

Local Government and Regeneration Committee: Scottish Government Spending Review 2011 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.

Much of the debate around the Spending Review and Draft Budget 2012-2013 is, understandably, focused on the challenge for the public sector to deliver frontline services within a constrained spending environment. However, local government spending has a huge impact on small businesses and the outcome of their budgetary decisions can have a serious effect on the success, or failure, of local economies. We therefore welcome the opportunity to respond to the committee's call for evidence.

Local government's role in supporting economic growth often focuses on the economic development function of local government. This is an important element, but 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 the round. We have therefore focused our comments on four key aspects of local government budget constraints.

1. 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.

2. 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'¹. 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.

3. 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 businesses²)
- Economic development spending (including regeneration and infrastructure spending, such as business premises)
- 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 repairs³)

¹ See attached conference brochure "How your public body can create new income streams to support your budget"

² 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

³ 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>

- 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.

4. 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 environment⁴ 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 reports⁵. 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 is also likely to have seen savings as a result of the post-McClelland procurement reform programme in Scotland.

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,

⁴ One of the six strategic priorities in the Scottish Government’s Economic Strategy

⁵ 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

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 93% of our businesses receive only 7% of Scotland's public sector spend⁶. 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.

The Spending Review and Draft Budget 2012-2013 cover a range of issues, including a number of government initiatives, which may have some impact on local government (for example, issues relating to changes to non-domestic rates). We have limited our comments to local government spending in line with the committee's call for evidence but would be happy to provide comments on any other issues if this would be helpful.

For further information on any of the points raised in this submission, please contact Susan Love, Policy Manager email: susan.love@fsb.org.uk t: 0141 221 0775.

⁶Figures show 7% of spend was with businesses with less than 10 employees, which account for 93% of all businesses in Scotland - Public Contracts Scotland Analysis 2009/10