

# Scottish Government Budget 2011/12

## Economy, Energy and Tourism Committee

**November 2010**

### Introduction

The FSB 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 the opportunity to submit our response the Economy, Energy and Tourism Committee on the announcement by the Scottish Government of its draft 2011-2012 budget.

### Context

As the draft budget states, Scotland's spending decisions are taken against a backdrop of dramatically reduced expenditure across the UK. The FSB is fully cognisant and supportive of the need to manage public spending more efficiently. However, this coupled with a below-trend growth forecast, require this budget to prioritise economic stimulus in order to ensure that Scotland at least keeps pace with other parts of the UK and Europe and sets the scene for improving its economic competitiveness. For the FSB this means providing support for Scotland's broad business base to enable our businesses to meet the tough challenges ahead, and supporting small existing businesses to create jobs.

## Maximising income within existing powers

The FSB broadly welcomes the proposal by the Scottish Government to redress the balance between town centres and supermarkets/out-of-town retail parks through the introduction of a new rates supplement on the largest such businesses. Scotland has seen a dramatic drop in high street independent retailers in recent years, and while this proposal is not the full answer, we hope that it will create a more level playing field for smaller retailers.

We do, however, look forward to seeing the details of the scheme and will examine them carefully to ensure that they will achieve the purposes for which they were intended.

## Financial and sustainable growth

### Small Business Bonus

The FSB welcomes the Scottish Government's commitment in the draft budget to continue the Small Business Bonus. This is a key course of action which will sustain economic recovery amongst Scotland's broad business base. An estimated one in eight recipients of the Bonus claim that it has contributed significantly to their continued viability during the recent economic downturn.

### Enterprise agencies

Because the current economic climate continues to impose increasing financial pressures on small businesses, the FSB continues to recommend that funding for business support should focus on the existing 290,000 or so small firms (fewer than 50 employees), which have consistently provided stability to Scotland's economy and have a track record of creating jobs<sup>1</sup>. While high-growth business and international markets or investors present Scotland with opportunities it should not be at the expense of its broad business base.

Yet, despite the £7 million cut to the enterprise agencies, it would appear that the majority of funding the draft budget proposes to allocate in support of business (as opposed to foregoing revenue) is either to attract inward investment or for the very small number of elite companies which meet the current threshold criteria for the enterprise agencies. The business support gap left unfilled by Scotland's enterprise agencies urgently needs attention, particularly at a time when local authorities will be seeking to divert funds from less visible budgets and may feel forced to reduce local economic development budgets.

### Scottish investment fund and loan bank

The FSB recognises that loan funds serve a purpose, especially in supporting development and innovation in low carbon technologies and products at a time when finance is particularly scarce for this sector. Investment in low carbon represents an opportunity for Scotland to lead in the business end of this industry. We do not

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<sup>1</sup> Scottish Corporate Sector Statistics 2010

dispute this. However, claiming that the investment bank or loan fund will help Scottish small businesses in any significant way is unrealistic.

### **Low carbon economy**

The FSB welcomes the priority the draft budget gives to supporting the development of a low carbon economy and encouraging energy efficiency. In recent years, the FSB in Scotland has supported specific measures that promote sustainable economic growth while reducing carbon emissions. These include the introduction of the recently extended Scottish boiler scrapping scheme and the £10 million allocated last year for subsidised and free home insulation. Broadly, the FSB welcomes that funding for the Home Insulation Scheme is to be maintained and looks to clarify if additional funding is available for an extension to the successful boiler scheme.

## **Transport and infrastructure**

### **Ferries**

The FSB was pleased to support the introduction of the Road Equivalent Tariff (RET) pilot scheme and acknowledge that funding for the pilot is outlined within the Draft Budget. An early evaluation report suggested the scheme had contributed to a 19% increase in visitor numbers to the Western Isles and a 22% increase in turnover for local businesses. As outlined in our recent submission to the Ferries Review<sup>2</sup>, the FSB seeks an extension of the scheme beyond the routes currently participating, to routes where the economic benefits are likely to be replicated.

The FSB has concerns that the Vessels and Piers budget, which provides for loans to Caledonian Maritime Assets for the procurement of vessels, has been reduced from £14.8m in 2010/2011 to £8.1m in 2011/2012 and would like to understand what this will mean in practice for the routes Caledonian MacBrayne operates, particularly given the need for more vessels to cover existing demand on the Western Isles routes.

### **Road network**

The FSB supports the development of a new Forth crossing and understands its pivotal importance for communities and businesses across the country. However, Scotland's small business community is reliant on good, local transport infrastructure with members in Scotland saying that more than half of their turnover comes from their local area.

### **Trams**

The FSB notes that the draft budget contains the Scottish Government's commitment to a £500 million contribution to the Edinburgh tram project. The FSB's overriding priority for its membership in Edinburgh remains that the remainder of this project gets finished as soon as possible and awaits the publication of Audit Scotland's report into this project in 2011.

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<sup>2</sup> [http://www.fsb.org.uk/policy/rpu/scotland/assets/cr\\_pti\\_scottishferriesreview\\_sept2010.pdf](http://www.fsb.org.uk/policy/rpu/scotland/assets/cr_pti_scottishferriesreview_sept2010.pdf)

## Capital expenditure

The Scottish Government's proposal to move £100 million of spend from this year's budget to next year's capital budget is welcome amongst FSB members. At least 57% of respondents the FSB's November 2010 survey considered that investment in physical infrastructure should be one of the Scottish Government's highest priorities. This is particularly necessary, given the construction industry's role in recent economic recovery while at the same time being subjected to ever restricted finance options and increased cash-flow pressures. Small construction businesses particularly have and will continue to suffer from these pressures, both directly and as a result of the collapse of large companies.

## Planning

The FSB welcomes the continued commitment to build on the promising start made by the 'e-planning' in the budget. It is widely recognised that this project has still a way to go before it fully meets its potential or the needs of its users.

## Local government

Local government spending has a significant impact on local businesses. At the top of the list of local authorities delivery areas mentioned in the draft budget is found 'successful local economies'. However, apart from a brief mention of the Small Business Bonus no further mention of local government's role in supporting its local economy is made. The FSB's concern is that in the face of overall cuts, the local economic development budgets will at best be reduced to ineffective levels and at worst disappear completely. Some councils have already published draft spending plans which show this as a likely outcome. This would appear to be at odds with the Scottish Government's professed commitment to stimulate the economy.

## Procurement

The FSB notes the significant savings reported in the draft budget which have been delivered through the Scottish Government's Public Procurement Reform Programme. While this is desired, and indeed necessary, in times when public expenditure must be reduced to meet constraints, the FSB would recommend caution in seeking ever-increasing savings through this route. Over-centralised and onerous procurement processes continue to favour larger companies (by which the FSB means companies of over 50 employees). A possible result of this, will be a public sector that relies too heavily on too few suppliers, which will inevitably drive costs higher in the long term.

## Conclusion

A focus on Scotland's broad business base is vital to achieving the Scottish Government's main aim of sustainable economic growth. While this draft budget appears to recognise this in several places, the main focus remains on the significant challenges faced by the public sector and on how frontline services will be delivered

within a more constrained spending environment. This is entirely understandable and the FSB supports the premise that the bulk of public spending available must be allocated to these services. However, as we have highlighted in this response, Scotland's small businesses which will lead the recovery and create the new jobs required, need the right conditions to do so. Most of the funding which the draft budget proposes to allocate to enterprise and economic development does not do this. The most effective element of the budget by far is the continuation of the Small Business Bonus. A relatively small adjustment in the budget may be possible by diverting some of the funding originally earmarked for high-growth firms via the enterprise agencies and allocated to local government for the continuation of local economic development activity for smaller growth businesses.

The FSB appreciates the opportunity to submit this written evidence to the Committee and will be happy to continue to take part in this debate.

For further information on any of the points raised in this submission, please contact Mary Goodman, Senior Policy Advisor: [mary.goodman@fsb.org.uk](mailto:mary.goodman@fsb.org.uk) or Martyn McIntyre, Policy Officer: [martyn.mcintyre@fsb.org.uk](mailto:martyn.mcintyre@fsb.org.uk) t: 0141 221 0775.