

Federation of Small Businesses (FSB) in Scotland response to Scottish Government consultation on Building Community Wealth in Scotland

Introduction

The Federation of Small Businesses (FSB) is Scotland's leading business organisation and aims to help smaller businesses achieve their ambitions. These micro, small and medium businesses comprise almost all enterprises in Scotland (99%), employ 1.2 million people and contribute £110bn to the economy.¹

We welcome the opportunity to respond to the Scottish Government consultation on Building Community Wealth in Scotland, as well as the opportunity to be involved in the Bill steering group which shaped the consultation paper. It is our view that Community Wealth Building legislation has huge potential to reform the way we do things in Scotland, particularly with regards to procurement, to the benefit of local businesses and, in turn, local economies and communities.

Proposal: A duty to advance CWB

FSB supports **Option C** with regards to the introduction of a CWB duty.

To truly realise the aims of CWB in Scotland will require a significant shift in thinking, behaviour and delivery across the Scottish public sector. And in order for this to happen, it is our view that legislation and statutory targets around procurement strategies, engagement and spending are required. While a great deal of progress has already been made in terms of, for example, procurement spend with small, local businesses, and engagement with non public sector community partners, including SMEs, official figures – and feedback from our members – show that in some cases, progress has stalled, or even declined. Examples of this – as well as case studies of good practice – are detailed in our full response below.

Therefore, we are clear that CWB will not succeed in Scotland without statutory targets and obligations being brought forward by the Scottish Government.

¹ <https://www.gov.scot/publications/businesses-in-scotland-2022/pages/headline-results/>

Spending pillar definition: Maximising community and business benefits through procurement and commissioning, developing good enterprises, Fair Work and shorter supply chains.

Procurement and Scotland’s small businesses

Spending is the key pillar/aspect of CWB for FSB and our members. As noted in our 2019 research², local government spends around £7bn each year purchasing goods and services. Figures provided to FSB by the Scottish Government indicate that total local government spend in 2020/21 was £6.8bn. For comparison, total NHS spend for the same period totalled £3.3bn, central (Scottish) government spend was also £3.3bn, and education spend was £1.1bn.

This significant spending power, if effectively harnessed, could make a real difference to local economies. Buying local can help councils support new jobs, create new businesses and, of course, reduce their carbon footprint³. It is clear this is recognised by the Scottish Government, due to the progress that has been made in the last decade through, for example, the Procurement Reform (Scotland) Act 2014 (PRA2014), the Procurement (Scotland) Regulations 2016, and the sustainable procurement duty.

However, as our 2019 report found, this progress has not yet resulted in smaller businesses, and particularly micro businesses (those with fewer than 10 employees), winning a larger share of public contracts. Each year, Public Contracts Scotland publishes a usage report, which sometimes includes details on procurement spend by size of business in Scotland for that year. The last available report which includes this data (2020/21⁴) shows only a small proportion of the value of contracts awarded that year (total Scottish public sector spend this year was more than £13.3bn) went to the smallest businesses, despite them accounting for the vast majority of enterprises in Scotland:

Procurement spending by size of business in Scotland (2020/21)		
Size of business	Share of spend	Proportion of business community
Micro (Fewer than 10 employees)	4.7%	93.3%

² <https://www.fsb.org.uk/resources-page/fsb-procurement-reforms-yet-to-deliver-for-scottish-smaller-firms.html>

³ <https://cles.org.uk/publications/local-procurement-making-the-most-of-small-businesses>

⁴ <https://www.publiccontractsscotland.gov.uk/helpandresources/download/259fa412-4198-4b5f-a710-0deb3dd3d273>

Small (Between 10 and 49 employees)	12.9%	4.8%
Medium (50 and 249 employees)	28.7%	1.1%
Large (250+ employees)	53.8%	0.7%

For comparison, the usage report for 2016/17⁵ shows that of the £11.6bn public sector procurement spend that year, approximately 7% went direct to micro businesses, approximately 14% went direct to small businesses, and approximately 31% went direct to medium-sized businesses. Therefore, there has been a decline in progress since the introduction of procurement reform, which was suggested would deliver a larger share of the value of public contracts to smaller Scottish businesses through new duties placed on Scottish public bodies.

In addition, the 2020/21 report shows that £7.4bn (55.7%) of spend was won by suppliers with a Scottish address. This means an even smaller proportion of total procurement spend goes to businesses that are small and based in Scotland.

Spending with businesses with a Scottish address		
Size of business	Share of spend	Proportion of business community
Micro (Fewer than 10 employees)	6%	93.3%
Small (Between 10 and 49 employees)	17.7%	4.8%
Medium (50 and 249 employees)	34.2%	1.1%
Large (250+ employees)	42%	0.7%

Again, looking at the same figures for 2016/17, approximately 56% of spend was secured by suppliers with a postcode in Scotland, where the postcode of the supplier is known. The breakdown of micro/small/medium/large was not provided in this report.

It is also important to caveat this data by acknowledging that spend with a business with a Scottish address does not always translate to that wealth staying within the community. For example, a local authority buying cleaning supplies from a large company who just happens to have a Scottish branch does not mean that money will then circulate within the local authority area (or even Scotland), depending on the company's operational procedures.

Therefore, it is important to define what we mean by 'buying local' within any CWB legislation in order that targets set as a result of this (and the data collected in order to

⁵ <https://www.publiccontractsscotland.gov.uk/helpandresources/download/5be9c48e-7681-495a-957e-e0fbba03d898>

monitor progress towards these) will truly demonstrate how much spend, or 'wealth', is being created in a community.

The static/declining nature of procurement spend with small businesses can perhaps be explained by the varying performance of local authorities. Looking at data from the Improvement Service's Local Government Benchmarking Framework for 2021/22⁶, we can see that the proportion of procurement spend with local enterprises varies significantly across the country. For example, councils in the Highlands and Islands can spend around 50% with local enterprises each year (Shetland Islands 52.0%, Highland 49.8%, Angus 42.9%). While this can be partly attributed to the differing nature of rural and urban economies/communities, variations also exist between more urban councils, with North Lanarkshire allocating 31.3% of its spend to local enterprises in 2020/21, compared to South Lanarkshire's 15.4%.

This data set also shows significant variation in progress made since the 'baseline' year used for benchmarking procurement spend by Scottish local authorities (2010/11). While local authorities in Fife (increased by 17.7% on baseline year) and Aberdeen City (increased by 14.1% on baseline year) have made welcome progress in increasing their spend with local enterprises, those such as East Dunbartonshire (12.7%) and Inverclyde (9.7%) have reduced their spend equally as significantly. Therefore, when averaged out, the progress made in terms of building community wealth through spending with local, small businesses, is not where it is supposed to be following the previous round legislative reform to the procurement system.

Community Wealth Building Pilots

FSB has engaged with the five CWB pilot areas (Clackmannanshire, Fife, Glasgow City Region, South of Scotland and the Western Isles) predominantly through our Development Managers, who represent member interests in their local areas. We have welcomed the inclusion of our staff, and also members, in these pilots as a means of ensuring the small business voice is heard and – most importantly – reflected in the development of these pilots.

Official stats indicate the success of these pilots. Clackmannanshire, for example, set a target in its 2019 strategy to take local spending to 21.5% by 2022, and hit 23.4% in 2020/21. As noted above, Fife has made significant progress in going from 22.4% of spend in 2010/11 to 40.2% in 2021/22.

Feedback from our Development Managers tells us that there are two factors which have enabled this progress: ownership on the part of the local authority, and strategies with clear targets and detailed monitoring arrangements. The level of detail provided in

⁶ <https://www.improvementservice.org.uk/benchmarking/explore-the-data/local-government-professionals>

Clackmannanshire's annual procurement report⁷, for example, allows them to not only evidence to CWB stakeholders what progress has been made, but also sets out concrete actions they have taken in order to produce and sustain their progress. If we look at Aberdeenshire's (whose spend with local enterprises has decreased by 1.9% since 2010/11) report for the same period, however, there is no mention of community wealth building. While there is acknowledgement of the importance of spend with local business, and their involvement with the Supplier Development Programme, the report does not contain either a target for increasing spend or specific actions they will take in order to facilitate this.

Therefore, by looking at the approaches taken by two different local authorities – one a CWB pilot area, the other not – it can be demonstrated that setting targets and putting in place specific strategies are critical to the success of CWB.

Local authority resourcing

Support from central government has also been vital to the success of the CWB pilots. The financial pressures facing local government are well known and documented, and we appreciate that implementing CWB as we have suggested is likely to bring additional financial and resourcing considerations for local authorities. However, as we have already said, to truly realise the aims of CWB, and to replicate the success of examples such as that of Preston, will require significant system and behaviour overhaul. We do not believe that existing structures, such as Community Planning Partnerships, will achieve the progress that needs to be made. As illustrated by the stats we have highlighted above, existing structures and systems are not delivering the progress we want to see.

If ambitions around developing local supply chains – involving not just local authorities, but other public anchor organisations, such as the NHS and educational institutions, are to be achieved, support and resources will be required to facilitate leadership and delivery of this. Similarly, additional resource would need to be provided if regional supply chains, involving multiple local authorities, are to be developed. It will be important to tailor this for individual local economies in terms of not only their needs but also the nature of their local businesses, as well as which organisations are defined as an anchor in each area.

Aside from providing specific funding to local government to implement any forthcoming CWB legislation, we would like to see additional resources allocated to existing successful initiatives such as the Supplier Development Programme. The service provided by their Meet the Buyer events are crucial in improving engagement between public sector purchasers and SME suppliers. Feedback from our members is positive overall on SDP

⁷ <https://www.clacks.gov.uk/document/6806.pdf>

and the resources they provide, with any suggestions for improvement likely to be rectified by increasing the programme's resources and therefore capacity to provide support.

SME engagement and support

In preparing our response to this consultation, FSB sought member views in two ways. The first was by asking specific questions related to CWB/procurement in our Big Small Business Survey⁸. The results of the survey (over 600 responses) found that:

- Over half of Scottish SMEs (55.09%) do not believe the key players in their local community (e.g. local authority) understand the needs of local businesses like theirs, and their importance to community wellbeing
- The majority (70.67%) of Scottish SMEs have never tendered for-/or been awarded any public contracts
- Over two thirds (66.49%) of Scottish SMEs who have tendered for a public contract found the process complex and challenging to navigate
- Over half of (55.67%) Scottish SMEs do not believe procurement spend by local authorities/public sector bodies is sufficient with small/micro businesses

Additionally, we held a roundtable for members to enable them to provide their input into our response. While we heard examples of good practice in terms of working with local authorities, overall, discussion focused on previous, bad experiences of tendering for contracts which has put them off doing so again. Awareness of Public Contracts Scotland was low, and its lack of user friendliness was highlighted by those who had used it. Progress made in terms of increasing the use of Quick Quote was welcomed, however it was also noted that a business had to be 'in the know' in most cases in order to bid for these contracts. In terms of procurement legislation, some participants expressed the view that aims around CWB would not be realised while Scottish Government policy remained aligned with EU spending protocols.

Participants also noted that small business involvement in delivering public contracts most often comes in the form of subcontracting, with them delivering as part of a larger business' supply chain. The payment practices of larger companies present another barrier to smaller ones in becoming involved in the delivery of public contracts. It is welcomed that the Scottish Government has made clear the necessity of prompt payment by making it a mandatory requirement⁹ under the PRA2014, however our

⁸ <https://www.fsb.org.uk/resources-page/big-small-business-survey.html>

⁹ <https://www.procurementjourney.scot/additional-resources/prompt-payment>

members continue to raise late payment as a significant issue and practical issues around enforcement remain.

While we appreciate that all of the levers to tackle this issue may not rest entirely within devolved competences, it is our view that carrying out a review of what specific actions can be taken to address the issue of late payment within supply chains will be a crucial part of any forthcoming CWB legislation, and as part of the overhaul of systems and behaviours required to deliver the Bill's stated aims.

SMEs will also require additional support and consideration in order to both take advantage of and deliver on any opportunities available to them as a result of potentially increased public sector spend with them. While some of this could be provided by increasing the capacity of SDP as set out above, it will also be important to consider the proportionality of the impact of existing and forthcoming conditionality attached to the receipt of public funding, such as that connected to Fair Work.

Scottish SMEs support the policy that everyone should be paid a fair wage for the work they do; indeed figures from Living Wage Scotland show that 90% of all accredited private sector employers are small businesses. However, we cannot ignore the current 'cost of doing business' crisis in which businesses are now operating, following on from the pandemic. Businesses of all sizes may be experiencing ever increasing energy prices and input costs, however the smallest do not have the reserves buffer that larger organisations are able to rely on. This underlines the importance of carrying out perhaps not only a Business Regulatory Impact Assessment (BRIA), but a small business impact assessment, when introducing policy – and of taking a whole system approach when we come to design any CWB legislation, one which takes account of policy from across all spheres of government, and how this might impede what is trying to be achieved.

Conclusion

FSB Scotland supports and shares the Scottish Government's ambitions around Community Wealth Building, not least in terms of the opportunities it will bring for Scotland's SMEs. As noted throughout our response, significant progress has already been made not only through procurement reform but also through the CWB pilots.

It is now time to accelerate and solidify this progress through bringing forward Community Wealth Building legislation – as we have outlined in our response, it is clear the only way this can be achieved is by implementing statutory targets and obligations, otherwise we risk stagnating or worse, declining, on progress made already. Truly embedding and realising the opportunities of the CWB approach in Scotland will not be achieved through the status quo but require new systems and behaviours. We look forward to continuing to work with the Scottish Government and other public sector partners as this work progresses.