RURAL ECONOMY AND CONNECTIVITY COMMITTEE

ISLANDS (SCOTLAND) BILL

SUBMISSION FROM FEDERATION OF SMALL BUSINESSES SCOTLAND

About FSB
FSB is Scotland’s leading business organisation. As experts in business, we offer our members a wide range of vital business services, including advice, financial expertise, support and a powerful voice in government. Our mission is to help smaller businesses achieve their ambitions. These micro and small businesses comprise the majority of all enterprises in Scotland (98%), employ around one million people and contribute £68bn to the economy.

Introduction
The Federation of Small Businesses (FSB) welcomes the opportunity to respond to the Committee’s request for views on the Islands (Scotland) Bill. With our members operating businesses across Scotland’s islands, we are keen to ensure that the role smaller businesses play in sustaining island communities, and how the Bill might support them, is considered as part of the Committee’s scrutiny of the Bill.

The Islands Bill is strategic and enabling in nature. We have, therefore, focused our response on setting out a range of issues affecting island businesses and how key aspects of the Bill, such as an Islands Plan and island duties on public bodies, could help address these challenges. We do not have strong views about Part 4 of the Bill and thus have not commented on these measures.

Overview
Scotland’s 93 inhabited islands vary enormously, not least in their degree of remoteness from mainland populations, sizes, population densities, demographies, histories, cultures and, very importantly, the nature, size and diversity of their economies. Indeed, it could be argued that many islands have much more in common with neighbouring mainland areas than they do with smaller islands hundreds of miles away.

To better understand the implications of an Islands Bill for smaller businesses, we undertook survey work with firms from Arran to Unst, asking them about priorities for improving their local community.1

While we discuss individual issues in more detail below, the overarching theme from our survey is clear: island-based businesses want to see diverse, motivated, economically and socially active communities, while maintaining and sustaining the environmental and cultural attributes that make each island so special. Specifically, the top priority for action is to increase the number of economically active people, (whether employed or self-employed), through the retention of more local young people and the encouragement of more young families to move to islands. In our view, supporting entrepreneurialism in the islands has a key role to play in achieving this aim.

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1 FSB’s survey was open to small businesses (not limited to FSB members) based on all of Scotland’s inhabited coastal islands. The survey was conducted over a two week period in September 2017 and 280 responses were received.
Such a clear medium to long term priority highlights how a more strategic approach to policy for the islands, such as that offered by a National Islands Plan, could be useful.

**Living and doing business on a Scottish island**

While the population of Scotland’s islands increased by four per cent in the census decade 2001 to 2011 (reversing a three per cent decline in the previous decade), this growth was uneven. The four most populous islands (Lewis and Harris, Mainland Shetland, Mainland Orkney and Skye) account for 65 per cent of the total island population and together account for most of the four per cent increase. Many of the smallest islands saw population decline or little real growth.

More worrying is the steadily aging population demographic. While the 2011 figure for under 16 year olds is the same for the islands as the rest of Scotland at 17 per cent, in 2001 it was 20 per cent. Moreover, the proportion of those aged 65 and over stood at 21 per cent, an increase of 2.5 per cent on 2001.

Businesses benefit from a vibrant, diverse community in the creation of local markets for goods and services, a healthy local labour market, as well as the critical mass necessary to support a range of other businesses and services - from post offices to local schools. It is therefore no surprise that when asked to prioritise a range of options for their island covering the next five and ten year periods respectively, the need to “encourage young people to stay on/young families to move in” was the top priority, cited by 38 per cent as a priority for the next five years and 54 per cent for the next ten years.²

Addressing this challenge must therefore be at the heart of strategic measures proposed by the Bill.

We believe that supporting small businesses and entrepreneurialism could help meet this challenge. While the vital role that small businesses play in the Scottish economy is increasingly recognised, their contribution in the islands is even more important. The 2011 Census highlights that 13 per cent of residents were self-employed, as against seven per cent for Scotland as a whole. In the Shetland and Orkney Islands alone, smaller businesses annually contribute just under £1bn to their economies.³ Put simply, islanders are more entrepreneurial – because they have to be.

Moreover, while some businesses were clear about the challenges of moving to an island and becoming integrated in the community, overall, islands are seen as good places to do business by island business owners (87% of respondents)⁴, and only 20 per cent of businesses have ever considered relocating from an island to the mainland. Principally, it is their island’s character, the work/life balance that goes with it, and strength of the local community that attracts people to run businesses on islands.

“This is my home, why would I move away - more money doesn’t usually equal better quality of life. It’s perfect - the customers come to us - that is why it’s vitally important to develop the infrastructure and conserve the environment. Micro businesses are the backbone of the island’s economy. Small is beautiful and a varied business landscape attracts visitors, and supports micro-local employment.”

“Never, never, never [would I leave] - quality of life outstrips the issues we face by a HUGE amount”

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² Other priorities for the short term included; improvements to transport and infrastructure; affordable access to superfast broadband; and affordable housing. Priorities in the longer term included; protecting the environment and sustainability; improvements to transport and infrastructure; and affordable housing.


⁴ When asked whether their island was generally a good or bad place to run a business.
“It damages my business to be here but I put up with it for other reasons (peace, community spirit, low crime)”

“We would make a lot more money, but we want to have the quality of life here in beautiful Arran. We have considered leaving but would prefer to find improving reasons to stay.”

However, despite being rooted in their communities, it is also clear that island businesses face a number of specific challenges. These often relate to additional costs of delivering goods and people to and from islands, as well problems arising from a smaller local population. While some of these problems are similar to those experienced by businesses in rural and remote areas, island-based businesses feel very strongly that they face different challenges to those experienced by businesses on the mainland.5

“The general cost of living and the added costs applied to island communities for freight and shipping services is damaging my business as well as the cost/reliability of inter-island travel and travel to the UK mainland, all of which restricting the growth of my business.”

“Mainland businesses in the form of national supermarket chains and corporate franchises continually threaten local island businesses and future island sustainability with absolutely no compunction. This needs to be looked at very seriously.”

Key challenges raised include:

- **The cost and availability of public transport to, from and within our islands**

  Ferries dominate many of the issues raised here, with cost, capacity and frequency of sailings making some routes less fit for purpose than islanders would like. At a time of growing usage from visitors thanks to RET, this lack of capacity is impacting on the tourist industry in areas like the Western Isles and additional boats are required on some routes e.g. Ullapool to Stornoway.

  The removal of island-based businesses (while it continues for other organisations) from the Air Discount Scheme (ADS) is also a concern for those who have to make brief business visits to Scottish cities and for whom flying is the most effective option.

- **Road conditions**

  While RET was an extremely positive move – one warmly welcomed by the vast majority of businesses – the resulting increase in vehicle numbers is putting additional strain on island road infrastructure, including parking on some islands. The regular maintenance of all roads and the enhancement of some is essential if the full, sustainable benefits flowing from tourism are to be felt.

- **Freight, deliveries and services**

  There is a very strong feeling amongst island businesses that they pay far more for parcel deliveries than can be justified by their locations alone. In addition, the removal of Road Equivalent Tariff (RET) from long commercial vehicles is perceived as having pushed up freight costs, which are seen as a significant barrier to business.

  Businesses have also reported severe difficulties accessing specialist contractors from the mainland and that the cost of so doing can be prohibitive due to public transport constraints.

- **Digital infrastructure**

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5 When asked whether they faced different challenges to businesses on the mainland, including those in rural and remote areas, 89 per cent agreed they faced different challenges.
Island businesses are no less reliant on digital communication than their mainland counterparts, and arguably digital communications offer greater opportunities to remote communities. On both counts, digital has a vital role to play in retaining young people and attracting young families to islands.

- **Local workforce**

In addition to these transport and infrastructure-related issues, businesses highlighted challenges associated with local labour markets.

Over a third (37%) of island businesses believe that a lack of access to suitably skilled staff is currently preventing them from expanding, with nearly two thirds (64%) saying that they are affected adversely by the lack of a local workforce. Associated with workforce issues, nearly half (46%) say they are affected by a lack of affordable housing, a third (32%) by a lack of access to training facilities/courses, and a fifth (21%) by a lack of transport options (for them and staff) to and from work.

“We have recruited and maintained a young engaged team. When we are looking for employees it is difficult and many of our customers are struggling for skilled staff.”

“We have exhausted the supply of good divers on [the island] itself but receive approximately 5 CVs a day, sometimes more from divers wanting to work with us but we are unable to take them due to lack of housing availability - this is having a serious effect on the growth of our business. We are having to turn away work because of it.”

With low unemployment on most islands, limited availability of local skills and labour, as well as concerns about the work-readiness of those not in employment, it is no surprise that previous FSB survey work indicated that 41 per cent of Highland businesses with employees currently employ at least one person from the EU. We would not expect this figure to differ a great deal when restricted to island businesses. This compares to 25 per cent of employers across Scotland. We have repeatedly called for a right to remain for current EU workers but the impact of Brexit remains an additional concern in relation to access to skills and labour.

Finally, we wanted to explore the interdependence between businesses and community facilities, in particular the facilities and services required to support a thriving economy. We asked island-based businesses about the relative importance of such services to the location of their business. From the results below, it is clear that access to post offices, transport and retail facilities are considered key for business.

On a scale of Not at all important to Very important, the following are the cumulative scores for Quite and Very important:
National Islands Plan

FSB welcomes the proposal for a National Islands Plan to link the various policies, strategies and services which support outcomes for island communities. As mentioned above, there are clearly strategic challenges which would benefit from a more co-ordinated cross-government approach. We also support the proposal to introduce a plan 12 months after the Act comes into force, in order to enable consultation to take place. However, we are keen to ensure that consultation specifically includes discussion with local businesses, and recognises the challenges of engaging with time-pressed small businesses.

Given the differences between islands, we believe that while an overarching plan is certainly desirable, the success of the Act will be determined by the difference that it makes to individual communities. It is therefore important to recognise that just as Unst is very different to Arran, a single plan cannot meet and match all circumstances. Instead, local needs and aspirations must be met with local solutions and the plan should therefore be viewed as an enabler and not as prescriptive. While ensuring that all bodies play their parts and that limited resources are put to best use, the plan might well mean that a public agency could offer a slightly different type and level of business support in the Western Isles to the support that it offers in Shetland or Moray, for example.

We might also suggest that the fragile nature of private sector activity in remote areas such as islands, could justify a different approach to that traditionally taken by public bodies. This kind of differentiation could help boost entrepreneurial opportunities. For example, it might be possible to consider whether the type of assistance offered to social enterprises or other community ventures, could also be offered to (similarly-sized) businesses, who are traditionally excluded from such support.

Finally, while we recognise that the Bill is concerned only with our islands, it is worth considering the implications of the Bill for remote mainland communities (some of which can only be reached by boat). Many other North and West Highland areas suffer from the same remoteness barriers as islands. Government should consider how these areas might benefit from successes arising from the Bill.
Duties in relation island communities – ‘island proofing’

As a member of the Scottish Regulatory Review Group (RRG), FSB has been at the forefront of better regulation policy in Scotland for a number of years. We are therefore keen to see how new duties could help ensure that future policies or regulations do not unnecessarily penalise island businesses.

However, in our experience, impact assessments are rarely used to good effect. Firstly, they are best used as a policy development tool – but are too often completed as a ‘tick box’ exercise after policy decisions have been made. Secondly, discussion with frontline businesses (where relevant) is a critical but rarely undertaken part of the process. We would urge the Committee to reflect upon this when considering the impact of such assessments. In contrast, where formal duties are considered in relation to wider strategy (as has been seen in the recent Procurement Reform (Scotland) Act 2014), they are more likely to be successful.

To explore whether existing regulations were creating problems for island businesses and the extent to which island-proofing would be useful, our survey asked businesses whether they had ever come across regulations or other rules created by government (or government agencies) which they feel are unfair or unworkable for business on islands. We received a wide-ranging response, with many of the suggestions relating to regulations which generally created difficulties for small businesses.

While these comments relate to current, rather than the future, plans, they do typify the sorts of issues that frustrate businesses and it is clear that there is scope to ensure that future legislation and public policies are island-friendly.

However, we would also advise that it is worth considering whether island-proofing has the potential to give island-based businesses a competitive advantage over businesses in neighbouring mainland areas, for whom the same degree ofappropriateness could apply. One respondent commented:

“The focus of the Islands Bill should be on dealing with regulations that don’t apply to remote locations. The bill should have the ability, through secondary legislation, to alter existing legislation (actually mainly regulations). The priority for altering future laws has minimal value. This is not a deregulation, but a re-regulation request.”

Examples of difficult rules and regulations currently in operation and highlighted by island-based businesses include:

- Regulations preventing some materials being transported by ferry – and inconsistencies between ferry captains as to who will carry what.
- Planning regulations that make it difficult to erect new buildings in rural areas away from “areas of best fit”.
- The public sector preferring to procure goods and services from mainland businesses rather than from local businesses.
- The favouring of large developers from the mainland wishing to open in islands over home-grown businesses (the impact of national chains and franchises in islands).
- Regulations from Food Standards Scotland.
- Fishing quotas impacting on island-based businesses.
- The Air Discount Scheme’s removal from island-based private businesses, but not from competitor social businesses.
- Waste collection inconsistencies, e.g. people on Orkney’s Outer Isles have to pay for heavy uplift while those on Mainland Orkney can access a free amenity site.
- A lack of access to what are supposed to be universal medical services.
Scottish Island Marine Area

FSB has no strong views on this part of the Bill and we did not survey specifically on this. However, we are mindful of both the opportunities and threats which may arise for small businesses. Some businesses commented favourably on the measures in the Bill, yet we are keen to ensure that existing business activity is not undermined or disadvantaged by any changes. Indeed, change should seek to improve the current landscape where possible.

One business commented that there are:

“Too many public bodies involved in planning - Highland Council, Crown Estate, Maritime Coastguard Agency, Seafish (want fees if you process shellfish), Marine Scotland etc - so many we lose count of who we have to deal with.

Federation of Small Businesses
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