



# FSB Scotland Budget Priorities

2024 - 2025

**fsb**<sup>03</sup>

Federation of  
Small Businesses

# Background

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

The Scottish Budget 2024-25 will clearly be set against the backdrop of an economically challenging time for both businesses and households. Scotland's small business community has suffered significant setbacks throughout the course of the last three years and, despite the best efforts of government to mitigate the damage done by the pandemic, they are facing rising costs, persistently high energy prices, supply chain disruption and staff shortages. Thus, the normality and stability for which the business community had hoped has not yet returned. Indeed, FSB's Big Small Business Survey showed that nearly as many businesses (37%) cited 2022 as their most difficult recent year in terms of trading conditions, as cited 2020 (44%) when the Covid pandemic was at its height.<sup>2</sup>

Survey findings also showed that over three fifths of businesses who reported a decreased turnover in the last year attributed this to either the cost-of-living crisis or overall economic uncertainty.

Therefore, it is essential that the Scottish Government acknowledges and reflects the ongoing cost of doing business crisis when responding to budgetary challenges, and doesn't risk imposing more pressures on our small firms and the self-employed.

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

<sup>2</sup> <https://www.fsb.org.uk/resources-page/big-small-business-survey.html>

# Budget

## Recommendations

### Business Rates

- Maintain the Small Business Bonus Scheme at at least its current levels.
- Reintroduce specific rates relief for the Retail, Leisure, and Hospitality sectors.
- Freeze the Poundage rate.

### New Deal for Business

- Maintain commitment to the New Deal for Business and its associated implementation plan, including more robust analysis of policy impacts on small businesses specifically and the cumulative impact of regulations on smaller firms.

### Scottish National Investment Bank

- Target 20% of SNIB's annual investment budget to small and micro businesses, particularly those led by women, disabled and ethnic minority entrepreneurs.

### Get maximum value for public spending

- Include targets for public body spend with small and micro businesses as part of Community Wealth Building legislation.

### Make Scotland an attractive place to start-up a business

- Fund a pilot of the use of 'bread funds', which allow the self-employed to support each other financially in case of sickness.
- Create an additional National Outcome focused on entrepreneurs and small businesses.

# Business Rates

- Maintain the Small Business Bonus Scheme at at least its current levels.
- Reintroduce specific rates relief for the Retail, Leisure, and Hospitality sectors.
- Freeze the Poundage rate.

We welcome the Scottish Government's commitment to continue the Small Business Bonus Scheme (SBBS) for the life of this parliament.

The latest official statistics show that SBBS relief was awarded to 123,010 properties, of which 114,880 (93%) received 100% relief. A further 1,140 received SBBS combined with other reliefs, accounting for 100% of their gross bill.<sup>3</sup> Our members frequently tell us the scheme has been a lifeline for them since its inception and that it has never been more valuable than it is now.

Last year's Budget saw changes made to the SBBS, with thresholds for qualification raised and levels of relief reduced. Additionally, our survey found that a third of small businesses with a rateable property saw its value increase following the 2023 non-domestic rates revaluation. Therefore, now is not the time for any further changes to be made to the scheme.

FSB Scotland welcomed the extension of the targeted rates reliefs for the Retail, Hospitality and Leisure sectors into the first three months of the 2022-23 financial year, recognising the particular inflationary and other economic challenges these sectors continue to face. This has also been acknowledged by the UK Government, who extended 75% rates relief again for these sectors in the Autumn Statement 2023, until at least March 2025.

Our Big Small Business Survey demonstrated that challenges within these sectors remain significant, with businesses in the Wholesale and Retail Trade (52%) and Accommodation and Food Service Activities (51%) sectors reporting a decrease in turnover in the last year.<sup>4</sup>

We therefore believe that the case for such targeted reliefs remains and would urge their reintroduction to be included in the 2024-25 Budget.

Given the ongoing cost of doing business crisis, FSB Scotland is also supporting the industry-wide ask<sup>5</sup> of the Scottish Government to freeze the poundage rate for another year, which would help ease the burden at this difficult time and support our shared objective of delivering more sustainable economic growth.

<sup>3</sup> <https://www.gov.scot/publications/non-domestic-rates-relief-statistics-2022/>

<sup>4</sup> <https://www.fsb.org.uk/resources-page/big-small-business-survey.html>

<sup>5</sup> <https://www.insider.co.uk/news/35-business-bodies-unite-call-31354377>

# New Deal for Business

- Maintain commitment to the New Deal for Business and its associated implementation plan, including more robust analysis of policy impacts on small businesses specifically and the cumulative impact of regulations on smaller firms.

FSB has welcomed the Scottish Government's New Deal for Business and its stated aim of delivering a reset in the relationship between government and business. As a member of the group overseeing this work, FSB is calling on any spending commitments within this year's Budget to reflect commitments made in the New Deal for Business Implementation Plan, with the aim of creating economic conditions where businesses feel supported and empowered to invest.<sup>6</sup> These measures include:

- Commencing a reform programme, to identify, consider and, if appropriate, remove regulations no longer required.
- Developing a new Business Regulatory Impact Assessment (BRIA) Toolkit and associated guidance for policy makers, which will include work to ensure that the impact specifically on small businesses is considered.
- Conduct a full and deep dive into the Scottish Government policy development cycle to reinforce the need for and capability to undertake effective engagement at all stages wherever possible – including pre-policy, particularly when regulation is a potential outcome.
- Improve government's systematic mapping of current engagement with business, across Scottish Government, to capture the range of business voices in the development of particular policies.
- Keeping Non-Domestic Rates policy reforms under review to ensure that the system delivers the most competitive environment to do business, whilst supporting communities.

<sup>6</sup> <https://www.gov.scot/publications/new-deal-business-group-report-progress-recommendations-implementation-plan/>



# Scottish National Investment Bank (SNIB)

- Target 20% of SNIB's annual investment budget to small and micro businesses, particularly those led by women, disabled and ethnic minority entrepreneurs.

Economic uncertainties and historically high inflation have adversely impacted Scotland's small business community, creating financial instability and liquidity problems.

Small businesses disproportionately rely on external finance for their business operations, cashflow and investment opportunities. FSB research shows that our members often do not have capital available to expand and invest without outside funding.<sup>7</sup> Small businesses frequently struggle to acquire adequate finance and are generally considered a riskier lending proposition. Given the recent economic turmoil of the pandemic, the economic slowdown and inflationary pressures, the fear is that the UK financial market may begin squeezing lending to small businesses.

That is why we believe it is important to increase the supply and diversity of financial support for smaller businesses across Scotland, providing funds to businesses that might not otherwise secure investment. The British Business Bank's new £150 million Investment Fund for Scotland, which offers a range of finance options with loans and equity investments to help small and medium-sized businesses start up and scale up, is a good example of an initiative designed to respond to the specific challenges faced by small businesses.<sup>8</sup>

In Scotland, there is an opportunity to capitalise on the Scottish National Investment Bank's (SNIB's) lending capabilities to increase access to finance for the smallest traders. By targeting at least 20% of SNIB's annual investment budget to small and micro businesses, particularly those led by women, disabled and ethnic minority entrepreneurs, we can ensure that the bank is investing in Scottish businesses, projects, and communities to deliver environmental, social, and financial returns for the people of Scotland, as per its stated ambition.<sup>9</sup>

<sup>7</sup> <https://www.fsb.org.uk/resources-page/barriers-to-small-firms-access-to-finance-could-hold-back-uk-economic-recovery-new-report-warns.html>

<sup>8</sup> <https://www.british-business-bank.co.uk/press-release/launch-of-investment-fund-for-scotland-provides-150m-boost-for-small-businesses/>

<sup>9</sup> <https://www.thebank.scot/business-plan-0>

# Get Maximum Value from Public Spending

- Include targets for public body spending with small and micro businesses as part of Community Wealth Building legislation.

As the Scottish Government's programme of procurement reform has progressed, we have noted an increased desire from public bodies to open up more opportunities to smaller businesses. The statistical evidence available, however, suggests that this intent has not yet resulted in increased spending with local small businesses in general, and micro businesses in particular. Thus, as part of the forthcoming Community Wealth Building (CWB) legislation, statutory targets should be put in place to increase public sector bodies' – and other publicly funded anchor institutions' – spend with smaller local firms.

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<sup>10</sup> report which includes this data (2020/21)<sup>11</sup> shows only a small proportion of the value of contracts awarded that year (total Scottish public sector spend in 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%
Small (10 - 49 employees)	12.9%	4.8%
Medium (50 - 249 employees)	28.7%	1.1%
Large (250+ employees)	53.8%	0.7%

For comparison, the usage report for 2016/17<sup>12</sup> 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 last major round of procurement reform in 2014, which, it 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.

We are, of course, aware of the extremely challenging financial circumstances in which local authorities and other public bodies are trying to deliver services. Therefore, it is also important that the Budget does not include measures which will restrict public purchasers to such an extent that they are unable to realise the CWB Bill's aims around spending with local small businesses.

<sup>10</sup> A report for 2022/23 is available however it does not include the breakdown of spend by micro, small, medium, and large <https://www.publiccontractsscotland.gov.uk/helpandresources/download/f0ef2237-d09b-40b1-9126-4a053315df05>

<sup>11</sup> <https://www.publiccontractsscotland.gov.uk/helpandresources/download/259fa412-4198-4b5f-a710-0deb3dd3d273>

<sup>12</sup> <https://www.publiccontractsscotland.gov.uk/helpandresources/download/5be9c48e-7681-495a-957e-e0fbb03d898>

# Entrepreneurship

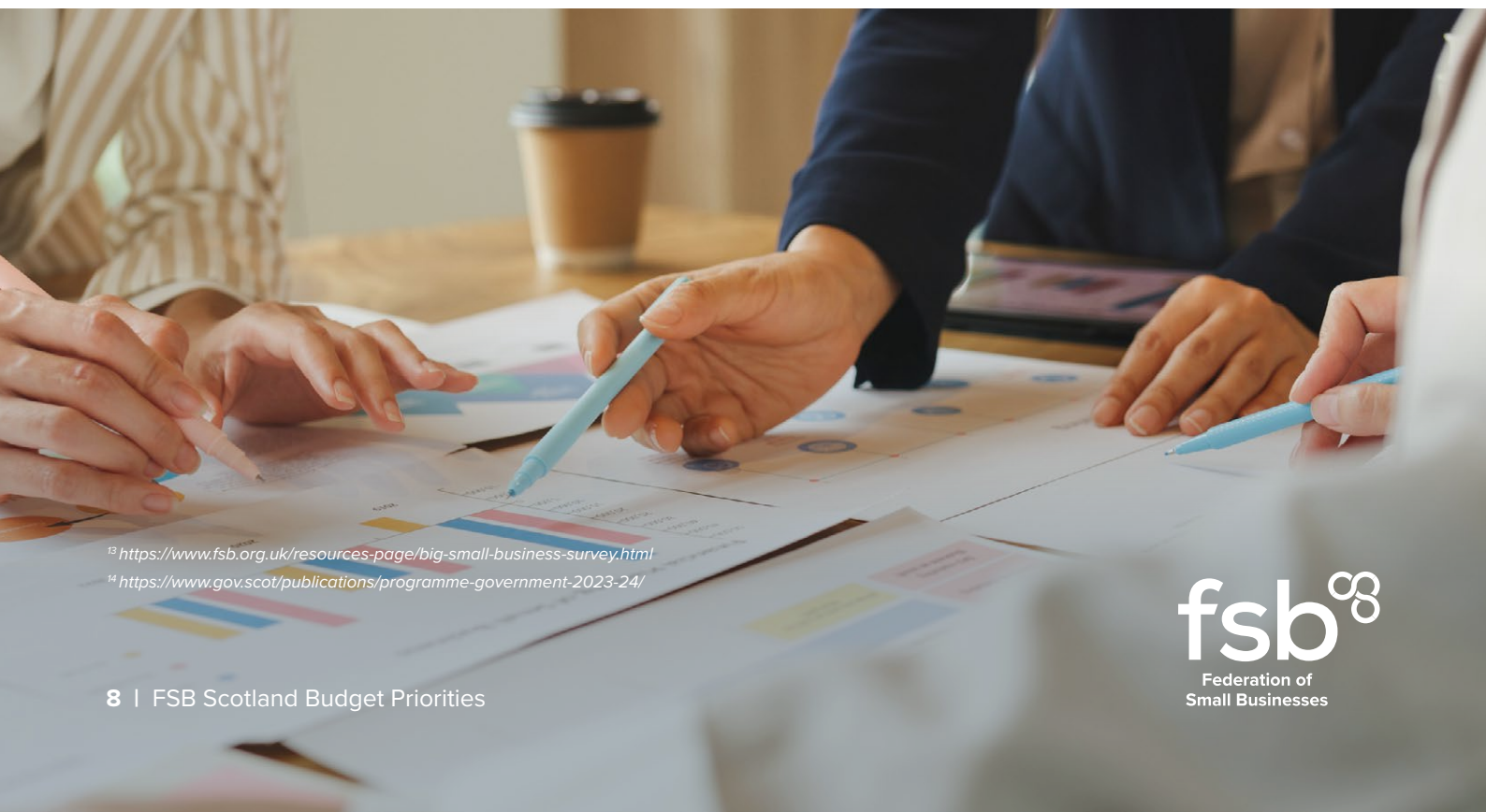
- Fund a pilot of the use of ‘bread funds’, which allow the self-employed to support each other financially in case of sickness.
- Create an additional National Outcome focused on entrepreneurs and small businesses.

Our Big Small Business Survey found that over half of small businesses don't believe there's enough support to start up your own business in Scotland.<sup>13</sup> Encouragingly, however, the findings do reveal that three fifths of Scottish small businesses have plans for growth in the next year. This offers hope that the much-anticipated recovery is underway, or at least on the horizon. That, however, does not mean that recovery is inevitable.

We welcomed the spending commitment of a new £15 million package of measures to back entrepreneurs, start-ups, and scale ups, announced earlier this year in the Programme for Government.<sup>14</sup> However, in a bid to secure Scotland's reputation as an entrepreneurial nation, more must be done. Any efforts to boost start-ups need to see some of the practical barriers to setting up in business removed.

Benefits such as sick pay are a safety net enjoyed by employees, and the loss of these can deter someone from taking the leap to becoming self-employed. Bread funds, an idea pioneered in The Netherlands, is an innovative approach which allows entrepreneurs to come together and create that safety net for each other. Given the obvious links with what is trying to be achieved with the forthcoming CWB legislation, we would like to see support from the Scottish Government to pilot this approach in Scotland.

Finally, as we noted in our response to the review of the National Outcomes earlier this year, despite the fact that micro, small, and medium-sized businesses comprise almost all enterprises in Scotland, there is not a stand-alone National Outcome which focuses solely on Scotland's small business community. Therefore, we would like to see an additional National Outcome introduced on Entrepreneurs and Small Businesses, which would also have the benefit of measuring the impact of the Scottish Government's National Strategy for Economic Transformation (NSET).



<sup>13</sup> <https://www.fsb.org.uk/resources-page/big-small-business-survey.html>

<sup>14</sup> <https://www.gov.scot/publications/programme-government-2023-24/>



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