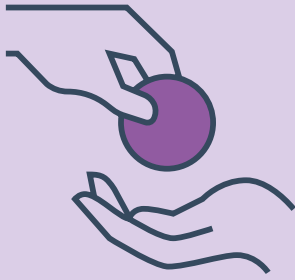




Rebuilding our strength

The Scottish Government
and small business recovery

fsb⁰⁸



£2.8bn - amount of **covid grant support** given to **Scottish businesses** by the **Scottish Government**



£4.1bn - value of **covid loans** borrowed by **Scottish small firms**



99,800 - number of **covid loans** taken out by **Scottish businesses**



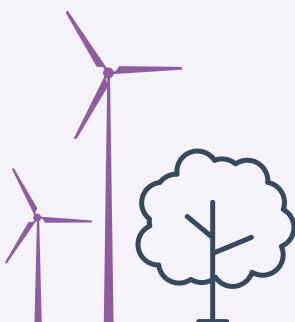
Small businesses account for **two fifths (43%)** of all **private sector jobs** in Scotland



Future lockdowns are the biggest cause of concern for **almost half (43%)** of **Scotland's small businesses**



Only **1 in 5** believe the Scottish Government **values the achievements** of people running their own business



The **environment is important** to the majority of small businesses (58%)



Despite making up **94%** of businesses, **Scotland's micro-businesses** receive only **5%** of **public procurement contracts** by value



1/5 - share of Scottish businesses say their staff have all the **digital skills they need**

Introduction

Small businesses and the self-employed are at the centre of Scotland's local communities and economies. While the public health measures taken over the last 18 months were necessary to control the spread of Covid-19, they placed a disproportionate burden on local and independent firms.

At the height of the crisis in 2020 over half of all small businesses closed,¹ whilst government restrictions such as physical distancing tightly regulated large parts of the economy. To survive, small businesses in Scotland have taken on more than £4bn worth of debt,² while uncertain trading conditions persist.

However, small businesses are pivotal to economic recovery in Scotland. They are responsible for so many jobs, goods and services, across communities that a net zero economy, with fair work at the centre, won't be achieved unless we take small businesses with us.

That is why FSB wants to work with the Scottish Government to develop a Small Business Recovery Plan to help get smaller firms back on their feet. This document sets out some ideas that, when combined, could help provide a clearer focus on the government actions small businesses need for recovery.

¹ See: www.fsb.org.uk/resource-report/finding-our-feet

² See: www.british-business-bank.co.uk/analysis-of-final-coronavirus-loan-scheme-data-shows-79-3bn-of-loans-to-1-67m-businesses-evenly-distributed-across-whole-of-the-uk/

Jobs

Small businesses are a crucial source of employment across Scotland, providing 43% of all private sector jobs.³ These employers are especially important in rural economies and provide over half of all private sector jobs from Shetland in the north (63%) to the Borders in the south (65%).⁴

Evidence suggests small firms also play a critically important role in economic downturns. Previous FSB research highlighted that 9 out of 10 people who re-joined the workforce after the 2008 crash did so by joining a small business or setting one up.⁵

Harnessing the power of small firms to maintain and create jobs will undoubtedly be key to our recovery from the pandemic. Government can help by ensuring that employment incentives are designed with small businesses in mind, as well as tackling wider issues which exacerbate staffing shortages.

Ideas

- Boosting the ability of local employers to create jobs by ensuring the wage subsidies available from councils, via the Young Person's Guarantee, can be used easily by small businesses recruiting across Scotland. For example, make the scheme applicable to candidates of the employer's choosing, even if they live in a different (though nearby) local authority area.
- Exploring how the Scottish Government could fast-track support for the construction of employee accommodation in rural and remote areas to help employers overcome the particularly significant staffing problems in their communities.

Digital

In the last 15 months, many small firms adopted digital technologies to keep trading during the crisis. The rapid pace of this digitalisation and the consequent innovation gains produced for the economy is a genuine small business success story.

Building on this momentum and accelerating digital improvements will be central to the government's desire to transform the economy post-Covid. While firms need support to invest in opportunities now, we also need to consider how larger-scale improvements to the digital capabilities of our small business sector can be better supported.

Ideas

- Providing additional resource to supplement the recently launched, and quickly over-subscribed, £25m Digital Boost Grant. In addition, delivering multi-year funding commitments to initiatives aimed at boosting Scotland's small business community's digital capabilities, including the Digital Boost Grant.
- Improving Scotland's digital public services, such as business support services and regulatory schemes (at both national and local level), to deliver the Digital First approach outlined in the government's digital strategy. Ensuring new and existing business-facing services, such as licence and grant applications, that operate online would, for instance, generate substantial cost savings and productivity gains for public bodies, whilst significantly improving the experience for business customers.

³ See: www.gov.scot/publications/businesses-in-scotland-2020

⁴ See: www.gov.scot/publications/scotlands-labour-market-people-places-regions-statistics-annual-population-survey-2019

⁵ See: www.ippr.org/publications/small-firms-giant-leaps-small-businesses-and-the-road-to-full-employment

Entrepreneurship and the self-employed

The past 18 months have exposed the fragility of striking out on your own – with many start-ups and self-employed people receiving little or no business income or sick pay. Perhaps unsurprisingly, 57% of small business owners think the pandemic has made self-employment less attractive.⁶

Indeed, Scottish Government figures reveal that, over the last year, there has been a 20% decline in people identifying as self-employed.⁷ Further, an OU-led research project found that there were 12,000 fewer self-employed people in Q4 2020 compared to the same period the year before.⁸

There is a real risk that people deem it too risky to either start, or continue, a business post-Covid. And, with a historically poor business birth rate, Scotland needs a stronger, not weaker, start-up pipeline.

Thus, we should ensure a stronger focus on start-ups and support for people who work for themselves in our plans for economic recovery.

Ideas

- Taking inspiration from a successful Dutch scheme called Broodfonds,⁹ pilot a co-operative scheme to enable entrepreneurs to pay into a collective insurance pot to cover them if they become too ill to earn – mitigating the often-precarious nature of starting/running a business.
- Using Scotland's social security system to deliver fair work for self-employed people by, for instance, improving paternity or adoption pay for self-employed parents.
- Establishing a small business unit within the Scottish Government, like the New Zealand Government's Small Business Collective,¹⁰ or the US Small Business Administration¹¹, to better inform the development and delivery of government policy that affects small businesses.

A just transition for local businesses

Scotland has set an ambitious and bold target to become net-zero by 2045 – a legally binding target that will necessitate a radical transformation for all sectors of our economy.

The small business community is committed to playing its part in making a net-zero economy a reality, with 74% believing they have a responsibility to help the country achieve our climate change commitments.¹²

However, in the run up to COP26, too few small businesses understand what this will mean for them in practice and what steps they need to take.

Undoubtedly, we need to support small firms to realise the business opportunities created by the shift to a net-zero economy. At the same time, however, we also need to ensure a just transition to net zero for local

⁶ See: www.fsb.org.uk/resources-page/state-of-small-business.html

⁷ See: <https://bit.ly/3kmGfC4>

⁸ See: www.open.ac.uk/research/news/first-findings-impact-covid-19-uk-self-employed

⁹ See: www.broodfonds.nl

¹⁰ See: www.mbie.govt.nz/business-and-employment/business/support-for-business/small-business

¹¹ See: www.sba.gov

¹² See: www.fsb.org.uk/resources-page/state-of-small-business

businesses by helping them to adapt their operations to new ways of working – a task made more difficult by the likely long-term impact of the Covid-19 crisis.

Ideas

- Providing more targeted practical support, such as more intensive help through the implementation process, for small businesses installing solutions to reduce their carbon footprint, as well as launching net-zero grants to complement existing loan schemes.
- Upgrading business premises alongside homes – taking a neighbourhood approach to improving the efficiency of our buildings, especially where businesses share older or listed buildings.
- Delivering net zero investments, such as improving energy efficiency and installing heat pumps, by breaking the work into smaller contracts – making it easier for local businesses to win contracts, with all the wider local economic and community benefits this brings.

Procurement

Every year the devolved public sector spends around £14bn purchasing goods and services.

Despite several changes that were designed to make it easier for small businesses to win contracts, and thus secure additional, wider economic benefits from public procurement, progress towards these goals has been slow. Indeed, recent figures show that Scotland's micro businesses (94% of all businesses) received only 5% of public contracts by value in 2018-19, down from 7% in 2016-17.¹³

If we want to build more resilient supply chains in Scotland, and to achieve the economic and social benefits of adopting community wealth building principles, then further changes in procurement practice will be required to shift the dial.

Ideas

- Requiring anchor institutions, like councils, the NHS and colleges, to provide data on their spending (for example with small and local businesses) in their annual procurement reports, as well as detailing any improvement targets in their procurement strategies. This would help drive more focused improvements on how the spending of our anchor institutions contributes to local communities.
- Replicating the work underway through Scottish Enterprise's Supply Chains Development Programme¹⁴ at a local and regional level. This work helps identify and develop Scottish-based suppliers for key goods and services; not only helping supply chains become more resilient to future shocks but also identifying growth opportunities for Scottish firms and generating wider benefits to the Scottish economy from this public spending. Resourcing and adopting a similar approach at a regional level would yield similar benefits for local economies.
- Adopting additional measures to eradicate the culture of late payment, such as requiring evidence of payment practices from primary contractors, increased monitoring of supply chain payments and reporting late payment action in public sector annual reports.

¹³ See: www.publiccontractsscotland.gov.uk/helpandresources/download/19278264-28d6-4558-8b55-db2627944c60

¹⁴ See p14: www.scottish-enterprise.com/media/4008/se-business_plan_may_2021.pdf

Property and rates

As noted above, the fall-out from the pandemic saw many businesses closed, or operating at vastly reduced capacity, for much of last year. Maintaining rates reliefs in the current financial year has undoubtedly been a key lever to minimise costs as businesses get back on their feet.

However, rates aren't the only challenge associated with business premises. While many landlords and tenants worked well together through the crisis, nevertheless a number of small business tenants feel they have very limited room for manoeuvre.

To deliver vibrant and successful local places, we need to make it easier and more affordable for small businesses to occupy commercial property.

Ideas


- Retaining partial rates support for small firms who are outside the scope of the Small Business Bonus, but are currently in receipt of full pandemic rate reliefs, when the current package of measures expires to avoid them facing a cliff-edge return to full payment of rates.
- In responding to the recommendations of the forthcoming review of the Small Business Bonus Scheme, recognise the change in context since the study was commissioned, with a view to avoiding unexpected tax increases for smaller firms recovering from the crisis.
- Developing a detailed plan for the next business rates revaluation that includes measures to effectively communicate businesses' rights and obligations throughout the process and ensures recent changes to the rates system (such as assessors' new data collection powers) don't hit recovering independent firms.
- Making it easier for local businesses to fill empty units by working with private property owners to develop flexible short-term leases – whilst offering empty publicly owned spaces for free to local businesses. Further, reviewing the legislative and regulatory framework that governs the relationship between tenant and landlord in Scotland to help us understand how we can tackle empty premises and regenerate town and city centres. For similar reasons, Ministers should scope a commercial property ownership database for Scotland.

About FSB

As experts in business, FSB offers members a wide range of vital business services, including advice, financial expertise, support and a powerful voice in Government. Its aim is to help smaller businesses achieve their ambitions. More information is available at www.fsb.org.uk

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