PROPOSED NATIONAL ISLANDS PLAN

RURAL ECONOMY AND CONNECTIVITY COMMITTEE

SUBMISSION FROM FEDERATION OF SMALL BUSINESSES SCOTLAND

About FSB
The Federation of Small Businesses (FSB) is Scotland’s leading business organisation. 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, contribute £68bn to the national economy, as well as an important contribution to Scotland’s island economies.

Overview
FSB welcomes the opportunity to comment on the proposed Islands Plan. With our members operating businesses across Scotland’s islands, we are keen to ensure that the role smaller businesses play in sustaining island communities is reflected in the Islands Plan. Their priorities are set out below for information.

In light of the research we undertook to understand the priorities of small businesses, and reviewing the proposed plan in light of the Committee’s questions, we make the following points:

1. As anticipated, the plan does set out the strategic challenges that need to be addressed to revitalise our islands. The objectives identified reflect feedback from small businesses.

2. The plan should give a far higher priority to addressing the population challenge as, notwithstanding the more-immediate transport problems cited in the Scottish Government’s consultative work, reversing population decline and increasing demographic diversity, is the fundamental challenge for the future of many islands. Other objectives, such as action on housing and economic development, are vital because they help address this central challenge.

3. While the plan acknowledges that actions may be ongoing across a range of topics and it would be unhelpful to include all this information in the plan, we did not always get a strong sense of new, or revised, actions to address the specific objectives. As an example, the plan outlines lack of childcare as a barrier to participation in the labour market. However, while there is a reference to the Scottish Government’s planned roll out of additional hours for parents of two to four-year-olds, the action only refers to island proofing (presumably future) childcare policy and legislation. While this is relevant, it does not refer to any specific childcare issues on islands (e.g. seasonality) or how these could be addressed. Further, given this policy commitment is expected to be met next year, while the plan is for five years, this does not feel like particularly specific or ambitious action.

4. While there is a desire to ensure an integrated approach, there could be more ‘read-across’ between the different strategic objectives and their
actions. For example, there is no real reference to the economic development opportunities associated with other challenges, such as childcare and social care provision across islands; housing development and adaptations in response to climate emergency; cultural economy; and, training for the existing workforce.

5. The sustainable economic development section needs to be much more clearly thought out. While the solutions for each island will of course look different, and there are existing economic strategies in place, there is little sense of a vision of doing economic development differently on island economies and the resources required to support this (we note the fragile state of the non-statutory economic development functions in local government). For example, we would expect to see reference to how tools such as the inclusive growth diagnostic could help understand and prioritise challenges to the local economy (such as childcare). Similarly, newer approaches such as Community Wealth Building would help relevant authorities to think through how to leverage greater benefits from the current island economies, whether in relation to public procurement, use of assets or fair work.

Moreover, since almost all private sector jobs and businesses on islands come from the SME sector, it is disappointing to see virtually no reference at all to working with businesses or employers in any of the actions.

Priorities of Scotland’s island-based small businesses
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 potential of an Islands Act for smaller businesses, in late 2017 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. Such a clear medium to long term priority highlights how a more

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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.
strategic approach to policy for the islands, such as that offered by a National Islands Plan, is useful.

Key Points
- Islands are seen as good places to do business by the overwhelming majority of business owners. Principally the individual character of different islands, the community and the work/life balance on offer, are strengths of islands.
- However, living and doing business on an island can bring extra costs and challenges in relation to infrastructure and availability of public services.
- The overarching objective of the National Islands Plan should be to develop a sustained, coordinated approach to tackle the major strategic challenges affecting the success of our islands.
- In our view, this means a long-term solution to boosting the working-age population across the islands.
- The Scottish Government’s plan should:
  - identify key policy changes required to achieve this outcome and to ensure the priorities of relevant authorities are aligned
  - oversee effective delivery of actions, including relevant measurement of progress
- As part of its approach, the Scottish Government may need to consider whether other policy or legislative requirements placed upon the relevant authorities are preventing successful alignment of priorities. Similarly, we recognise that the solutions (and so policy adjustments required) may differ across different islands.
- Community Impact Assessments must include specific input from local businesses, incorporating elements from the Business Regulatory Impact Assessment process. This matters because the economic profile of islands, such as the percentage of people who are self-employed, is likely to be different to other parts of Scotland.

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 the National Islands Plan. 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”

“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

\(^2\) 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.

\(^3\) See: http://www.fsb.org.uk/docs/default-source/fsb-org-uk/---local-gov-manifesto—online.pdf?sfvrsn=4

\(^4\) When asked whether their island was generally a good or bad place to run a business.
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 and an immigration system that works for smaller businesses 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*:
How important is the presence of the following services to the location of your business?