

# SUSTAINABLE EMPLOYMENT IN SCOTLAND INQUIRY

## Introduction

The Federation of Small Businesses (FSB), Scotland's leading direct-member business organisation, welcomes the opportunity to respond to the Scottish Affairs Committee's inquiry into sustainable employment.

FSB has a long-standing interest in skills and employability and has contributed to numerous parliamentary inquiries, government commissions and government strategies in recent years. This includes:

- The work of the Wood Commission<sup>1</sup>
- A parliamentary committee inquiry into work, wages and wellbeing in the Scottish labour market<sup>2</sup>
- The Scottish Government's consultation on the UK apprenticeship levy<sup>3</sup>
- The Scottish Government's enterprise and skills review<sup>4</sup>

At UK and Scottish levels, FSB has published several reports which are pertinent to the Committee's inquiry,<sup>5</sup> particularly the research on the employment potential of micro-businesses.<sup>6</sup>

## Summary

This response will make five key points:

1. The important role small businesses play in the Scottish labour market
2. The need for a nuanced approach to labour market changes
3. The need to focus on the localities that generate employment, as opposed to a purely national perspective
4. That places with high levels of small businesses are more likely to have healthier and sustainable labour markets
5. The need to consider aspirations for a high wage, high skilled economy in the context of a challenging labour market

## Small businesses and employment

To understand the important role small firms play in the labour market, it is essential to first of all comprehend the nature of the business base. Since 2008, the Scottish business base has undergone a quiet revolution, with growth in self-employment playing a key role in increasing Scotland's start-up rates. In that period, self-employment increased by 29%

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<sup>1</sup> "[Commission for Developing Scotland's Young Workforce](#)", FSB, May 2013. "[Response to the Wood Commission's Interim Report](#)", FSB Scotland, November 2013.

<sup>2</sup> "[Work, Wages and Wellbeing in the Scottish Labour Market](#)", FSB, August 2015.

<sup>3</sup> "[Scottish Government Response to the UK Apprenticeship Levy](#)", FSB, August 2016.

<sup>4</sup> "[Enterprise and Skills Review](#)", FSB, August 2016.

<sup>5</sup> See: "[Make or Break: Getting Apprenticeship Reform Right for Small Businesses](#)", FSB, August 2016. "[Going it Alone, Moving on Up: Supporting Self-Employment in the UK](#)", FSB, April 2016.

<sup>6</sup> "[Micros Untapped: Realising the Employment Potential of Micro-Businesses](#)", FSB and Rocket Science, November 2012.

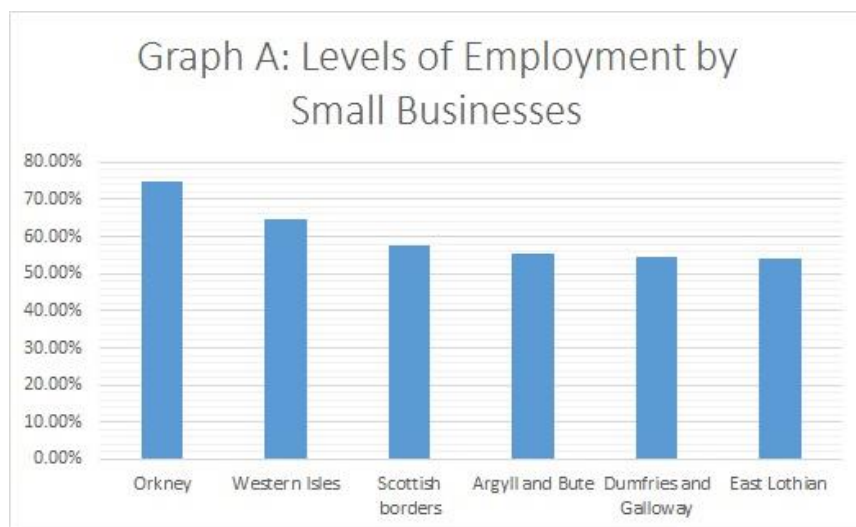
and now accounts for 69% of all enterprises.<sup>7</sup> To put that into perspective, more people earn a living through self-employment than from the NHS in Scotland (161,800) or local government (241,000).<sup>8</sup>

Table 1: Number of registered and unregistered enterprises in Scotland

Employee Sizeband	2000	2008	2016	Growth
0	146,155	187,890	243,245	66%
1-49	88,220	92,045	100,885	14%
50-249	3,350	3,575	3,920	17%
250+	2,245	2,285	2,365	5%

In total, small businesses account for almost all of the 351,410 businesses in Scotland (98%)<sup>9</sup> and are a dominant feature of every sector of the economy.

Equally, smaller businesses play an important role in the labour market and provide jobs for 887,700 people. According to FSB research, an average Scottish small business will have seven employees and turnover around half a million pounds.<sup>10</sup> Accounting for 42% of total private sector employment in Scotland, smaller businesses are a key source of employment in urban and rural Scotland. The graph below illustrates the local authorities with the highest levels of small business employment, with Orkney’s small firms contributing 74.8% of private sector jobs.<sup>11</sup>



Small employers are also more likely to pay the living wage compared to their large business sector counterparts. FSB analysis of living wage data shows that 79% of all living wage accredited private sector employers are small, while 3% are large.<sup>12</sup>

The key point that emerges from this analysis, and one we would like the Committee to consider, is the significant contribution micro and small businesses make to employment in Scotland – especially in areas of low economic activity or in periods of economic distress. This latter point is worth expanding on to highlight the resilience of small businesses.

<sup>7</sup> “Businesses in Scotland 2016”, Scottish Government, November 2016.

<sup>8</sup> “Public sector employment in Scotland – Statistics for 3rd Quarter”, Scottish Government, September 2016.

<sup>9</sup> “Businesses in Scotland 2016”, Scottish Government.

<sup>10</sup> “FSB Membership Profile”, FSB, January 2016.

<sup>11</sup> This graph uses data from “Businesses in Scotland 2016”.

<sup>12</sup> FSB analysis of living wage accredited data. See: <http://scottishlivingwage.org/accredited>

Between 2010 and 2012, when there was little to no growth in the wider economy, employment levels in smaller businesses increased at a time when medium sized firms decreased headcount by 9,320 and large businesses cut 29,960 jobs.

## 'Good' jobs and 'bad' jobs

In the contemporary debate, discussions can become stuck in a well-meaning, if perhaps simplistic, opposition of 'good' jobs and 'bad' jobs. This was evident in the Scottish Parliament's Economy, Energy and Tourism Committee's report into the labour market which supported the notion of:

*"... high-road and low-road economies [where] governments opt to either support a high-skill, high-wage economy or propagate a low-skill, low-pay economy".<sup>13</sup>*

FSB would encourage this inquiry to take a more nuanced and inclusive approach and investigate firm-size dynamics and the impact it has on employment. Although it is an issue few governments or parliamentary committees have addressed, FSB research<sup>14</sup> has consistently highlighted that smaller firms approach employment differently from their larger counterparts. This ranges from small businesses being more likely to provide pathways to employment for disadvantaged groups – around 50% have hired people who were out of work in recent years<sup>15</sup> - to hoarding labour during economic downturns.<sup>16</sup>

## Local labour markets

Despite a growing body of literature examining the Scottish labour market, few reports look at the places and localities that provide jobs. This is symptomatic of a wider problem where public policy often fixates on national developments and overlooks important local variations. In this section, FSB recommends that this inquiry considers the differing conditions local economies face to generate and maintain sustainable employment.

Delving beneath headline national indicators on employment and unemployment, which generally paint a positive picture, reveals two key points. First, there is a large variation in employment and unemployment rates across local authorities.<sup>17</sup> Perth and Kinross performs above the national average at 79% and 3.8% respectively, yet Dundee lags the national average for employment by 9.8% and unemployment by 3.1%. Similar variations can be found between places that have adjusted to a knowledge based economy, such as Edinburgh, and economies like Inverclyde and West Dunbartonshire which still bear the scars of its industrial past.

Secondly, there is a relationship between the diversity of the local business base and sustainable and resilient labour markets. The Centre for Local Economic Strategies (CLES) has previously argued that places which are too dependent on one aspect of the economy, or a dominant large employer, creates unbalanced and fragile local economies.<sup>18</sup>

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<sup>13</sup> ["Taking the High Road – Work, Wages and Wellbeing in the Scottish Labour Market"](#), Economy, Energy and Tourism Committee, Session 4, January 2016.

<sup>14</sup> ["Back to Work: The Role of Small Businesses in Employment and Enterprise"](#), Peter Urwin and Franz Buscha for FSB, September 2012.

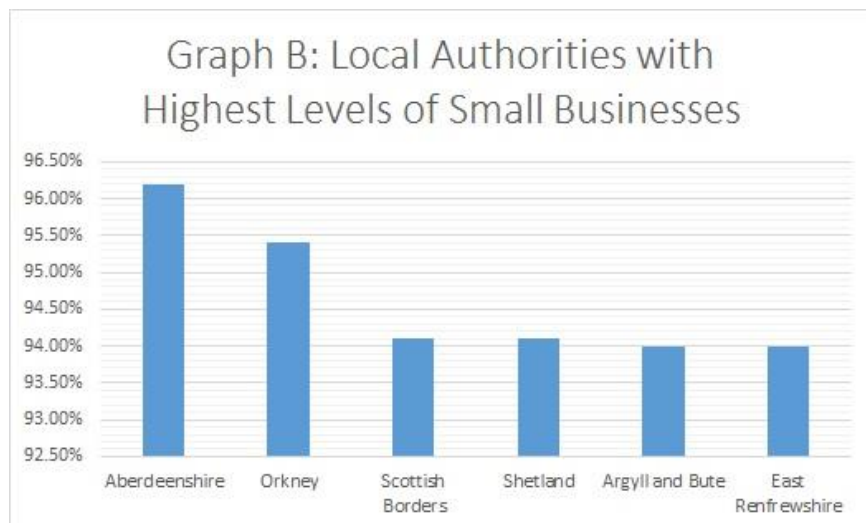
<sup>15</sup> Unpublished FSB data.

<sup>16</sup> ["Productivity, Investment and Profits during the Great Recession: Evidence from UK Firms and Workers"](#), C. Crawford et al, Fiscal Studies 34(2), June 2013.

<sup>17</sup> This analysis uses the local authority tables in ["Regional Employment Patterns in Scotland: Statistics from the Annual Population Survey, 2015"](#), Scottish Government, May 2016.

<sup>18</sup> ["Productive Local Economies: Creating Resilient Places"](#), CLES, December 2010.

This is reinforced by analysis undertaken by FSB which finds that places with high levels of small businesses are more likely to have healthier labour markets. The graph below illustrates the local authorities with the highest concentration of small businesses.<sup>19</sup> In each case, unemployment is lower than the national average and employment exceeds the national average. The labour market in the Scottish Borders, for example, has an unemployment rate 1.8% lower than the Scottish average, while its employment rate is 3.1% higher.



These localities are also home to above average self-employment rates, which in some cases exceed the national average by 5% (e.g. Argyll and Bute).

Table 2: Number of people (16+) in self-employment by local authority<sup>20</sup>

Geography	% Self-Employed	Level Self-Employed
Scotland	11.8%	301,500
Aberdeenshire	12.5%	17,200
Argyll & Bute	17.7%	7,000
East Renfrewshire	13.5%	5,800
Orkney	17.5%	2,100
Shetland	12.3%	1,600

## Small business confidence and the labour market

Overall, small business confidence in Scotland has been on a downward trajectory for five quarters,<sup>21</sup> reflecting the sluggish rates of growth in the economy.<sup>22</sup> Regrettably, our Small Business Index for Q4, due to be published at the beginning of 2017, is likely to show a further fall in confidence and increasing pressure on profit margins.

Given this outlook, it is unsurprising that 2016 has been a challenging year to maintain headcount. In fact, staff numbers have decreased in all but one quarter with an 8% decrease in Q1 and a 9% decrease in Q2. Upcoming results from Q4 are almost certain to

<sup>19</sup> Source: "Businesses in Scotland 2016", Scottish Government.

<sup>20</sup> "Regional Employment Patterns in Scotland: Statistics from the Annual Population Survey, 2015", Scottish Government.

<sup>21</sup> "Small Business Index – Scotland Q3 2016", FSB, September 2016.

<sup>22</sup> See: <http://www.gov.scot/Topics/Economy/state-economy/latestSofE>



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show a further decline, alongside an expectation that cuts will continue in 2017 – an outlook supported by recent analysis from the Fraser of Allander Institute.<sup>23</sup>

The challenging outlook for the labour market is important context for this inquiry. The aspirations set out by the Committee are laudable, but the projections of the business community and the commercial pressures they face suggest that the issue is not small businesses' desire to create the quality, secure jobs referred to in the inquiry's remit. Rather, the issue is capacity and wherewithal in the face of economic uncertainty, increased labour costs and tighter margins. Only by addressing these wider issues will we be able to develop a meaningful public policy response to the concerns this inquiry seeks to tackle.

## Further information and contact

For further information on any of the points raised in this submission, please contact Barry McCulloch on [barry.mcculloch@fsb.org.uk](mailto:barry.mcculloch@fsb.org.uk) or 0141 221 0775.

## About the FSB

As experts in business, FSB offers members a wide range of vital business services, including advice, financial expertise, support and a powerful voice in Government. Its aim is to help smaller businesses achieve their ambitions.

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<sup>23</sup> "[Scottish Labour Market Trends](#)", Fraser of Allander Institute & Scottish Centre for Employment Research, November 2016.