

# Building a sustainable future – regeneration discussion paper: FSB contribution

## Introduction

Small businesses are integral elements of their local communities, wherever they are based and whatever they are doing. They contribute to the health of the local economy and to the cultural identity of the community in which they operate. Research from a multitude of sources<sup>1</sup> shows that smaller businesses tend to take a more active interest in the local community than large businesses, because small business owners are more likely to have a connection to the area, to serve local clients or customers or have local suppliers. They employ people from their locality, they are interested in making and seeing improvements to their local environment and, crucially, they are far less likely to leave whenever conditions become less attractive.

The FSB, which campaigns for an economic and social environment which allows small businesses to grow and prosper, represents over 20,000 business owners in Scotland, covering a wide range of sectors. Our members generally see themselves as potential key players in regeneration policy and action, whether they are manufacturers, national suppliers, providers of professional/trade services or retailers. We believe that the FSB should therefore be closely involved in national discussions on this topic.

Below are some key statistics relating to our members and their role in local communities:

1. 79% of FSB members in Scotland think that businesses operating in towns and villages should be involved in the improvements and regeneration within those towns.
2. The top two actions our members in Scotland think will improve and regenerate Scottish towns are:
  - Encouraging a wider range of businesses in towns; and
  - Improvements to access, parking and public transport.
3. Around a fifth of members also see the introduction of lower business rates and initiatives to reduce the number of empty properties in towns as the most effective ways of encouraging regeneration.<sup>2</sup>
4. Our members' views on the trend of out-of-town supermarkets in removing economic activity from town centres is reflected in the fact that 74% of members agreed with some form of large retailer supplement to non-domestic rates when polled in January 2011.

The FSB's contribution to the discussion on regeneration, below, follows the chapter headings of the discussion paper.

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<sup>1</sup> New Economics Foundation: *Re-imagining the High Street – the 2010 Clone Town Report*  
Trends Business Research, Dr Peter Tyler, University of Cambridge: *Business-led regeneration: case studies in four urban areas* to name just two.

<sup>2</sup> Source of points 1-3: FSB Voice of Small Business Survey – March 2011

## 1. What have we learnt and what should our priorities be?

The FSB in general agrees with the position put forward in the discussion paper in terms of lessons learned from previous regeneration efforts and priorities going forward. We have set out particular observations on lessons to be learned from the FSB perspective below.

### Embedding good practice

There have been many initiatives and projects over recent decades with regeneration and community building in some form as their aim, but the next step of embedding the successful models into mainstream activity has not always been taken. The work done by the Scottish Centre for Regeneration's (SCR) Learning Networks went some way towards disseminating good practice, but more drive and direction could come from central government to encourage take-up in areas that might benefit. The SCR's work has really only just begun. The effectiveness of the SCR event in Paisley on 16 February in which key local stakeholders met with learning network members to discuss regeneration strategies is an example of the contribution that central government can make. From this we see that there is indeed a role for central government in stimulating action based on good evidence. The FSB wants to see more centrally co-ordinated effective practice and strategy sharing, because this gives legitimacy and opportunity for local stakeholders to consider how they can stimulate regeneration in their own communities. We are therefore disappointed to hear of the Scottish Government's decision to dissolve the Centre for Regeneration.

### Sustainability

Key to encouraging real regeneration is the word 'sustainability'. As the discussion paper itself points out, too many past efforts have failed in the long term because they have been focused on solving a social problem in isolation from its economic and physical context. In order not to repeat previous mistakes regeneration should be undertaken using a place-based approach, which in the view of the FSB is the only sustainable way to integrate action across sectors and we return to this point later in our response. However, it must be recognised that the economic context appears frequently to be considered as a bolt-on rather than integral to lasting regeneration. Too often economic considerations have been restricted to building shop or office units, and providing tax breaks for large enterprises. The media archives are full of triumphant announcements that a large multinational is coming to an area and creating a few hundred jobs, but when the incentives dry up they disappear, leaving empty offices, factories and warehouses, not to mention social devastation in their wake. The FSB would argue that with 93 per cent of the Scottish private sector comprising businesses of fewer than 10 employees<sup>3</sup>, like it or not, small, locally grown businesses **are** the economic context for regeneration in Scotland. They have the potential to create wealth, contribute to improvements to the physical environment and provide employment. However, businesses have been attempting to operate while facing:

- ever increasing costs of regulation and taxation, (62% have seen regulatory costs rise in the last four years, squeezing narrow profits in an already harsh economic climate);
- financial and regulatory disincentives to improve their premises' appearance and accessibility (e.g. increased rates and security costs of improvements in regeneration areas);

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<sup>3</sup> Scottish Corporate Sector Statistics 2010

- contradictory local government policies (e.g. town planning/traffic policy which is contradictory to economic development policy – encouraging more businesses into an area while restricting access); and
- inflexible job creation schemes (e.g. which are focused too heavily on individuals to be employed or particular sectors rather than the businesses which could sustainably employ them).

Businesses are used to navigating a variety of financial regulatory and policy challenges. Most businesses when pressed will accept that many of these are simply the price to pay for undertaking private enterprise. However, to harness the potential of the business community in regeneration, the landscape within which businesses operate can and should be made more conducive to enabling them to deliver what they can towards the goal – wealth, a better physical environment and employment. Any future regeneration strategy ignoring measures to improve the business landscape risks long-term failure.

## 2. Investing in the economic potential of our communities

### Funding models

There can be no question that the amount of funding available to support regeneration has decreased and may continue to remain low for some time. The Town Centre Regeneration Fund (TCRF) of 2009 was a welcome investment in the physical environment of some towns, but we realise that its like may not come again for some time. In terms of alternative sources of funding the FSB is interested in exploring the possibility of incentivising local authorities to take long-term sustainable regeneration decisions by allowing them to retain a proportion of the consequently increased business rates revenue.

The FSB was initially wary about the introduction of Business Improvement Districts (BIDs) in Scotland based on concerns over increasing rates bills, where these already represent a significant proportion of cost for small businesses. However, since their introduction in various areas, we have seen significant involvement and contributions by small business owners in BIDs. A recent survey of FSB members<sup>4</sup> revealed that, while over three quarters of respondents were not aware of the BID model, over half supported the principle. Moreover, 11 per cent of respondents reported that they had been or were currently directly involved in a BID and gave generally positive feedback about its impact. From this, it does appear to us that BIDs tend to be most successful in mid-sized towns or secondary districts of bigger towns. The FSB is therefore positive about the continuation and roll-out of the BID model in appropriate areas where there is sufficient local business support. It must be stressed however, that BIDs are not the answer for all locations and remain only one tool in what the discussion paper itself recognises should be a far larger toolbox.

The FSB supported the principle behind a large retailer levy, which would make the non-domestic rates landscape more proportional across the business community and contribute to town centre improvements on a continuous basis. With three quarters of our membership expressing support for the levy, we were disappointed at the rushed manner with which this was introduced to, considered

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<sup>4</sup> FSB Voice of Small Business Survey March 2011

and rejected by Parliament. We believe that there are potential benefits to the regeneration agenda in revisiting and reshaping this idea as part of a wider non-domestic rates reform.

### **Scottish Enterprise and Highlands and Islands Enterprise**

FSB members have expressed their support for Highlands and Islands Enterprise's continued remit for community development, many seeing this as the most effective aspect of HIE's work in that it benefits ordinary businesses and communities across its geographic reach. We believe that such work has a greater value than that currently placed on it by the Scottish Government and enterprise agencies. The FSB would support reconsideration of what role the enterprise agencies' should play in stimulating grass roots community development. This need not involve restructuring but rather re-focusing of the enterprise agencies' priorities.

### **Other levers**

TCRF and European funding levers aside, the fact remains that one-off capital funding injections do not address the long-term fundamental issue of how to make our town centres and high streets serve the needs of the community. In our manifesto for the 2011 Scottish Parliament elections, the FSB highlighted that much can still be achieved even with reduced resources, by removing some of the economic restrictions currently strangling our business communities. An example we gave was the investment in shop/office units in towns being hampered by parking and access restrictions and traffic control schemes. We also called for an investigation into the impact of empty property rates relief on commercial property and rental markets.

The FSB continues to support the Small Business Bonus which has been demonstrated to ease the financial burden on the smallest businesses and enables them to grow.

Local planning policies can also have a significant impact on local economies. Improving planning application processing times for small business applications and increasing the types of development which can be undertaken under permitted development will go some way towards making the planning system more conducive to business. These are small, relatively cost neutral moves which might have a far larger impact than their price tag might imply.

However, there is a wider issue in terms of planning decisions and the implications of these on the local economy. The FSB accepts that planning decisions should not be influenced by objections to additional trade competition, but it is important that short- to medium-term financial gains to be had from large developments are balanced with the need for a broad, diverse and therefore more stable local economy. This means implementing policies which create a level playing field for small and large, core and support businesses.

### **Local economic development support**

The economic development support provided to locally based and owned businesses provided by local authorities is a vital element of regeneration. Councils are operating within ever tighter budget constraints and slow-burning economic development activity is in danger of losing ground to the need to fill shortfalls in funding for high-profile, frontline services such as education and health. The FSB has called for economic development to be made a statutory service for local authorities in recognition of its importance to the overall success and wellbeing of the community. While we would like to see a broader allocation of regeneration funding to a wider range of communities, it is inevitable that what direct public funding are available for large scale regeneration will be

concentrated in the areas of greatest need and decline. Ensuring that local economies receive the support they need to grow will contribute to preventing decline in areas which are not on the intensive care list currently but are in danger of sliding.

The FSB supports a review of the 'change of use' planning regulations to promote more diverse use of the estate within town centres, such as the development of office/business hubs to enable businesses and employees of larger organisations set up and continue to operate in towns near their home as opposed to operating in the home, invisible to the community or commuting elsewhere. There is an opportunity for the public sector to develop and operate these kinds of development, which would encourage 'core' businesses and increased footfall in smaller towns and provides a market for 'support' businesses such as independent retail and personal services.

Around a quarter of FSB members operate these kinds of 'support' businesses. A few Councils in Scotland have run initiatives offering small shop-front grants concurrently with marketing, management and customer service training as part of their economic development remit, principally with a view to improving the physical appearance of local high streets and long term health of the existing retail businesses in the area. Such support has yet to hit the mainstream of local economic development because of fears that providing support to one retail business might disadvantage another similar business and that intervention might constitute interference with the market and cause displacement. However, in view of the other decisions taken locally (planning, parking, access, public transport) which already affect the market quite considerably, this argument does not bear out. The FSB would support this model of support as part of a broader local economic development strategy in areas which could benefit. These might be areas, for example, where footfall is dropping but has not yet reached critical levels

### Procurement

The discussion paper highlights local procurement as a possible means to stimulate growth and regeneration. The FSB would agree with this position, but notes that this will require further reform of public procurement policy than has thus far been implemented. The paper notes that 74 per cent of contracts have been awarded to SMEs through Public Contracts Scotland. This figure masks the fact that the term SME includes companies of up to 250 employees. In fact the percentage of spend awarded directly to micro businesses (fewer than 10 employees) according to the most recent PCS figures is just over 7 per cent, while 80 per cent was awarded to businesses with more than 50 employees. The FSB continues to have concerns over the long-term impact of aggregating contracts on local economies, fearing that the short-term gains in terms of cost savings to the public sector will eventually be negated by a fractured local supply chain and ultimately too heavy a dependence on external suppliers, in effect causing the local public sector to haemorrhage wealth away from the locality in which they are based. We have called for a study into how the aggregation of contracts affects the supply chain, end users and local communities. In terms of barriers to local procurement, buying bodies often cite European directives and procurement law as barriers to buying locally. The FSB would welcome further work to identify whether these legal barriers can be addressed in Scotland. There might be an advantage to promoting the use of carbon conscious or community benefit clauses in tenders.

Finally, improving businesses' understanding of how to compete in public procurement will also stimulate a broader and more effective supply base for the public sector. The FSB has called for a

roll out of the very well-received Supplier Development Programme, which trains businesses to become 'bid ready' and understand better the procurement process.

### **3. Community-led regeneration**

The discussion paper highlights the importance of community involvement in regeneration and the need for community networks and cohesion, along with real empowerment and involvement in decision-making that affects local people. The FSB would point out that key local 'people' include business owners.

As the paper notes, engaging the wider community in regeneration is a challenge. People representative of the community be hard to reach, with many still labouring under the impression that improvements to their area are the sole preserve and responsibility of their local authority or central government. Involving and seeking leadership from members of the community can appear to be resource intensive – requiring outreach, facilitation and project management. Differences between public sector and community priorities can also cause tension, potentially requiring lengthy negotiation if community engagement is to work. However the long term benefits of people voting for change and investing in their own environment is worth the risk of incurring these drawbacks. We need a fundamental change in the way people interact with local government. This requires a will to drive this change within the public sector.

The FSB supports the move to provide Planning Aid Scotland additional funding and to expand their remit to include free advice and guidance for small businesses.

### **4. Tackling area-based deprivation**

As a member of Scotland's Towns Partnership and the Scottish Towns Policy Group, the FSB favours a 'place-based' approach to regeneration as the only viable way to ensure sustainability. It is unrealistic to expect to turn around the fortunes of an ailing locality by concentrating only on one aspect of the multi-faceted problems it faces. The act of encouraging more businesses into an area, for example, must be accompanied by design and policy, which ensures that these businesses are protected from crime and that the wider infrastructure of the area can sustain them. Place-based regeneration not only has the potential to deliver lasting change for communities on all fronts, but also provides an opportunity for more integrated working within and between all the key stakeholders. As far as local government is concerned, the introduction of Single Outcome Agreements aligns far better with this approach than previous arrangements, allowing area based objectives to be developed by those who know the area best. However, administrative structures within local authorities are often still too inflexible to enable a truly multi-departmental response to be taken. We agree with the point made in the discussion paper that this will require a culture change.

### **Employability**

The aim to tackle youth unemployment has seen successive governments set up youth job creation schemes, with little consideration as to participants' destinations once the short-term support has dried up. Many small business owners suffer from 'initiative fatigue' to the point where they simply assume that they will not be eligible for the next new scheme launched and do not even explore the possibility. The FSB recognises that some progress has been made in developing the current modern apprenticeships. These have the advantage of being developed in response to labour market

analysis of certain sectors with skills shortages, such as construction. However there is still much that could be done to ease the burden on employers of taking on an apprentice, particularly with regard to administration of the scheme. With financial pressures for businesses never having been greater, continuing employment of apprentices following their qualification or support of new apprentices will be a challenging prospect for many business owners, despite the benefits it could bring.

There are also many businesses in Scotland which do not fit neatly within a specified sector, for which no apprenticeship framework exists. Business owners in this category could potentially support and develop young workers. Funding and support for work-based training needs to be sufficiently flexible to enable niche businesses to participate in supporting young trainees and creating employment that will last beyond the initial supported period. The FSB favours initiatives such as Glasgow City Council's Commonwealth Jobs Fund as a means by which small businesses can be supported to create the jobs they actually need done.