



Kate Forbes MSP
Cabinet Secretary for Finance and the Economy
Scottish Government

By email

1 December 2021

Dear Kate,

Small business recovery and the Scottish Government budget

It scarcely needs stated that the backdrop against which you will deliver the Scottish Government's budget on 9 December will be a very difficult one.

Scotland's small business community has suffered significant setbacks throughout the course of the last two years. Despite the best efforts of government to mitigate the damage done by the pandemic, businesses in Scotland alone have taken on at least £4bn in new emergency debt, overheads are up, staff are in short supply and confidence is shaky. It will therefore take time for local and independent firms to recover.

That's why we're looking for this Scottish Government budget to be designed specifically to help smaller businesses finally turn the corner. Below we outline some policy proposals we believe would put local firms across Scotland on track to drive economic recovery and community renewal.

Net zero support

FSB research consistently demonstrates the desire and willingness of the small business community to do more for the environment and help in the transition to a net zero economy. A recent survey of FSB members undertaken ahead of the COP26 conference found that 80% believe they have a responsibility to tackle their environmental impact.

But as small businesses recover from the covid crisis and navigate a difficult trading environment, few have the time, expertise or – crucially – the resources to make their operations more sustainable.

As the government begins to develop a range of initiatives to help businesses decarbonise, it is worth bearing in mind that cost remains the most significant barrier preventing small businesses from taking action.

While a range of financial products will need to be developed to meet the scale of demand, for its part the Scottish Government could pilot an "EcoBoost" initiative,

based on the successful DigitalBoost grant scheme. The initiative would give smaller businesses a funding boost of up to £5,000 to be spent on becoming more sustainable, in return for them bearing 10% of the cost.

Business rates

Over many years, a majority of premises-based Scottish small businesses have received a full or partial rates discount through the Scottish Government's flagship small business bonus scheme. This is why it has been so important for us to make the case for this scheme's repeated renewal. It is reassuring to know that Ministers recognise the support this policy gives local operators up and down Scotland.

But, as we have highlighted, a significant minority of Scotland's small businesses continue to pay rates, either because they operate from multiple properties or from higher value premises, such as small hotels.

In the last twelve months, thousands of these types of businesses have benefitted from the Scottish Government's coronavirus rates relief for operators in retail, hospitality and leisure. This support has been important because many of these businesses have seen their means to generate income severely curtailed by covid restrictions.

That's why, following May's elections, we were relieved to see a commitment from the Scottish Government to continue the 100% rates relief for certain businesses through this financial year and we would encourage you to consider extending this beyond April 2022.

However, should it not be possible to continue the current level of coronavirus rates support, we would urge you to explore, in addition to the backing offered by the small business bonus, targeted ongoing help for smaller firms in the sectors hit hardest by the covid crisis.

Recovery support

Since the summer, Scottish businesses have been paying back emergency covid loans while wrestling with spiralling overheads.

We recognise that the Scottish Government has limited ability to affect some of the key overheads faced by business (such as utilities), but we would urge the use of all available levers to minimise costs on small businesses. This means exploring the extent to which fees and charges levied by the public sector on small businesses (such licence and permit fees, waste costs and water charges) can be frozen, deferred or cancelled within the coming year.



Experts in Business

Digital support

The covid crisis has spurred many smaller Scottish firms to embrace digital technologies. Whether replicating face-to-face services online, developing their e-commerce offer, or creating completely new business activities to keep trading, we've seen the digitisation of many Scottish firms at a pace far faster than seen previously.

However, we know that many more small businesses still have much to do to improve their digital capabilities if they're going to compete. That's why we've welcomed the recent expansion of the DigitalBoost co-funded grant scheme and associated support. At the same time, however, we have had to express our disappointment at how quickly the scheme has become oversubscribed.

Therefore, we strongly support a multi-year funding commitment to allow the relevant public bodies to hone their support, while allowing as many small businesses as possible to benefit from help. Thus, should there be any headroom in the funding available for the DigitalBoost grant scheme, we would urge that it is increased to a level that more closely reflects demand.

We believe this agenda is critically important to our shared ambitions for economic transformation and would be pleased to work with your and officials to make sure this funding delivers the maximum benefit for all concerned.

Supporting small businesses to upskill and recruit

The job market in Scotland has seen significant disruption over the pandemic, with the furlough scheme saving many jobs. As covid restrictions have eased, the labour market has been buoyant, with record vacancy levels. It has also been affected by labour shortages and/or skills mismatches. While the root causes are many, varied and inter-linked, it is clear that current issues facing the labour market will neither be fixed quickly nor simply. Thus, it will be important that the government goes beyond current initiatives, such as the Flexible Workforce Development Fund, and scales up its support for small businesses at this vital time.

For example, we would recommend the government rapidly expands the support provided to help smaller business owners invest in training themselves and their staff.

This could be done by adopting a co-investment model, whereby, for every pound up to a certain value invested by a business owner in a scheme, the government would contribute several.



Experts in Business

Entrepreneurship and the self-employed

Key to transforming Scotland's economy will be increasing our business birth rate. And key to that will be making self-employment a fairer, safer, more attractive option.

Perhaps unsurprisingly when one considers their experiences over the last two years, 57% of small business owners think the pandemic has made self-employment less attractive.¹

Worryingly, the latest Businesses in Scotland statistical publication shows that the number of unregistered businesses decreased from 184,850 in March 2020 to 165,835 in March 2021. Broadly, this means that over the course of a year one in ten self-employed people in Scotland closed down their operations.

There is a real risk, then, that people deem it too risky to either start, or continue, a business post-Covid.

This budget, therefore, offers an ideal opportunity to begin to forge a new deal for the self-employed in Scotland by, for example, taking inspiration from a successful Dutch scheme entitled *Broodfonds*.⁹ This is 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.

I trust that the foregoing is of interest and, as always, if you or your officials require any further information or would like to discuss any aspect in more detail, please do not hesitate to get in touch.

Yours sincerely,

A handwritten signature in black ink that reads 'A. McRae'.

Andrew McRae
Chair, Scotland Policy Unit
Federation of Small Businesses (FSB)

¹ See: <https://www.fsb.org.uk/resources-page/state-of-small-business.html>