specific skills needs – in oil, gas and renewables, for example – may share similar concerns to the smallest businesses who may act as sub-contractors in these specific industries. Further, we are deeply concerned that the qualifying wage level of £40,000 does not reflect average salaries and relative populations across the UK.

In order to mitigate these effects, we support the Scottish Government's call on the UK Government to take a flexible approach to the annual limit in Scotland. In particular, we would like to see a regional variation introduced so that Scotland is provided with a distinct annual allowance in relation to Tier 2. We believe that this proposal, which is in line with

the recommendations of the Commission for Scottish Devolution, provides a workable and practical flexibility.

For further information on any of the points raised in this submission, please contact Mary Goodman, Senior Policy Advisor, email: mary.goomdan@fsb.org.uk t: 0141 221 0775.