

## SUBMISSION FROM FEDERATION OF SMALL BUSINESSES

### 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.

We welcome the opportunity to submit comments to the Committee on the Scottish Government's Draft Budget.

### Context

Over the last two years we have responded to the Scottish Government's spending plans by highlighting the need for economic stimulus, to ensure Scotland remained competitive and returned to growth. We focused on the importance of having a broad base of businesses to sustain and create jobs across the country.

Recent statistics suggest that the economic outlook is still uncertain. The Scottish unemployment rate is 8.2% while the rate for youth unemployment 23.7%<sup>1</sup>, business confidence is lukewarm at best.<sup>2</sup> We therefore maintain that economic recovery must be the priority for the Scottish Government's budget.

### Comments

In the Cabinet Secretary's statement to Parliament last month, there were a number of positives for small businesses, particularly the retention of the crucial Small Business Bonus Scheme and the introduction of a new initiative to support small businesses to recruit. However, we pointed out that:

"The headline amount of spending in a particular department is often of less importance than how effectively that money is spent – and so it is with much of today's announcement."<sup>3</sup>

We welcome budget proposals aimed at helping businesses grow, whether through infrastructure investment or recruiting more staff. But the extent to which these measures will work effectively for Scotland's small businesses will depend on how the spending is delivered. This is outlined in more detail below.

### Employment

A recent report highlighted that 9 out of every 10 unemployed people who find work in the private sector do so either by becoming self-employed or being recruited by an SME.<sup>4</sup> To maximise this potential, we need to ensure that the right support is there

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<sup>1</sup> Labour Market Statistics, October 2012, ONS

<sup>2</sup> In our May 2012 membership survey, around 40% of Scottish members believed business prospects for the next 3 months to be approximately the same (as the previous 3 months), with just under a third believing they would slightly improve and a fifth believing they would be slightly worse.

<sup>3</sup> FSB News Release, 20 September 2012 <http://www.fsb.org.uk/News.aspx?loc=scotland&rec=7809>

<sup>4</sup> p2, Back to work – the role of small businesses in employment and enterprise, FSB 2012

for small businesses looking to recruit. This may mean approaching employment schemes differently than has been done previously e.g. where the focus has arguably been on large employers and the public sector. The FSB recently commissioned a report<sup>5</sup> to explore various aspects of small business recruitment such as how, when and why they choose to expand to better understand how public sector support can be more effectively deployed.

Job creation incentives and youth employment strategies generally focus on providing training places for individuals and finding employers to pick up those places. However, the experience of many small businesses suggests that this approach is unsuitable. Consequently, we are not capitalising on those businesses' potential to expand.

We believe that, in addition to this traditional approach, we need greater emphasis on employment measures as part of a business growth approach. Specifically, we think more flexible funding solutions will help support jobs growth in small businesses. Our initial evidence suggests that locally-developed solutions, which take account of business priorities/labour demands and direct engagement with local businesses, may be more successful at creating sustainable employment in local small businesses than national schemes. This approach may be more resource-intensive in the short term but aligns well with preventative spending principles.

The Scottish Government's budget proposes to invest in a new scheme specifically aimed at SMEs. We welcome the recognition that smaller firms require a different approach and are keen to ensure that delivery of the scheme addresses the points above and genuinely caters for the needs of small employers.

## **Colleges**

Colleges have a key role to play in economic growth, not least in providing apprenticeships and training, but also in relation to business creation and entrepreneurship. We recognise the need for colleges to operate more efficiently and for greater collaboration. However, we are concerned about a decline in further education spending, despite additional allocations in the 2013-2014 budget.

In relation to a reduction in college places, at this stage we do not have sufficient detail to ascertain the extent to which this will affect businesses. Fewer part-time courses which are used by businesses training staff, or those seeking to re-train to re-enter the labour market, could be seen to have a negative impact on economic recovery. There may also be funding implications for institutions who rely on income generated from part-time courses.

Our response<sup>6</sup> to the Scottish Government's consultation on reform of the post 16 training system sets out our priorities. In summary, we believe that colleges need to:

- Reach out more to local businesses in order to better understand first hand their employment and training needs (only 10% of our members have been contacted

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<sup>5</sup> Due for publication in late October 2012

<sup>6</sup> [http://www.fsb.org.uk/policy/rpu/scotland/assets/cr\\_es\\_putting%20learners%20at%20the%20centre%20delivering%20our%20ambitions%20for%20post-16%20education.pdf](http://www.fsb.org.uk/policy/rpu/scotland/assets/cr_es_putting%20learners%20at%20the%20centre%20delivering%20our%20ambitions%20for%20post-16%20education.pdf)

by a college in the last 12 months, with 43% finding this interaction useful) rather than relying on labour market information based on broad sectoral norms.

- Deliver more flexible provision, which includes:
  - Offering courses relevant to local businesses in bite size modules;
  - Organising vocational courses along the lines of working patterns of the target industry (e.g. shift work, weekend work, evening work) promoting good timekeeping, attendance and reliability in students and enabling learners to access further education in work; and
  - Ensuring access in appropriate locations, making efficient use of local campuses and avoiding the need for small businesses to send their trainees hundreds of miles away to receive relevant training. (This phenomenon is driven by funding models – only certain centres are funded to deliver certain apprenticeship frameworks for example; and lack of responsiveness to local labour market demand)
- Continue to offer and promote enterprise and entrepreneurship training as a core part of their provision, notwithstanding the lack of dedicated funding to for this support in Scottish colleges.

We are aware of a number of instances of good practice across the country. However, we believe consideration should be given to how the funding model could incentivise more widespread adoption of good practice.

## **Procurement**

The Scottish Government's £9bn<sup>7</sup> annual spend on goods and services, which flows from the budget, could be used more effectively to support jobs and spending in local communities.

We welcome efforts to improve procurement and to open up more opportunities for small businesses. However, current figures suggest that only 7% of spend goes to micro businesses in Scotland (93% of all businesses).<sup>8</sup> We believe that a better balance is required between cost savings through procurement and using spending as an economic recovery lever. With clear benefits from spending locally<sup>9</sup> we want to see more public bodies using best practice, such as appropriately-sized contracts, with proportionate conditions, to get maximum economic growth potential from public spending. The forthcoming Procurement Reform Bill will be a step forward, but the difference will be made by change at the front line by those making spending decisions.

## **Non-domestic rates**

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<sup>7</sup> Likely to be higher if the wider public sector e.g. housing associations is included.

<sup>8</sup> Public Contracts Scotland 2009-2010

<sup>9</sup> A report on Manchester City Council spending highlights the importance of recirculation of public money: of the top 300 suppliers to the council, Manchester-based organisations re-spent 23p in every £1 on the local economy – the figure rises to 50p in the £1 for suppliers ranked 301-1000. This compares to 12p being re-spent by national suppliers. p17, The Power of Procurement, Centre for Local Economic Strategies, 2011

Funding the Small Business Bonus Scheme (SBBS) is vital and we welcome the commitment of the Scottish Government to retain this small business rates relief package. The SBBS has helped to address the imbalance in the rates burden between small and large businesses, particularly in retail and when rises in other overheads such as utilities and fuel are increasing the pressure on our small retailers, any help in reducing running costs gives businesses essential breathing space. An estimated one in eight recipients of the scheme claim that it has contributed significantly to their continued viability during the economic downturn.<sup>10</sup>

We welcome the latest proposal to incentivise the occupation of empty property following last year's announcement of changes to rates relief for vacant premises. We maintain that better modelling of the impact of these proposals, probably as part of the wider review of non-domestic rates, would have been a better way to make changes.

With questions now being asked about the next revaluation (which would take effect in 2015) we look forward to the forthcoming review. As outlined in our paper on the 2010 revaluation<sup>11</sup>, we believe that various aspects of the revaluation process could be improved for small businesses.

Lastly, there is no doubt that the expected annual increase in the poundage rate (in line with inflation) will be a blow for those businesses currently paying business rates. The increase should not come as a surprise but clearly any rise in tax for businesses at a time when other costs are rising sharply will be difficult. Under these circumstances, we welcome the Scottish Government's ongoing commitment to maintain poundage rate parity with England.

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<sup>10</sup> FSB Scotland member poll, 2009

<sup>11</sup> Revaluation 2010 Discussion Paper, FSB Scotland, 2010