ECONOMY, JOBS AND FAIR WORK COMMITTEE

The Scottish Parliament
Pàrlamaid na h-Alba

MEETING DETAILS

16th Meeting, 2016
Tuesday 20 December 2016
The David Livingstone Room (CR6)
The Committee Meeting will begin at **11am**.

ADDITIONAL INFORMATION

Written Submissions

FSB Scotland

Business for Scotland

2020 Climate Group

Scottish Environment LINK

Women's Enterprise Scotland

COMMITTEE PAPERS

Agenda

Economic Impact of Leaving the European Union

Draft Budget Scrutiny 2017-18

NOTICES

Next meeting will be on 10 December 2016.

The Committee will be considering the Scottish Government Draft Budget 2017-18.

The meeting will begin at 11am.

www.parliament.scot/economy-committee

The Scottish Parliament
Pàrlamaid na h-Alba

ECONOMY, JOBS AND FAIR WORK COMMITTEE

AGENDA

16th Meeting, 2016 (Session 5)

Tuesday 20 December 2016

The Committee will meet at 9.30 am in the David Livingstone Room (CR6).

1. **Inquiry on the Economic Impact of Leaving the European Union (in private):** The Committee will consider its draft letters to the Scottish and UK Governments on the Inquiry on the Economic Impact of Leaving the European Union.

2. **Decision on taking business in private:** The Committee will decide whether to take item 4 in private.

3. **Draft Budget Scrutiny 2017-18:** The Committee will take evidence on the Scottish Government's Draft Budget 2017-18 from—

   Keith Brown, Cabinet Secretary for Economy, Jobs and Fair Work, The Scottish Government;

   Chris Stark, Director of Energy and Climate Change, Mary McAllan, Director for Economic Development, and Hugh McAloon, Head of Youth Employment, Scottish Government.

4. **Draft Budget Scrutiny 2017-18:** The Committee will consider evidence heard at today's meeting.

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The papers for this meeting are as follows—

Agenda Item 1

PRIVATE PAPER	EJFW/S5/16/16/1 (P)

Agenda Item 3

Written Submissions	EJFW/S5/16/16/2
PRIVATE PAPER	EJFW/S5/16/16/3 (P)

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Business for Scotland Submission to Economy, Jobs and Fair Work Committee

1. Business rates are a tax that is applied to an owner, tenant or occupier of a non-domestic property. A non-domestic property is a facility that people do not live in, instead the asset is used for either commercial reasons such as a shop, pub, hotel or office, or for industrial reasons such as a factory or warehouse. On the 1st of April 2016, the empty relief rates for non-domestic properties were altered. This has led to several undesired affects which will be discussed.

2. According to the Scottish Retail Consortium (SRC), one in every eleven properties (9.09%) in town centres in Scotland are empty[1]. SRC explains that this is the result of rising property costs. This has happened at a time when high street sales are under pressure from increasing online sales. This pressure may lead to a drop in property prices, but that correction has yet to happen. Although retail is the largest private sector employer representing 13% of the private sector work-force (253,000 people), it has seen a significant decrease of 10,000 posts in the past seven years[2]. Forecasts by the British Retail Consortium (BRC) anticipate a further 23% drop in Scottish retail over the next decade[3]. Business for Scotland notes the importance of creating a rates system that both discourages long term disuse of buildings but does not penalise property owners who's premises are left empty for longer periods than would be desirable due solely to market forces.

Problems with the Changes

3. We accept the good intentions behind the change and acknowledge that 100% rates relief can lead to some properties being left deliberately empty and that this is a problem for many high streets. We also accept that in the face of cuts to the Scottish block grant from Westminster that savings must be made, but we believe that without certain exemptions and tweaks to the proposed policy that the changes will be counterproductive. The current system can create the following negative consequences:

(a) End speculative building of new industrial infrastructure. Evidence of this has been seen across Scotland where various companies are less inclined to invest in developing new industries. For instance, the commercial property adviser Ryden wrote in their report ‘Understandably, developers are reluctant to commit, particularly in areas where markets are struggling, if there is little prospect of a pre-let prior to completion. Many are simply not prepared to take the risk of a recently completed property being left vacant.’[4]

(b) Make it cheaper to demolish unused industrial buildings than to leave them empty and pay full rates. This reduces vital industrial infrastructure that will be needed to service demand when economic growth conditions improve. In the same report by Ryden, the Rating Partner Tim Bunker said; ‘This increase in vacant rates liability on developers and

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landlords will deter any future new development and lead to the demolition of older property, which will reduce industrial stock throughout Scotland.'[5]

(c) Damage the financial viability of industrial development and upgrading works. This in particular where the premises are unused during re-development and empty or only partially let for between 12 - 24 months as tenants are found.

(d) May be difficult to find tenants quickly in rural areas. Letting times vary by region and more rural areas which desperately need jobs and business to return will be hit hardest.

(e) The reform came as a sudden shock to several small businesses who have not financially planned for the new empty property relief rates. Several small development firms whose investments are bank financed on the understanding that there will be 100% rate relief may find themselves with hundreds of thousands of pounds extra costs with no ability to borrow to cover the additional costs eg:

(f) Rents will be likely to increase in the long term for tenants. Given the extra costs involved in property ownership is it likely that this change will drive industrial and retail rents upwards in the long term to address the additional cost. Consequently, this will increase costs to many small businesses. The counter argument is that rents will decrease in the short term as property owners seek to fill properties at lower rents. This may happen but a drastic reduction in speculative build and in some case demolition of property assets will create scarcity and rents will increase gain.

(g) Will have a severe negative impact on small businesses. The changes to retail rates relief will impact most on small properties that are owned by smaller businesses or handed down through families for generations will have to be sold to larger companies as they cannot be let under current market conditions.

(h) Create a competitive disadvantage in property investment versus England in the development and upgrading of industrial premises.

Problems with the Timing of the Reform

4. Furthermore the timing of this change is unfortunate for two key reasons: 1) Several projects funded under the old scheme that are currently under development will now become financially unviable. 2) Current rateable values are based on 2008 values at the height of the financial crisis when certain properties' rateable values and rents were far higher than today. Properties should be revalued at regular intervals in order to ensure that bills are up to date.[6]

Evidence from Surveyors

5. After speaking to various surveyors, many of them bring attention to the many disadvantages of the new empty property relief form. One of those that Business for Scotland spoke to was Brian Ronnie, a Partner at Ryden in Glasgow. In the interview, Brian Ronnie highlighted the detrimental impact the

reform has had on the market, especially in terms of the industrial and development sector. He explained that it has increased the costs for property owners across the country causing elevated uncertainty in the market. With higher expenses associated with holding stock it has resulted in buildings being demolished - a procedure which is costly as well. The development industry was just about to recover he highlighted, when the reform was implemented indicating that its improvements have now been put on hold.

Suggestions

6. There are many opportunities to cut costs and to discourage the deliberate mothballing of retail properties in particular. However, some of the following principles should be considered.

1) 100% rates relief on industrial premises should be at least six months as they are in England to maintain a competitive advantage and the increase in rates should then be phased in to 10% relief over one year - regardless of any future changes to English rates change.

2) New builds and redevelopments should be rates exempt for 18 months to reflect the average time taken to develop and let an industrial building.

3) Rural developments should be given extra rates relief in consideration of the additional letting lead times and importance of maintaining industrial infrastructure ahead of future rural development initiatives. This should also apply to community buy-outs which are less commercial in nature.

4) A grace period should be in place for all developments funded and possibly granted planning permission before the introduction of the policy in April 2016 so that they remain financially viable.

5) Taking into account that current rateable values do not reflect real market values the 100% rates relief should last longer and in all cases cuts in relief be phased in more slowly to reflect the over-pricing until 2022.

6) The revaluation of non-domestic property should be revised every 5 years. It is vital that the 2017 revaluation does not get further delayed. Ideally there would be interim reviews that will spot rapid valuation changes due to either recessions or rapid economic growth offering the opportunity for rates to be more flexible to market conditions.

7) The Scottish Government should work with local councils to create development zones where joint funding could offer rates relief over and above existing programmes. This is to encourage smaller business to expand, to utilise empty industrial and retail properties and protect them from potential demolition as well as encourage economic activity in rural or highly deprived areas.

8) Smaller companies developing property and those owned by pension funds under a certain value (TBA), should be exempt from the changes which would unfairly and disproportionately impact on their smaller more vulnerable businesses and investments.

References

Scottish Retail Consortium (SRC) ‘Submission to the Barclay Review of Business Rates in Scotland’ (October 2016)
Scottish Retail Consortium (SRC) ‘Submission to the Barclay Review of Business Rates in Scotland’ (October 2016)
British Retail Consortium (BRC) ‘Retail 2020: fewer but better jobs’ (February 2016)
Ryden ‘78th Scottish Property Review’ (April 2016) Page 4
Ryden, ‘Ultimate Guide to: Business rates & the 2017 Revaluation’ (2016) Page 4
The Scottish Government ‘Introduction - Business rates’

Scottish Environment LINK Submission to Economy, Jobs and Fair Work Committee

1. Scottish Environment LINK's Economics Group welcomes the opportunity to provide input to the Economy, Jobs and Fair Work Committee's budget scrutiny process on:

a) The spending of the Enterprise Agencies, and
b) Programmes relating to energy efficiency / fuel poverty.

2. Scottish Environment LINK is Scotland's forum for environmental NGOs with over 35 member organisations. LINK members work together in 5 strategic groups, one of them being economics.

Spending of the Enterprise Agencies

3. Public bodies should lead Scotland's transition to a low carbon and sustainable economy. As such, the spending and programmes of the Enterprise Agencies should be fully and consistently aligned with Scotland's ambitions with regard to climate change and circular economy.

4. The environmental imperative to radically reduce our impact on the planet has never been clearer and we applaud Scottish Government for its Climate Change legislation and ambition. However, it is recognised by all that to meet future climate change targets will be a huge challenge – requiring tackling the carbon implications of transport systems, buildings, land-use, and manufacturing, as well as energy supply. To meet future climate change targets, we need to radically change business as usual. Isolated 'low carbon' programmes, whilst the remainder and vast majority of spending supports business as usual, is no longer a viable way forward if the Scottish Government is serious about complying with the Paris Agreement.

5. Creating a low carbon sustainable economy must be an umbrella under which all other economic policies, strategies and programmes sit, including those of the Enterprise Agencies. Currently closely aligned with the Economic Strategy, which does not have an embedded environmental imperative, the Enterprise Agencies' Programmes need to shift to take on a more responsible and longer-term role with regard to the future. As well assisting in the transition to higher levels of renewable energy and increased energy efficiency, Enterprise Agencies are key in reducing resource use and enabling the adoption of a more circular economy. The circular economy offers enormous potential for reduced environmental impact[1], as well as employment opportunities[2]. As the CEO of Philips, Frans Van Houten, said '*For a sustainable world, the transition from a linear to a circular economy is essential'*. This transition requires new thinking to be embedded across government and its agencies. Enterprise Agencies need to support

[1] http://www.zerowastescotland.org.uk/CarbonImpactsOfTheCircularEconomy
[2] http://www.green-alliance.org.uk/circular-economy-scotland.php

businesses and enterprises to adopt new business models, practices and collaborations which unlock the potential that the circular economy offers.

Programmes relating to energy efficiency/ fuel poverty

6. Substantial extra investment is needed in energy efficiency and fuel poverty

7. Scottish Environment LINK welcomes Scottish Government's commitment to taking a 'National infrastructure priority' approach to improving energy efficiency, and the Scottish Energy Efficiency Programme (SEEP). The Programme does not have a specific target - '*Over the next 15 - 20 years, SEEP will offer support to ensure that all buildings (domestic and non-domestic) in Scotland can achieve a good energy efficiency rating*[3]'. Scottish Environment LINK supports the call of the Existing Homes Alliance, that nearly all buildings need to be supported to achieve EPC band C in the next 10 years. The Alliance estimates that £450m per annum (average) for 10 years of public funding is required to deliver this (private finance would be leveraged in addition). As a transitional year, the 2017/18 Scottish Budget should allocate in the region of £190m for fuel poverty and energy efficiency, alongside a projected £60m from the Energy Company Obligation, increasing total public spend to £250m for the year 2017/18.

The following LINK members sign up to this evidence:

Friends of the Earth Scotland
Marine Conservation Society
RSPB Scotland
Scottish Wildlife Trust
WWF Scotland

Scottish Environment LINK

[3] http://www.gov.scot/Resource/0049/00492710.pdf

Women's Enterprise Scotland Submission to Economy, Jobs and Fair Work Committee

Introduction

1. Women's Enterprise Scotland (WES) welcomes the opportunity to submit this note to the Economy, Jobs and Fair Work Committee ahead of its scrutiny of the Scottish Government's draft budget for 2017/18. While the Committee's scrutiny of the Scottish Government's Draft Budget for 2017-18 will focus on two areas, the spending of the enterprise agencies, and programmes relating to energy efficiency/fuel poverty, the key interest of WES is the spending and allocation of funds of the enterprise agencies and how this might best support the development and progression of women's enterprise in Scotland.

2. The focus in the Scottish Government Economic Strategy, which presents equality and competitiveness as twin pillars is welcomed by WES - putting equality at the centre of economic policy. There is a danger that gender equality falls off the agenda in times of economic austerity. However, effective tools such as equality impact assessment and gender budget analysis can, and should be used – perhaps more effectively – during periods of economic austerity.

Current Issues

- Self-employment in the UK is at the highest point since records began 40 years ago[4]. If this trend continues, the RSA estimate that there will be more self-employed people than there are public sector workers by 2017[5].
- Self-employed women are not well served by enterprise support measures and the tax and benefit system. Policy setting that has been 'gender-blind', has led to an enterprise support infrastructure and incentives that are accessed primarily by men, despite women accounting for most of the newly self-employed.
- There are indications that for many women, becoming self-employed has happened out of necessity, with the rise of the women's state pension age, public sector job losses, and caring responsibilities likely to be key drivers of increasing levels of female enterprise.
- The numbers of self-employed in Scotland increased by 21 per cent between 2006 and 2016 compared to an increase of just 2.7 per cent for employees. The largest increase in self-employment has been amongst women who experienced a 48.6 per cent rise compared to 10.2 per cent for men between 2006 and 2016 (ONS, 2016). As a

[4] ONS (2014) Self-employed workers in the UK (2014) Available for download at: http://www.ons.gov.uk/ons/rel/lmac/self-employed-workers-in-the-uk/2014/rep-self-employed-workers-inthe-uk-2014.html

[5] RSA (2014) 'Why the self-employed will soon be a political force to be reckoned with', available at: http://www.thersa.org/discover/publications-and-articles/rsa-blogs/2014/02/why-the-self-employed-will-soon-be-a-political-force-to-be-reckoned-with/

result, women's share of self-employed in Scotland increased from 28 per cent of the total in 2006 to 35 per cent in 2016.[6]

- While women represent 51% of the Scottish population just 20% of all businesses are majority owned by women. This low inclusion starting point drops sharply during the business growth journey. Data from a Scottish Enterprise account managed growth programme shows that women led businesses represent just 3% of all businesses receiving this growth support.[7]
- Research from the Royal Bank of Scotland shows that women start up in business with different skills and experience to men including less management experience and less business contacts – reinforcing the need for a different, more gender-appropriate, type of business support.[8]
- With the rise of the women's state pension age from age 60, analysis of ONS statistics shows a correlation between the sharp increase in female self-employment and the steep fall in female inactivity due to retirement. With older women struggling to find employment, self-employment may be the only means of generating an income.[9]
- Caring responsibilities are a push and pull factor for women becoming self-employed. The flexibility of self-employment can enable women to work around caring responsibilities where the formal labour market fails to support such responsibilities. However, this often means that small businesses run by women are more likely to close for 'personal reasons' and the peak age group for those closures is 25-34[10].
- The Bank of England has warned that an underinvestment in training and skills among the self-employed may be contributing to falling productivity. They estimate that the shift to self-employment could account for around 12.5% of the drop in productivity since 2008[11].
- For women, the lack of investment in training is of concern as many women start businesses with lower levels of management skills due to the lack of opportunity for promotion in many workplaces ('glass ceiling'). Research shows that appropriate enterprise training doubles

[6] Campbell, J. and O'Hagan, A. (2016) 'Women and Scotland's changing labour market' Employment Law Bulletin 2016, 135, 5-7
[7] Response to Enterprise and Skills Review, Women's Enterprise Scotland (2016)
[8] RBS Group (2013) 'Women in Enterprise: A Different Perspective,' available at: http://www.inspiringenterprise.rbs.com/women-enterprise-different-perspective
[9] 'Here to Stay: Women's self-employment in a (post) austerity era'. UK Women's Budget Group.
http://wbg.org.uk/wp-content/uploads/2016/11/Here_to_stay_selfemployment_Briefing_Mar16.pdf
[10] RBS Group (2013) 'Women in Enterprise: A Different Perspective,' available at: http://www.inspiringenterprise.rbs.com/women-enterprise-different-perspective
[11] Bank of England (2014) 'Quarterly Bulletin 2014 Q2: The UK productivity puzzle,' available at:
http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q201.pdf

women's chances of starting a business, and triples their level of confidence in their abilities[12].

- Challenges for women led businesses in Scotland include gender blindness in policy development, discrimination, achieving credibility for the business and balancing work and family commitments. In a survey conducted by WES, 78% said advice services should be more aware of the differences in support needs between women and men in business.[13]
- Growth is a key deliverable for enterprise advice services and the policy of national economic development agencies is to identify and provide specialist support for companies with high growth potential. Yet women-specific growth support is not provided - few women's businesses currently meet the thresholds that would identify them as 'high growth', effectively excluding them from accessing growth support. Respondents to the recent WES survey mentioned above, commented that there was almost a 'hierarchy' of business advice made available and that if their business was not in a particular sector, or had a particular projection for growth and turnover, they felt that they received a reduced service. There was concern that business advice agencies did not offer services of equal quality and status to small companies being run by women.

Recommendations

3. WES supports the examination by the EJFW Committee of allocation of public resources for impact on women and men. A gender impact assessment and gender policy analysis often reveals different and unequal outcomes for women and men from public spending decisions.

Gender specific business support and investment

- A women-friendly business support and skills strategy would be welcome to ensure equality of outcome in enterprise support services.
- As one aspect of the recent Government Enterprise and Skills Review was to look at the efficiency and effectiveness of services to support business, WES would propose an equality impact assessment is completed for any proposal for reshaping of such services so as to mitigate any possible effects on women either setting up or currently in business.
- To counteract the issues of 'gender blind' approaches, a call has been made for a more effective 'gender sensitive' approach to policy making, with the European Institute for Gender Equality (EIGE) stating, "*there is a need to mainstream a gender sensitive approach in all entrepreneurship and growth policies, to consider, include and reflect the specific characteristics, needs and challenges of female*

[12] Martinez et. al. (2010) GEM Special Report: A Global Perspective on Entrepreneurship Education and Training. http://www.babson.edu/Academics/centers/blank-center/globalresearch/gem/Documents/gem-2010-special-report-education-training.pdf

[13] Response to Enterprise and Skills Review, Women's Enterprise Scotland (2016)

entrepreneurs (both existing and would-be) and women's businesses".[14]

- Women are underrepresented in the growth sectors as highlighted by Scottish Government. A research report last year from the University of Glasgow showed that:
    - Women account for 49% of the self-employed in the creative industries and 51% in tourism.
    - In all other growth sectors, they are under-represented. There are particularly low levels of women's self-employment in energy (where they account for just 9% of self-employed), construction (5%), engineering (15%) and ICT and digital technologies (11%).[15]

Improvements in data

- We need better data on gendered uptake of business support and investment. Collecting and analysing data is essential to ensure the monitoring of progress against agreed targets. The gathering and analysis of gender disaggregated data is crucial to support measurement of the economic impact in closing the gender gap in enterprise.
- WES will support calls for more research in Scotland on the contribution of women's enterprise to the Scottish economy and will seek to call for longitudinal qualitative and quantitative research studies on the experiences and issues of women business owners in Scotland.

Analysis of funding

- WES would welcome that the funding recently outlined in the Programme for Government (to support SMEs; business growth and internationalisation; supporting SMEs with growth potential; SME Holding fund etc.) be subject to a gender analysis so ensure that such funding delivers equality of outcome for businesses owned by women and men.
- WES has managed a small amount of funding this year to be able to survey women in business and seek their views on experiences of publicly funded business support. Experiences reported so far have been very mixed. With local authorities in Scotland facing up to £700 million reductions in budgets this could interfere with the quality and effectiveness of business support provided through local authorities, as well as economic development policy – with unprotected portfolios.
- WES would advocate for gender budget analysis to form part of the Scottish budget process as this would highlight the impact of different spending allocations on both women and men while the budget was being developed.

[14] 'Study on Area F of the Beijing Platform for Action. Women and the Economy. Good Practices in Women's Entrepreneurship'. European Institute for Gender Equality (2014)
[15] 'Equalities in Scotland's Growth Economic Sectors'. Training and Employment Research Unit (TERU) University of Glasgow (July 2015)

- While WES supports the recommendation from the 2016 Audit Scotland report[16] that an estimate of spending across the four strategic priorities of the Economic Strategy should be conducted, it is essential that this is subject to a robust equality impact assessment and analysis in order to ensure that funding is being targeted appropriately to achieve inclusive growth and equality across the economic development agenda.

4. WES seeks to ensure that 'Women in Enterprise' is fully understood as an area of economic priority and engages across all relevant Scottish and UK government departments to promote an improved policy and legislative framework for women's enterprise. 'Policy in action' is needed for women's enterprise, and monitoring effectiveness of policy is essential to collect systematic evidence on business advice and support methods.

Women's Enterprise Scotland

[16] 'Supporting Scotland's Economic Growth'. Audit Scotland (July 2016)

Scotland's 2020 Climate Group Submission to Economy, Jobs and Fair Work Committee

Introduction

1. Scotland's 2020 Climate Group welcomes the opportunity to provide input to the Economy, Jobs and Fair Work Committee's scrutiny process around the Scottish Government's draft budget for 2017/18. We have focused on the spending of the Enterprise Agencies.

2. Scotland's 2020 Climate Group is an influential voice for business leaders to engage in creating a dynamic, sustainable Scottish economy that supports Scotland's ambitions as a world-leading low carbon country. Our drive is towards *an economy made strong because it's sustainable*, in turn supporting Scotland's ambitions as a world-leading sustainable country.

Spending of the Enterprise Agencies

Simplify and focus the system for end users to encourage innovation, transformation

3. We support the Government's ambition for Scotland to be a top ranking OECD country in productivity, equality, wellbeing and sustainability. As highlighted within the Enterprise and Skills Review Report (October 2016), there is a need to declutter and simplify the system for end users, to facilitate and enhance collaboration between sectors and to ensure that there is coherence between skills development opportunities, business needs and sustainability ambitions. We believe that the ultimate aim is to ensure that businesses are supported to innovate, transform and develop new business models as a way to expand and diversify, ultimately ensuring a long-lasting competitive edge and economic advantage.

Align spending and programmes with Scotland's low carbon and circular economy ambitions

4. The environmental, social and economic imperative to radically reduce our impact on the planet has never been clearer and we applaud Scottish Government for its pioneering Climate Change legislation, achievements and ambition. There is a clear recognition that meeting future climate change targets will be a huge challenge – requiring decarbonisation of transport systems, buildings, land-use and energy.

5. In order to facilitate the shift across all sectors, low carbon must be an overarching strategic ambition and operational imperative weaved through public sector and government, including those of the Enterprise Agencies.

6. As well assisting in the transition to higher levels of renewable energy and increased energy efficiency, Enterprise Agencies are key in enabling the adoption of a more circular economy. The circular economy offers enormous potential for reduced environmental impact[17] and economic growth[18].

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[17] http://www.zerowastescotland.org.uk/CarbonImpactsOfTheCircularEconomy
[18] http://www.green---‐alliance.org.uk/circular---‐economy---‐scotland.php

Enterprise Agencies, have a key role in enabling Scottish leadership in this area through the investigation and adoption of new business models, practices and collaborations, in order to unlock the potential that the circular economy offers.

Scotland's 2020 Climate Group

FSB Scotland Submission to Economy, Jobs and Fair Work Committee

Introduction

This submission sets out FSB Scotland's priorities for the forthcoming Scottish Budget.

1. Economic forecasts for Scotland's economy suggest serious challenges lie ahead; at a time when the importance of devolved tax revenues makes our economic performance crucially important. The Scottish Government's future spending plans must therefore focus on measures which grow the economy and encourage the creation, sustainability and growth of businesses.

2. While recent figures suggest a slow-down in the post-devolution growth of businesses in Scotland, nevertheless small firms remain key. SMEs now account for 99% of all firms in Scotland, employing 1.2 million people, while registered businesses have increased by 2% in the last year alone.[1]

3. Unsurprisingly, given the fragile nature of Scotland's economy in 2016, our own evidence suggests small business confidence is at a five year low.[2] Prior to the European Union referendum, confidence had already been on a downward trajectory for a number of quarters, with problems in the domestic economy cited as a barrier to growth. Many small businesses have also been absorbing a range of cost increases, including changes to the minimum wage and compliance with pensions auto-enrolment. In addition, we expect that our Small Business Index data for the final quarter of 2016, set to be published in January, will show a further fall in Scottish small business confidence.

4. While there are a number of areas of spending where small businesses would welcome additional investment, *how* money is spent, how the wider public sector behaves and the leadership role of the Scottish Government, are important factors in creating the right conditions for businesses to grow.

5. For example, we recently highlighted the problems that late payment of invoices cause to small businesses. Our report revealed that average outstanding payment to Scottish small businesses is £5,718. If payment practices matched Norwegian standards, over 2,000 firms a year could be saved in Scotland.[3] The Scottish Government should use its influence to pressure our large firms to change their behaviour.

6. While most late payment in Scotland arises from business to business payments, the public sector can help by continually aiming to improve its own payment practices. As spending plans are announced, we would strongly **urge the Scottish Government to make it clear to public bodies that delaying payment to suppliers is not an acceptable budget management practice.**

7. We have also regularly highlighted the importance of getting the maximum economic impact from public spending, particularly capital investment. Whether on transport projects or energy efficiency, breaking contracts down into smaller projects will enable more local businesses, their

employees and suppliers, to benefit directly from this investment and, in turn, generate additional investment for their local economy.[4]

Lastly, we recognise that difficult choices lie ahead. We have therefore suggested three key priorities for the Scottish Government. The next budget should:

- Maintain a stable tax regime by keeping income tax rates unchanged while expanding the Small Business Bonus Scheme (SBBS).
- Get the most out of public spending by ensuring a more efficient, joined-up system of business support and fast-tracking progress on digital public services.
- Focus investment on digital infrastructure and local transport infrastructure projects.

Tax Stability

8. Given the scale of economic uncertainty, we believe it is important to avoid any additional (and unexpected) tax burdens on small businesses, whilst working towards a less-complex tax system that enables businesses to grow.

9. In Scotland, a number of devolved taxes affect small businesses; the two most significant of these being income tax[5] and non-domestic rates (NDR).

Non-Domestic Rates

10. We have frequently called for meaningful reform of NDR: arguing that small businesses need a system that is simpler to understand and navigate; encourages investment and improvement; and doesn't unfairly advantage one part of the economy over another. We recognise the challenges therein and have set out our views in a response to the current Barclay review. In particular, if the current NDR system is retained, we hope a number of reforms can be brought forward at the earliest opportunity, including a move to more frequent revaluations and removing the disincentive to invest by delaying post-improvement revaluations.

11. In our view a tax based on property, without a link to sales or profit, is always likely to be a larger overhead for smaller firms and start-ups, relative to large firms. Accordingly, the case for some form of discount or relief for smaller businesses is well established and a rates relief scheme has now existed in Scotland for over 13 years.[6] Indeed, other parts of the UK have, over time, moved to replicate the relief offered in Scotland.

12. A recent survey[7] of almost 1,000 FSB members in Scotland revealed that 74 per cent are receiving some form of discount as a result of the SBBS, with 57 per cent now paying no rates at all. With savings of up to £4,000 per annum, businesses reported that they were most likely to have used the saving to invest in their business (reported by 37% of recipients), while 35 per

cent use the lower bill to offset other cost increases and 19 per cent have invested in their staff.

13. FSB is in no doubt that the SBBS has been a key support mechanism to tens of thousands of smaller businesses during recent turbulent economic times. Furthermore, it has supported investment by small firms and incentivises business growth, with 57 per cent of businesses currently operating at home or without premises reporting that the SBBS makes them more likely to consider expanding into commercial premises. Were the SBBS to be removed, a fifth of small firms report they would close the business, whilst almost a fifth would cancel investment.

14. While recognising the increasing complexity of reliefs, we believe that small business rates relief must be a permanent element of any business rates system and **we therefore urge the Scottish Government to continue to support the Small Business Bonus Scheme and warmly support plans to give full relief to 100,000 firms.**

15. Further, while understanding various complicating factors, we would urge the Scottish Government to at least match England's poundage rates wherever possible.

16. Lastly, we urge the Scottish Government to ensure all relevant information about the forthcoming Revaluation is issued as soon as possible to enable businesses to factor their new bills into their financial plans.

Income Tax

17. While Scotland has seen an increase in the number of companies since devolution, many small businesses remain unincorporated[8] and are subject to the income tax system rather than corporation tax. Accordingly, the devolution of most aspects of income tax to Scotland is of great interest to small businesses.

18. While there may be economic benefits to creating a more competitive tax regime in Scotland, we recognise current funding constraints make this a difficult prospect. Equally, changing tax rates in Scotland could lead to anomalies with other parts of the tax system (such as National Insurance Contributions). Moreover, the impact of changes to income tax rates on Scotland's small businesses is unclear. In particular, more modelling to understand the likely outcome of, for example, changes to the 'additional' rate of income tax would be helpful. More generally, any alterations to tax rates should be assessed for their impact on businesses.

19. On balance, given current economic uncertainty it would be advisable to avoid any extra administrative commitments to Scottish firms. **The Scottish Government should therefore maintain an income tax system unchanged and aligned with the UK system for 2017-18.**

Delivering Services to Business More Efficiently

20. In our submission[9] to the Scottish Government's Enterprise and Skills Review, we highlighted how the delivery of services to support business has become inefficient and, ultimately, less effective. Too many organisations are competing, not collaborating, to sell their initiative to businesses. This issue was highlighted in Audit Scotland's recent review which stated that economic development agencies and councils were unable to:

"…identify the public sector support that was available for businesses to pinpoint any duplications or gaps…due to the complexity of all the bodies and initiatives involved."[10]

21. The next phase of the Enterprise and Skills Review offers an opportunity to focus minds on how business support can improved. In the interim, we have previously suggested that the Scottish Government should make a start on reducing clutter by introducing a moratorium on any new publicly funded business-facing websites.

22. FSB has also argued for some time that businesses should be able to conduct more transactions with government online: for example, finding out sector or geographic-specific business advice, as well as paying bills or applying for licences. We agree with the Scottish Government that "digital technology provides a foundation for innovative, integrated public services that cross organisational boundaries."[11] However, progress to improve e-government in Scotland has been painfully slow. We firmly believe that legislation will be necessary to drive forward the whole-public sector approach needed to make better digital public services a reality.

23. Scotland has a good range of support services for businesses but there is scope for improvement to make that support more user-friendly and deliver it more efficiently.

Investment

24. We recognise that the Scottish Government must balance a range of competing demands for investment when public finances are under severe pressure. We also recognise that it must do this when Scotland's economic performance has become far more directly relevant to Scotland's budget and when the economic outlook has rarely looked less certain. On this basis, creating the foundations for a stable economy must be a central factor in investment decisions in the forthcoming budget. In particular, we have previously argued[12] that Scotland needs to focus on improving the economic resilience of our communities to better withstand economic turbulence.

25. Accordingly, we believe that investment should be directed towards digital and local transport infrastructure - key building blocks in creating more successful, productive local economies.

Local Transport Infrastructure

26. In recent years the Scottish Government has invested in a number of large-scale infrastructure projects, such as the new Forth crossing. While this investment has been welcome we are concerned that investment in local infrastructure has fallen behind. Most small businesses trade locally,[13] primarily using road transport, while Audit Scotland recently revealed that a third of local roads were in an unacceptable condition.[14] Economists have also argued that greater productivity returns could arise from concentrating investment on improving local transport infrastructure, particularly roads.[15]

27. We have previously called on the Scottish Government to create a fund to tackle the backlog of repairs to local roads. Further, the Scottish Government should commit to devoting Scotland's share of Autumn Statement infrastructure spending towards shovel-ready local transport infrastructure.

Digital Infrastructure

28. Progress has been made on improving Scotland's digital infrastructure, in particular we welcome the government's commitment to deliver superfast broadband access to all by 2021 and the mobile phone coverage action plan. Yet the evidence suggests we are still far from being a leading digital nation.

29. As of June 2016, 83 per cent of Scottish premises could access superfast broadband, compared to 89 per cent of English premises. In addition, 58 per cent of Scottish premises had outdoor 4G coverage from all four networks, compared to 75 per cent of English premises.[16] Ofcom's mapping also reveals that large swathes of Scotland lack a 3G or 4G signal.

30. We know that roll-out of superfast broadband to smaller businesses tends to lag behind roll-out to the wider population. This is due to the high proportion of smaller firms in rural areas and issues with connecting premises in business parks. We would argue that new interventions should target these sorts of premises as an early priority.

31. We have argued for clearer, more reliable information for businesses and communities about the roll-out of superfast broadband to allow firms to plan ahead. To do this, **the Scottish Government should produce an annual list of infrastructure work necessary to bring about universal next generation access, with estimated costs.** And, to ensure investment in Scotland is no less competitive, the Scottish Government should match the UK's commitment to provide rates relief for new digital infrastructure.

Skills

32. Finally, we are aware that significant investment opportunities will arise as a result of the proceeds from the Apprenticeship Levy. In 2017-18 alone, Scotland will receive £221m. We have argued that this funding should not be focused solely on supporting additional apprenticeships, but should instead

support broader investment in skills through a flexible skills fund that employers can use to address their business's training needs.

33. We have also argued that levy-paying employers should be able to recoup as much as possible from the Scottish Government; and for better links between industry and education through innovative approaches such as the industry-led, vocational academy model used by CodeClan.[17]

FSB Scotland

Notes:

1 "Businesses in Scotland 2016", Scottish Government, November 2016
2 FSB Small Business Index, Scotland Q3 2016
3 See our press release from November 2016
4 "Local Procurement: Making the best of small business, one year on: Scotland Report", CLES-FSB, July 2013
5 We recognise that income tax is not fully devolved to the Scottish Parliament
6 Evaluation and Effectiveness of the SBRRS, DTZ Pieda, 2004
7 Online survey of FSB Scotland members conducted in August-September 2016 with 960 responses.
8 Our evidence suggests that only 47% of our members are incorporated. "The FSB 'Voice of Small Business' Member Survey 2014–Scotland"
9 "Enterprise and Skills Review", FSB, August 2016.
10 "Supporting Scotland's economic growth: The role of the Scottish Government and its economic development agencies", Audit Scotland, July 2016.
11 "Scotland's Digital Future: Delivery of Public Services", Scottish Government, September 2012
12 "Resilient Economies, Resilient Communities. FSB Scottish Parliament Manifesto 2016", FSB, October 2015
13 FSB survey work conducted ahead of the Scottish independence referendum suggested that 61% conducted most or all of their business within the local or regional area
14 "Report: Maintaining Scotland's roads: a follow-up report", Audit Scotland, August 2016
15 See: "The Stanford Marshmallow Experiment and the Scottish Economy", Stephen Boyle, The Herald, January 2016.
16 Communications Market Report: Scotland, Ofcom, 2016
17 "Scottish Government Response to the UK Apprenticeship Levy", FSB, August 2016.

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