Improving Scotland's Business Environment

reform scotland

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About Reform Scotland

Reform Scotland is a public policy institute or 'think tank' which was established as a separate Scottish charity, completely independent of any political party or any other organisation and funded by donations from individuals, charitable trusts and corporate organisations. Its objective is to set out policies in Scotland that deliver increased economic prosperity and more effective public services based on the traditional Scottish principles of limited government, diversity and personal responsibility.

Reform Scotland has an Advisory Board to agree strategic goals and philosophical approach and a separate Board of Management (Trustees) to oversee its day-today running. Both boards are chaired by Ben Thomson.

Geoff Mawdsley is the Director of Reform Scotland and Alison Payne is Reform Scotland's Research Director.

Reform Scotland's Advisory Board

Contents

i. Executive summary

Objective:
This report examines the business environment in Scotland and outlines policy recommendations which we believe could improve things and create an environment within which businesses can thrive.

As well as covering a number of policy recommendations highlighted by Reform Scotland in previous reports, the report also covers a number of new areas.

Policy Recommendations

- **Business rates:** Reform Scotland believes that business rates should be devolved down to local authorities. Currently, the business tax is controlled by the Scottish Government, although it is collected by local authorities. As a result, relief schemes are also controlled centrally. We believe that devolving this tax in full to local authorities would mean that councils had an incentive to design business taxation policies and broader local economic development strategies to support the growth of local businesses, encourage start-ups and attract investment as the council would benefit directly from the growth in income. Devolution would also allow councils to develop their own rate relief schemes to reflect local needs and priorities and help individual areas in need of regeneration.

- **Fuel duty:** The high cost of fuel, as well as congestion, can be a problem for small businesses, especially in rural Scotland. Reform Scotland believes that fuel duty and vehicle excise duty should be replaced by a pay-as-you-drive road pricing scheme, where people pay depending on which roads they use and when they use them. Such a scheme can benefit businesses and the economy by reducing congestion and journey times. There will also be a reduction in the cost of driving in rural areas, which will help businesses not based in the urban centres to be more competitive.

- **Colleges:** Businesses need an educated and skilled workforce if they are to succeed. At present, there is arguably a policy in favour of university, to the detriment of colleges. Colleges are government public bodies, yet universities are autonomous charities. However, we believe college should be seen as a different, not a lesser choice. College is also a vital path for many pupils from more disadvantaged backgrounds, either onto higher education or into training and work. Colleges are also well placed to work with local businesses and help develop the skills and training that are required. We believe that in order to fully achieve their, and their students', potential, colleges must be set free of government and become autonomous charities.

- **Quangos:** Reform Scotland has often highlighted the scale of quangos in Scotland. We believe that these organisations, which are neither fully part of, nor independent of, government, lack transparency and accountability. Instead, we believe that their functions should either be transferred back to government departments, where decisions would be accountable to ministers; carried out by fully independent bodies which could contract with government to provide certain functions; or be devolved to local authorities. A number of the larger quangos have a huge impact on businesses in Scotland, most notably Scottish Enterprise and Highlands & Islands Enterprise.

- **Responsibility for Economic Development:** For too long there has been a lack of clarity as to who is responsible for economic development in Scotland. When there is good news both parliaments try to take credit, but when there is bad news, both blame the other. This situation has led to a lack of transparency and accountability. The Scottish Parliament is responsible for a number of the policy areas affecting business growth in Scotland, yet has no control over a number of key taxes, including corporation tax and income tax. Devolving more taxes would also present an opportunity to simplify and reform the system in Scotland. For example, if Corporation Tax and Income Tax were devolved in full there would be an opportunity to correct the current anomaly where you have two self-employed people with similar income/profit levels, one paying corporation tax and the other income tax.

- **Planning:** The planning system in Scotland can too often be seen as an inhibitor of economic growth due to the length of time it takes for planning permission and its inability to respond adequately to demand. The problems of the planning system in Scotland stem from the lack of the appropriate incentives to ensure that a balance is struck between the need for economic development and the public's desire to preserve and enhance the quality of the environment. Under the current system of financing local government, councils find they do not gain sufficient financial benefit from allowing new development to make it worth their while to do so. Further, there is often a disincentive because new developments usually mean they have to finance additional services associated with these developments such as new roads or schools. Local communities have even less incentive to support development as they invariably lose out from new development due to loss of environmental amenity. Reform Scotland believes that local authorities should have greater control over their own income, as opposed to relying on central government grants, which will help tp give them an incentive to create a better economic environment as they would benefit from any increase in tax receipts. Where communities wished to take on this responsibility, we would also like to see local planning decisions taken at the level of the local community to ensure that decisions are taken as close to the affected community as possible.

- **Childcare:** the recent survey by the Family and Childcare Trust said that fewer than one in six councils in Scotland had enough childcare capacity to meet the needs of working parents. Reform Scotland believes that this problem can be solved by the nursery entitlement following the child – a virtual voucher. As long as a partnership provider meets necessary standards set by both Education Scotland, and the Care Inspectorate parents should be able to take up their entitlement with that provider. This is not about the private sector versus the public sector, but acknowledging that most council nurseries do not provide the full-time care that working parents need, and, therefore, for all children to receive their funding, the money must follow the child.

- **Late Payments:** A cultural change is needed so that late payment of invoices is no longer an acceptable part of doing business. The practice can hamper the very survival of Scotland's small and medium-sized businesses, as well as impede growth. Reform Scotland would agree with the FSB's recommendation that all government contractors, for both Westminster and the Scottish Government, should be signed up to and be compliant with the Prompt Payment Code. Whilst it is certainly not Reform Scotland's aim to create further bureaucracy, we recognise that if large companies continue to delay payments to the current extent where they are actually harming growth, then statutory regulation should be considered.

- **One-stop-shop:** When it comes to business advice, the online presence can at times be overwhelming with a number of publicly-funded sources offering advice. As a result, it can be the case that a business may not be compliant with a regulation or missing out on support, simply because there is such a huge number of different resources, not all of which a businessperson will be aware of. Reform Scotland believes that it would be of benefit to bring together all the publicly-funded advice, whether it originates from local government, Holyrood or Westminster, into one dedicated site, organised in a manner which is more likely to help business, in a sort of one-stop shop. This is much better than leaving them left unsure what it is they are looking for and where to go. While Reform Scotland acknowledges work which has been done on the beta version of mygov.scot, more rapid progress is required.

- **Certified identification:** High Net Worth Individuals, or sophisticated investors, are an important source of investment for small and medium-sized businesses. These individuals can act as business angels and approached with a view to making an investment and providing informal venture capital. However, to make an investment, it is necessary for such individuals to provide certified copies of identification. As a result, for people making a number of investments into small businesses, they can constantly have to provide the same information. This is inefficient and a poor use of time and resources. Reform Scotland believes that the issue of digital personal data empowerment needs to be explored further. For the full potential of a system to work the providers of data, such as the DWP, DVLA, HMRC and utility companies, would need to join the system, as would requesters of information, such as housing associations. An individual would be able to control their information and decide which bits of information they wished to share with whom. Reform Scotland believes that not only would a system ease the bureaucracy surrounding sophisticated investors investing in SMEs, but would present opportunities for everyone to cut down on the amount of paper work they need to engage with. However, for such a system to be fully operation, government needs to get behind and engage with it. As a result Reform Scotland recommends that the Scottish Government set up a task force to review the way individual's data is held by public bodies in Scotland, including across the health, education and local authority services to consider whether this could be managed with a more person-centred approach, and ultimately, what the Scottish Government could do to help promote a new person-data ecosystem.

- **Improving International outlook:** As part of the drive to improve the international outlook, Reform Scotland believes that when air passenger duty is devolved to the Scottish Parliament, it should be scrapped.

In 2013/14 the tax raised £251m in Scotland, 0.5% of all tax revenue raised in Scotland. A study by Edinburgh Airport has suggested that the Scottish Government's pledge of a 50% cut in air passenger duty could generate up to 3,800 jobs by 2020 and bring an economic benefit of £200m per year[1]. Reform Scotland believes that by going further and scrapping the tax altogether, the economy will benefit even more, a stance shared by the Scottish Chambers of Commerce.[2]

[1] http://www.edinburghairport.com/about-us/media-centre/press-releases/slashing-air-passenger-duty-will-add-1bn-to-scottish-economy-and-create-4000-jobs
[2] http://www.scottishchambers.org.uk/press-policy/press-releases/2015/04/814

1. Introduction by Ben Thomson

In reality, governments are limited in what they can do to stimulate real economic growth. There are two key factors that can help growth; long term investment of capital into the economy on infrastructure and education and low taxation. Reform Scotland has in previous reports argued for both these. However, we also need to be realistic, particularly with the current public sector deficit. So these economic factors need to be balanced by other political considerations. Therefore, this paper looks more at other areas which can help to create a healthy business environment, particularly the ease of doing business which allows businesses to operate more effectively.

The World Bank produces each year a table of 189 countries and ranks them by their "Ease of Doing Business." The UK performs well in this table, ranked overall at 8th and we are particularly strong on protecting minority investors (4th), resolving insolvency (13th) and cross border trade (15th). All this should be, and is, good news. However, there is still much to be done to raise our game to the level of Singapore, New Zealand or Denmark. In addition, the UK's position has fallen over the last decade from 5th to 8th, a worrying trend of increasing bureaucracy. We seem to be particularly weak in areas such as starting a new business, the cost of energy and around property approvals.

Reform Scotland has looked at its previous evidence-based research as well as asking organisations such as the SCDI, the Federation of Small Businesses and Scottish Chambers of Commerce, about what processes of government interaction with organisations could improve the environment for business. In particular, we have looked at how we give local government greater incentives to grow their local economy such as through devolving business rates to local government; how we develop and best utilise our skilled work force through further education and by structuring childcare provision to enable parents to remain in or go back to work; how we speed up and clarify government processes for example by reducing quangos and streamlining planning; and, how we can develop our international outlook by scrapping Air Passenger Duty.

In addition, we believe more can be done for SMEs, which make up 54.8% of private sector employment in Scotland, particularly in areas such as addressing late payments and winning public sector contracts.

The problems we have identified are not an exhaustive list and address specific areas where we think the Scottish Government could implement policies to improve the business environment.

Most of the powers needed to implement our policy recommendations are already devolved to Scotland, or in the case of Air Passenger Duty likely to be devolved shortly. Scotland has a huge advantage in that it is small enough to implement such policies quickly if it wishes to create an environment that is going to attract new business and provide the best chance for existing ones to grow. It would be good to think that if Scotland were to be covered separately in the World Bank survey we could be top in terms of the Ease of doing Business. That should certainly be our aim.

Ben Thomson
Chairman

2. Setting the scene

The section highlights a range of key statistics to illustrate how the Scottish economy has changed in recent years, covering the period from before the recession to the present, as well as outlining the Scottish Government's economic strategy.

2.1 Labour market

- Employment

Chart 1 illustrates the change in the unemployment rate between 2005 and 2015 for everyone between 16 and 64, for men and for women, while Chart 2 illustrates the change in the employment rate.

Chart 1: Unemployment rate in Scotland between 2005 & 2015[3]

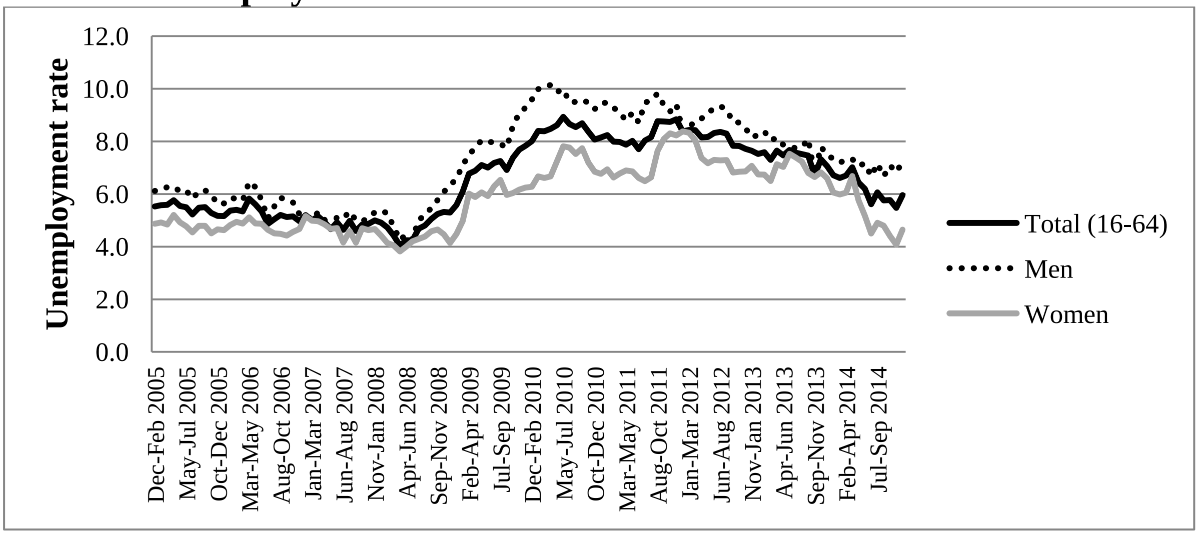
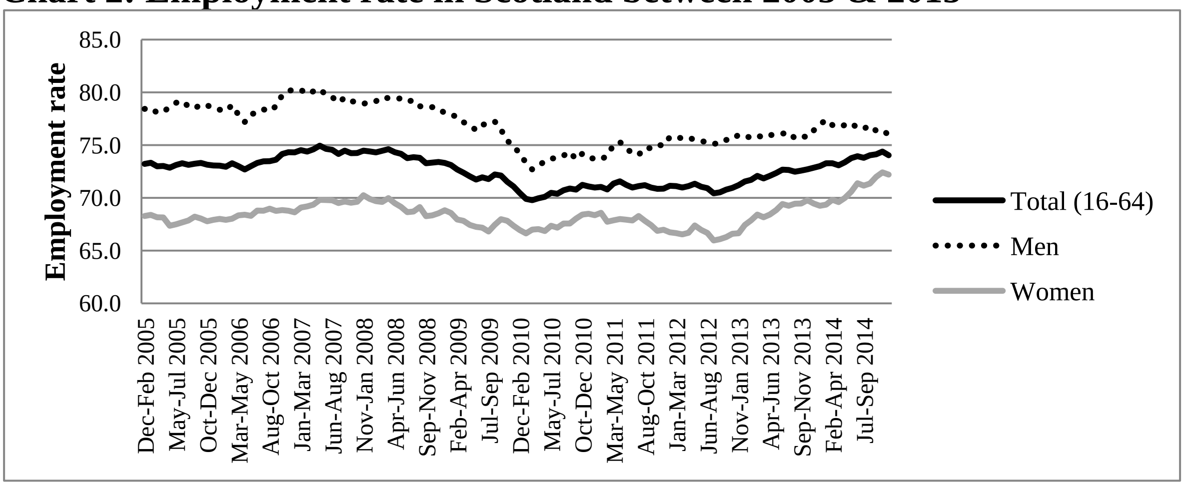


Chart 2: Employment rate in Scotland between 2005 & 2015[4]



[3] Office for National Statistics, Regional Labour Market: HI11 – Headline indicators for Scotland, March 2015

- Type of workers

Chart 3 illustrates the change in the percentage of workers who were self employed between 2005 and 2015, while Chart 4 shows the percentage of workers who worked part-time and Chart 5 highlights the percentage of workers who were temporary workers.

Chart 3: Percentage of workers who are self employed in Scotland between Jan- Dec 2004 and Oct 2013 to Oct 2014[5]

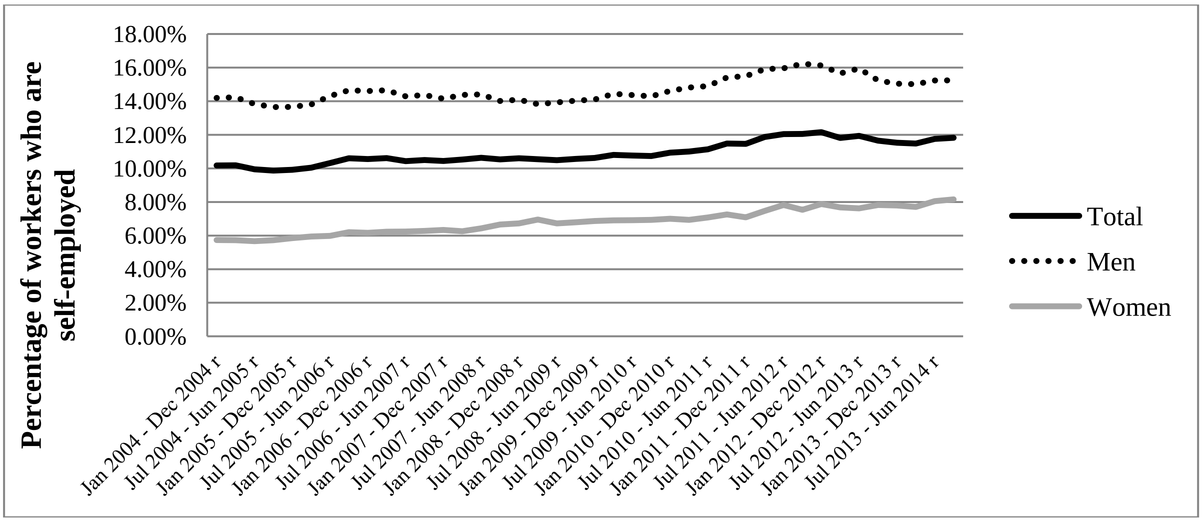
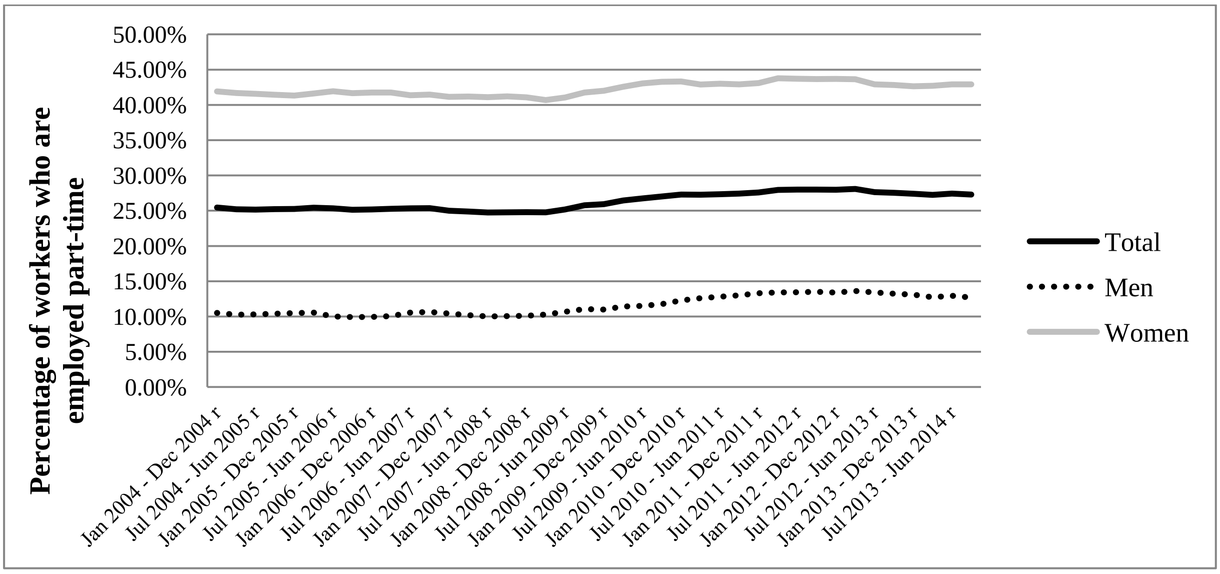


Chart 4: Percentage of workers who are part-time in Scotland between Jan- Dec 2004 and Oct 2013 to Oct 2014[6]



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[4] Office for National Statistics, Regional Labour Market: HI11 – Headline indicators for Scotland, March 2015

[5] Office for National Statistics, Regional Labour Market: HI11 – Headline indicators for Scotland, March 2015

[6] Office for National Statistics, Regional Labour Market: HI11 – Headline indicators for Scotland, March 2015

Chart 5: Percentage of workers who are temporary employees in Scotland between Jan- Dec 2004 and Oct 2013 to Oct 2014[7]

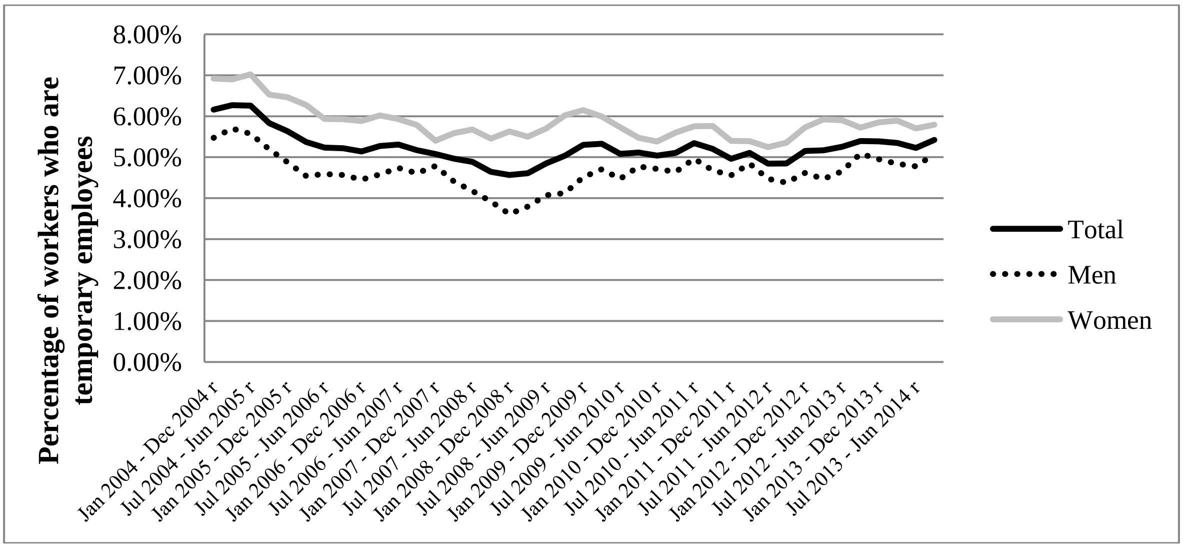
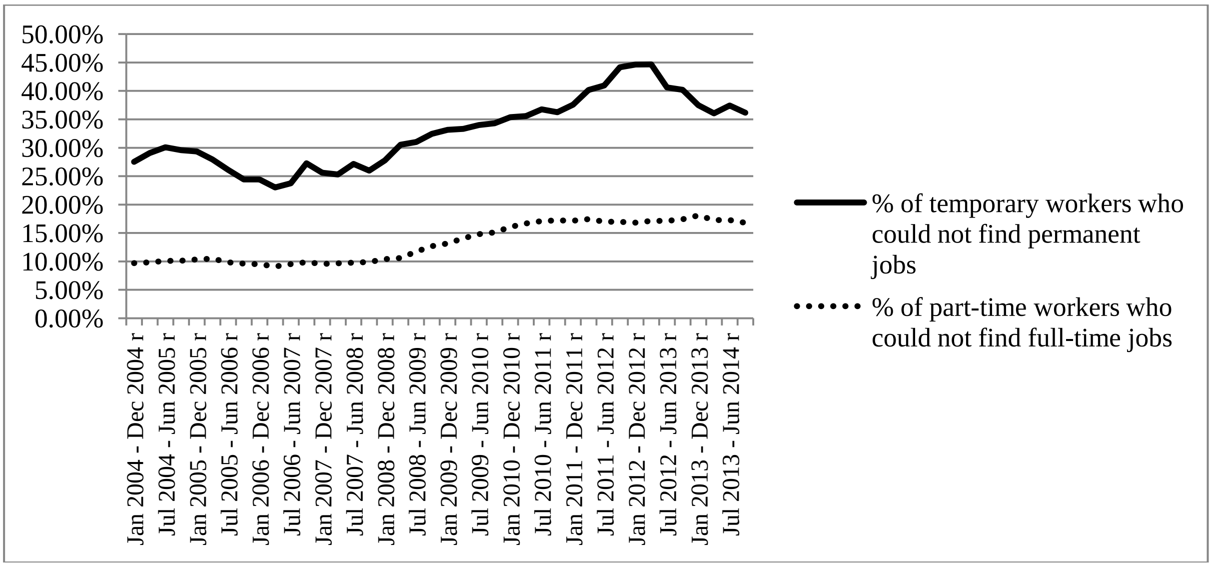


Chart 6 illustrates the increase in those workers who are either temporary or part-time employees who have been unable to find permanent or full time work.

Chart 6: Change in temporary and part-time workers unable to find permanent or full-time work in Scotland between Jan- Dec 2004 and Oct 2013 to Oct 2014[8]



It is interesting to note that between 2009 and 2014, while there has not been much of a change in the percentage of part-time and temporary employees, there has been a big increase in the percentage of these workers who say they are unable to find full-time or permanent positions.

[7] Office for National Statistics, Regional Labour Market: HI11 – Headline indicators for Scotland, March 2015
[8] Office for National Statistics, Regional Labour Market: HI11 – Headline indicators for Scotland, March 2015

- <u>Productivity</u>

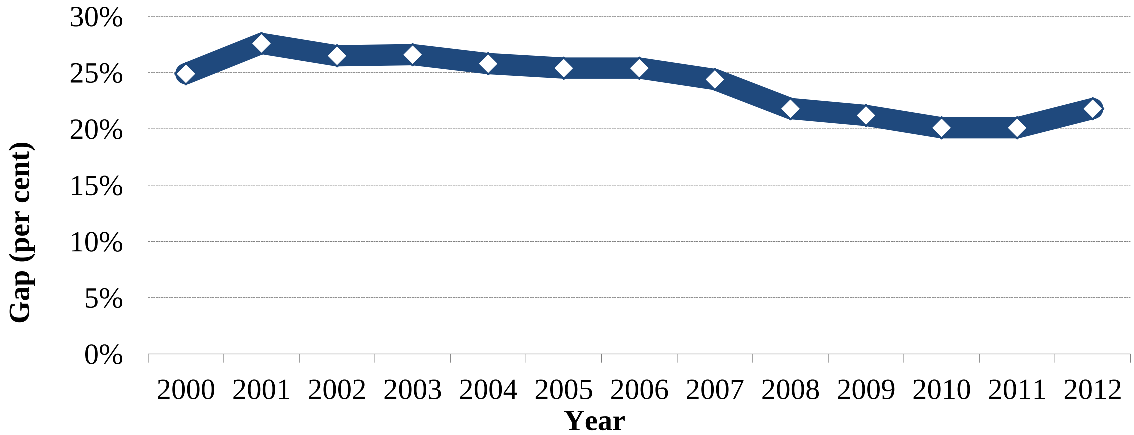
The Scottish Government has set a target to rank in the top quartile for productivity against our key trading partners in the OECD by 2017.[9]

Productivity is generally measured as the amount of output (goods and services) produced in an economy adjusted for the amount of labour (i.e. the number of workers or hours worked) used to produce that level of output. The Scottish Government has measured Scotland's productivity through GDP per hour worked. Table 1 sets out Scotland's productivity between 2005 and 2012, relative to the UK's and the bottom country of the top quartile (which the Scottish Government's target is aiming for), while Chart 7 illustrates the gap between Scotland's productivity and the lowest performing country in the top quartile from 2000. Scotland currently sits at the top of the third quartile, and has been ahead of the UK since 2010.[10]

Table 1: Scotland's productivity relative to UK & OECD (USA=100)

Year	Scotland	UK	Lowest ranked country in the top quartile	Lowest ranked top quartile country's score
2005	74.5	78.5	France	99.8
2006	74.6	79.5	USA	100
2007	75.6	80.4	USA	100
2008	76.6	79.4	Denmark	98.1
2009	73.1	74.7	Denmark	92.8
2010	75.4	74	France	94.4
2011	76	75.4	Denmark	95.2
2012	73.6	72.6	Denmark	94.2

Chart 7: Data for gap between Scottish Productivity levels and the lowest ranked country in the top quartile



9 http://www.gov.scot/About/Performance/scotPerforms/purpose/productivity
10 Scottish Government, Productivity Data, June 2014, http://www.gov.scot/Resource/0045/00454479.xls

2.2 Business statistics

According to the Scottish Government publication, Business in Scotland 2014 published in November 2014, as of March 2014 there were an estimated 335,015 private sector enterprises operating in Scotland, a decrease of 2.4% since March 2013, which was the first annual decrease in total business stock since 2006. However, the decrease in the total number of private sector enterprises was caused by a fall in the number of unregistered enterprises, those companies which have an annual turnover below the VAT threshold and do not have employees. In contrast the number of registered private sector enterprises increased by 4.0% and there are now more registered private sector enterprises operating in Scotland than at any other time since 2000.

The change in the number of enterprises between 2005 and 2014 is illustrated in Table 2.

Table 2: Number of enterprises (registered and unregistered) in Scotland by number of employees, 2005-2014[11]

Employee Sizeband	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
0	177,955	177,295	187,890	187,890	197,395	202,600	213,050	239,080	242,325	229,625
1-49	87,105	87,215	89,295	92,045	92,230	93,250	91,610	96,390	94,810	99,315
50-249	3,300	3,480	3,490	3,575	3,640	3,655	3,630	3,635	3,705	3,780
250+	2,250	2,255	2,265	2,285	2,315	2,260	2,230	2,250	2,270	2,295
TOTAL	**270,610**	**270,250**	**282,940**	**285,800**	**295,575**	**301,765**	**310,520**	**341,360**	**343,105**	**335,015**

2.3 GDP

Gross Domestic Product (GDP) is an estimate of total economy activity. Chart 8 illustrates the change in Scotland’s GDP between 2005 and 2014, while Chart 9 illustrates the change by sector. What is noticeable in Chart 9 is that while most sectors began to pick up again in 2012 following the recession, ‘Agriculture, Forestry and Fishing’ has continued to decline.

[11] Scottish Government, ‘Businesses in Scotland’, November 2014

Chart 8: GDP (chained volume measures, 2012 = 100) in Scotland 2005-14[12]

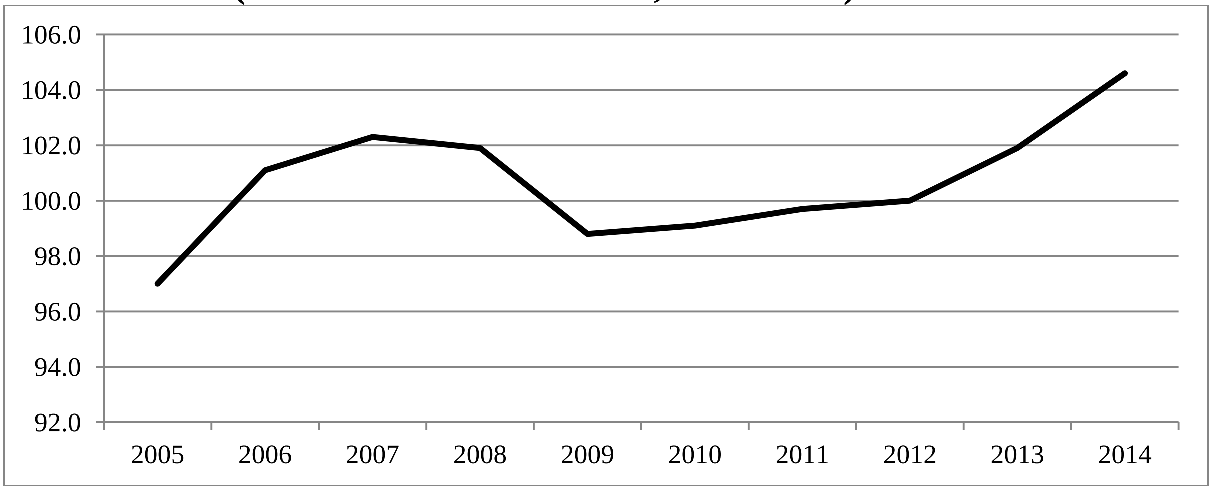
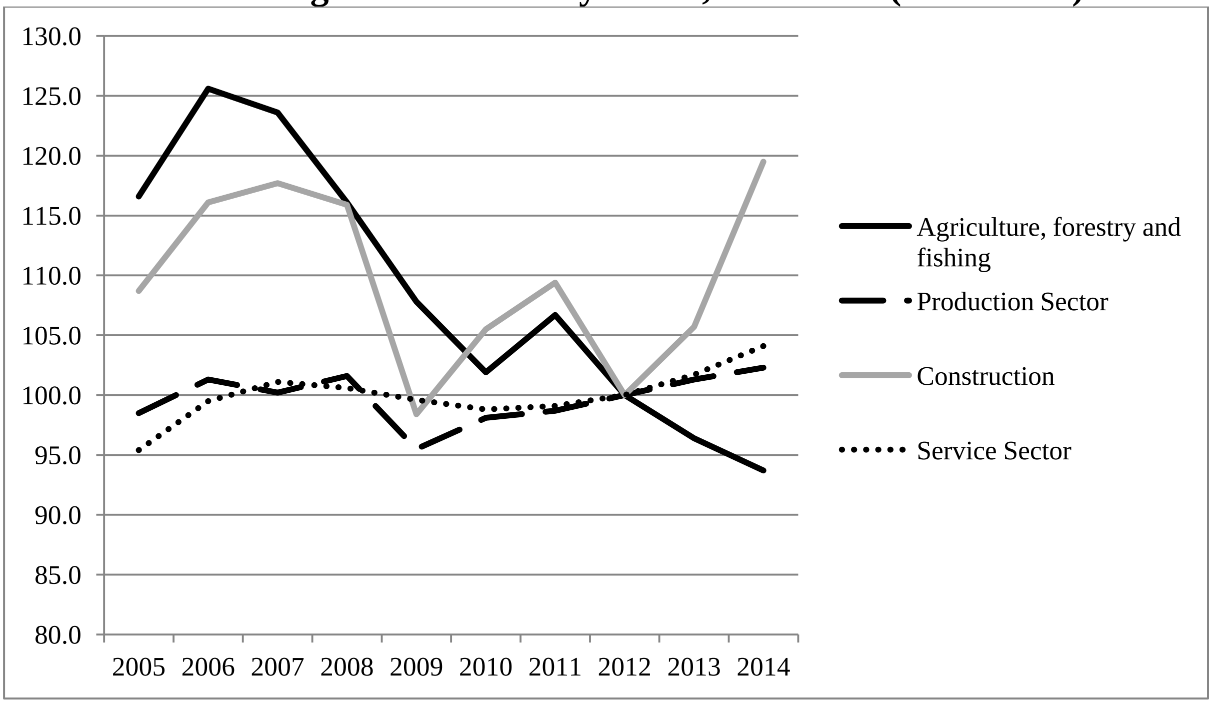


Chart 9: GDP changes in Scotland by sector, 2005-2014 (2012 = 100)[13]



[12] Scottish Government, Gross Domestic Product 4th quarter 2014, 15 April 2015
[13] Scottish Government, Gross Domestic Product 4th quarter 2014, 15 April 2015

2.4 Tax receipts

Charts 10 to 14 below outline how much has been raised from certain taxes from 2006/7 to 2013/14, while Table 15 illustrates what percentage each Scottish tax is of the UK total.[14]

Chart 10: Total revenue (inc oil) raised in Scotland

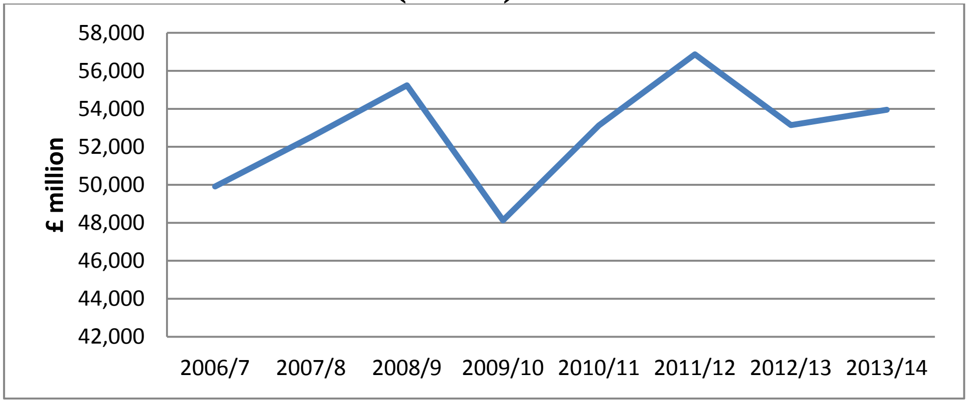


Chart 11: Total revenue from Scotland's geographical share of oil

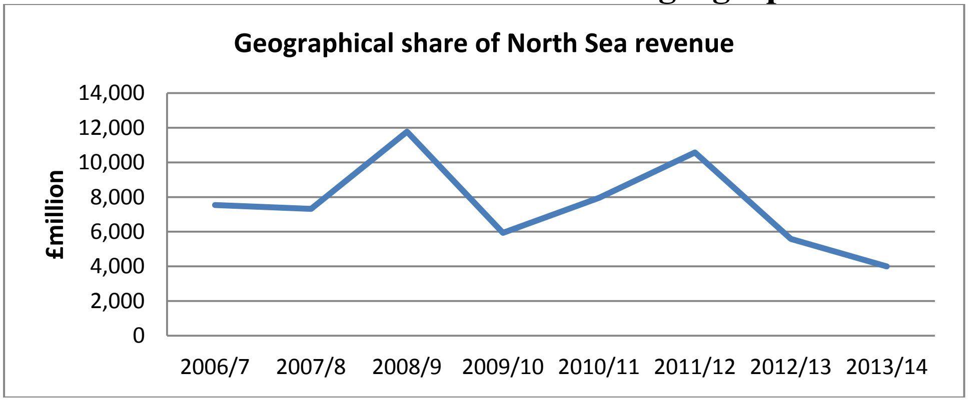
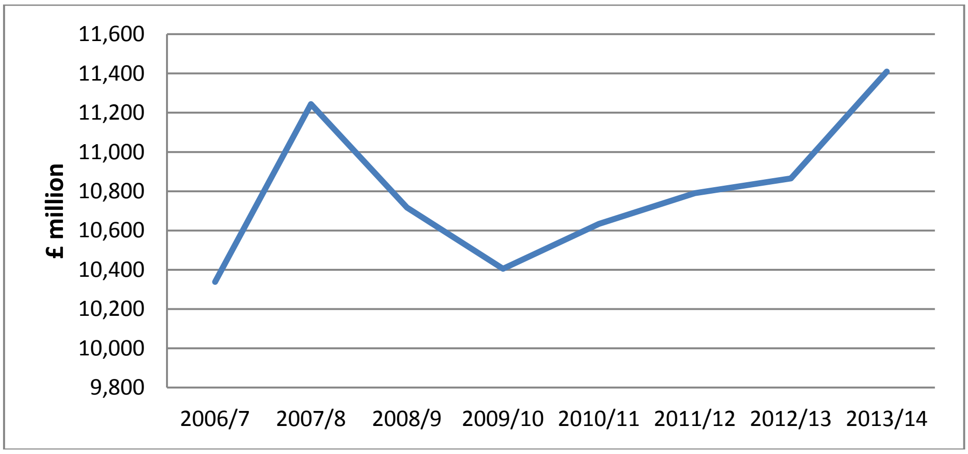


Chart 12: Total revenue from income tax in Scotland



14 Scottish Government, 'Government Expenditure and Revenue Scotland', series

Chart 13: Total revenue from corporation tax in Scotland

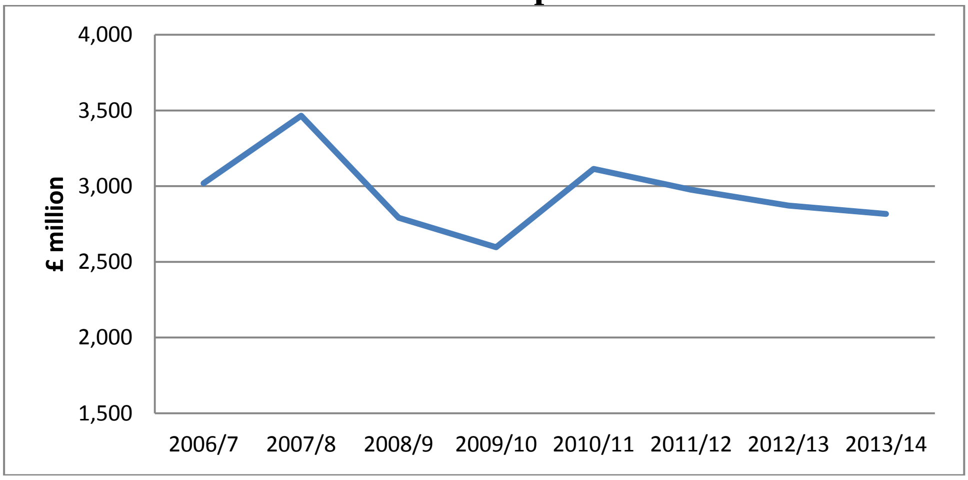


Chart 14: Total revenue from non-domestic rates in Scotland

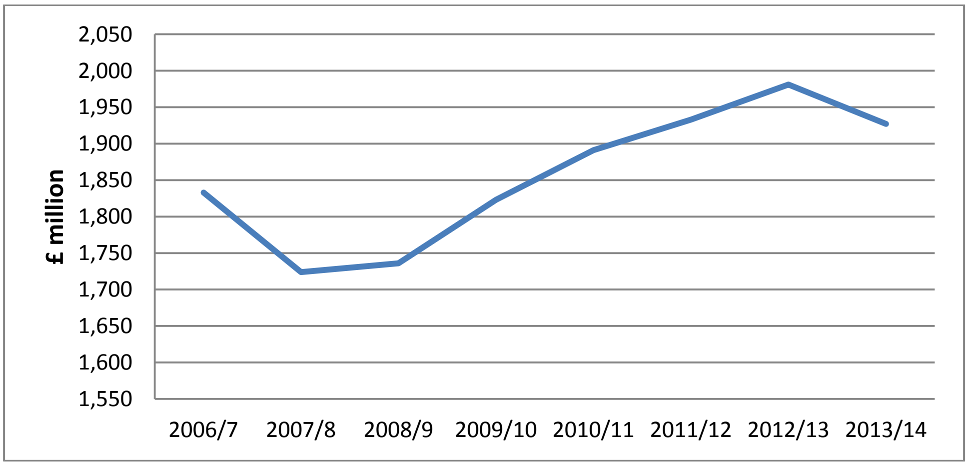
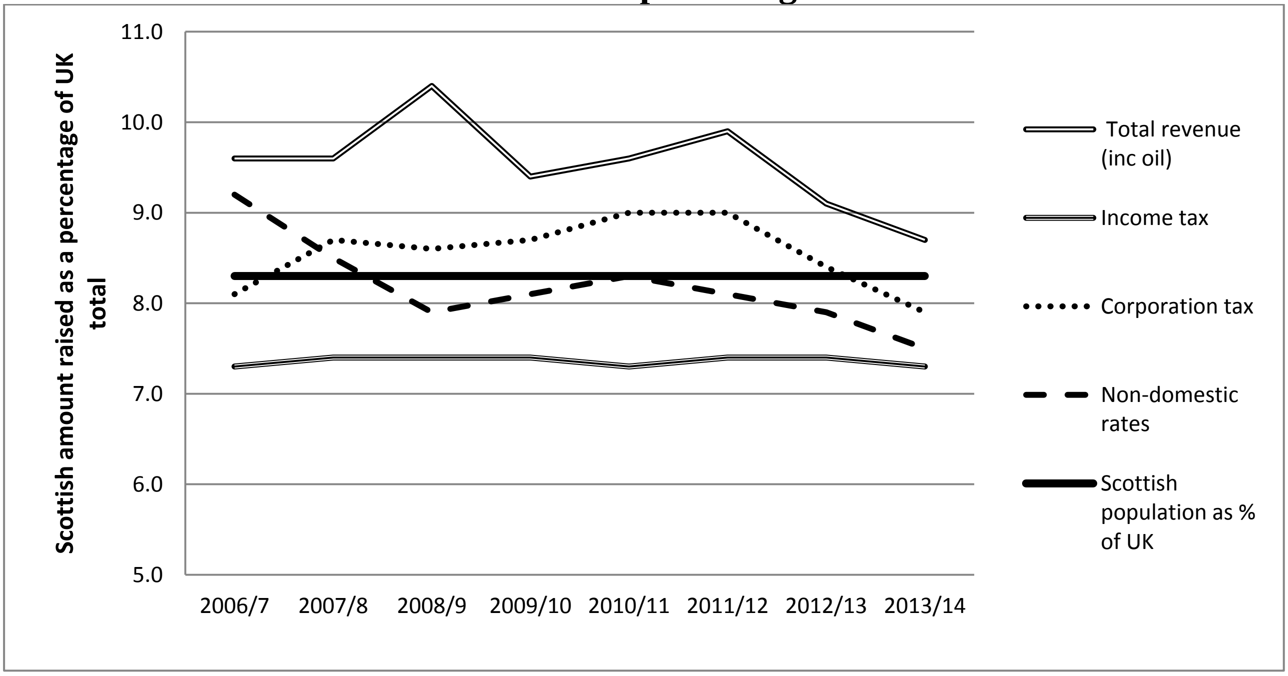


Chart 15: Scottish revenue streams as a percentage of UK total



2.6 Exports

Table 3 illustrates the change in the value of Scottish exports from 2000 to 2013.[15]

Table 3: Scottish exports 2000-2013

£m	2005	2006	2007	2008	2009	2010	2011	2012	2013
rUK	34,885	36,045	41,455	41,100	41,240	44,135	44,365	44,975	46,175
International	17,645	18,510	19,450	21,635	21,985	23,165	25,715	26,015	27,875
Total	52,530	54,555	60,900	62,735	63,225	67,300	70,080	70,990	74,055

According to the UK Government's Compendium of UK Statistics,[16] in quarter one of 2014 6.3% of UK exports were from Scotland.

It is worth noting that Business for Scotland has suggested that around half of Scottish overseas exports are accounted for by just 60 companies.[17]

2.7 Scottish Government's Economic Strategy

On 3 March 2015, the Scottish Government published its latest version of Scotland's Economic Strategy setting out how it would achieve sustainable economic growth.

The strategy is based on two key pillars, increasing competitiveness and tackling inequality, which are underpinned by four key priorities; investment, innovation, inclusive growth and internationalisation.

The following extract outlines the actions in the four areas[18]:

Investing in our people, infrastructure and assets we will:

- Invest in Scotland's people at all stages of life to ensure that we have a well-skilled, healthy and resilient population and an innovative, engaged and productive workforce;
- Provide the physical and digital connectivity needed to ensure that all of Scotland is open to the national and global economy and is able to access high quality public services;

[15] Scottish Government, 'Scotland's Global Connections Survey 2013: Estimating Exports from Scotland' 26th January 2015
[16] http://www.ons.gov.uk/ons/guide-method/compendiums/compendium-of-uk-statistics/economy/index.html
[17] http://www.businessforscotland.co.uk/scotland-is-a-leading-exporter-we-can-do-more-with-independence
[18] Scottish Government, 'Scotland's Economic Strategy, March 2015 - http://www.gov.scot/Topics/Economy/EconomicStrategy

- Invest in Scotland's infrastructure to help Scottish businesses to grow, innovate, and create good quality employment opportunities;
- Prioritise our investment to ensure that Scotland protects and nurtures its natural resources and captures the opportunities offered by the transition to a more resource efficient, lower carbon economy; and
- Invest in strengthening the success and resilience of local communities.

To foster a culture of innovation we will:

- Support the development of highly innovative businesses across the Scottish economy;
- Encourage more of Scotland's diverse business base to engage in innovation and research and development as part of their day-to-day activities;
- Continue to support the high-impact, world-class research of Scotland's Universities and improve levels of commercialisation of academic research;
- Develop with key partners, such as business organisations and trade unions, innovative approaches to developing progressive workplace practices; and
- Develop and deliver new approaches to public service reforms and make better use of our public procurement to drive innovation.

To promote inclusive growth we will:

- Promote Fair Work and build a labour market that provides sustainable and well-paid jobs;
- Address long-standing barriers in the labour market so that everyone has the opportunity to fulfil their potential;
- Tackle cross-generational inequality through, for example, improved child care, boosting attainment and early years interventions that give every child a fair start in life; and
- Realise opportunities across Scotland's cities, towns and rural areas, capitalising upon local knowledge and resources to deliver more equal growth across the country.

To enable Scotland to take advantage of international opportunities we will:

- Support Scotland's exporters to grow into new markets and expand their presence in key traditional markets such as the EU and North America;
- Encourage a more export-orientated focus across all businesses and sectors in Scotland, and in particular amongst our small and medium sized enterprises;
- Create the underlying conditions which will continue to make Scotland a major destination for investment;
- Use Scotland's influence in Europe and more widely to support our international ambitions and continue to make the case for Scotland to remain a member of the EU;
- Promote Scotland's international brand and showcase both Scotland and Scottish goods and services internationally and secure major international cultural and sporting events; and
- Publish an International Framework, which will set the context for how the Government, its Agencies and Public Bodies, engage externally to promote Scotland – its economy and broader interests – and influence the world around us.

3. **Existing Reform Scotland Policy Recommendations**

The following policy recommendations would, we believe, all contribute to helping economic growth and enabling businesses to thrive in Scotland. Each of these policies has been published in previous Reform Scotland reports, covering a wide range of subject areas and not necessarily focused on economic growth. However, Reform Scotland believes that each of these measures is also worth considering in terms of the economic benefits that they bring. A summary of each issue is given below, while further information can be found in the original reports.

3.1 Business rates

In the publication Local Taxes, published in March 2012, Reform Scotland argued that business rates should be devolved in full to local authorities. The following is an extract from that report.

In Scotland, Non-Domestic Rates (or business rates) are taxes on property payable by businesses. Bills are calculated by multiplying an assessed value for a business property by a non-domestic poundage rate. The rates normally apply to premises which are not classed as domestic properties. If a property is used for domestic and non-domestic use, such as a guest house, both council tax and business rates need to be paid.

Business rates are collected locally and Reform Scotland believes that councils should be able to retain the income they raise. This would give local authorities a real incentive to increase economic growth and address specific problems they are facing. For example, a council could opt to reduce business rates on shops in the high street by increasing the rates on out-of-town developments if that was the policy preference of the council. Currently, there are winners and losers as a result of the redistribution of business rate revenue. This can be because some councils account for a larger proportion of business rates revenue collected relative to their resident populations than others. Some of this is due to differences in economic performance across the country and some due to council boundaries not reflecting real economic flows.

To ensure that this policy did not create a situation where some councils suddenly receive more money and others less, Reform Scotland recommends that, in the first year of the operation, the Scottish Government grants to each council should be based on the grant they received the previous year, less the business rates collected from the council area in that previous year. Councils would then receive the revenue raised from business rates in their area, with the remaining part of their revenue grant adjusted to ensure no council was better or worse off. Each council would then have to decide whether to retain the business rates inherited or to seek to increase or reduce business rates for their area.

Councils would have an incentive to provide an attractive economic environment, but the decision would be up to them. For example, a council could seek to increase business rates which might have the effect of increasing income in the short term but is likely to lead to poorer economic performance and lower income from business rates in the longer term. However, the increase in local financial accountability is more likely to give councils an incentive to design business taxation policies and broader local economic development strategies to support the growth of local businesses, encourage new business start-ups and attract businesses to invest since this will benefit the council directly by increasing its income from business taxes. Passing control of business rates to local authorities would also mean giving them control over business rates relief schemes. As a result, it would be up to each individual local authority how the tax operated within their area. The change to the grant level would remain the same in future years and would not be affected by whether the individual council collected more or less in business rates. This is essential as it provides an incentive for all councils, regardless of how much they currently receive in business rates, to improve economic growth in their area. It is also cost neutral to the Scottish Government. It is often argued that the Scottish Parliament has little incentive to improve economic growth as the benefits would accrue to the Treasury at Westminster, and the same principle applies here.

3.2 Pay-as-you-drive

In the publication Pay-as-you-drive: the road to a better future, published in October 2013, Reform Scotland argued that the current system of taxing road users was unfair and should be replaced with a pay-as-you-drive road pricing scheme where people pay depending on which roads they use and when they use them. Problems such as high fuel costs, especially in rural areas, and congestion can have a negative impact on business growth. The following is an extract from that report.

Reform Scotland believes that there should be three clear policy objectives of motoring charges: to reduce emissions; to reduce congestion; to increase fairness.

Of course, revenue generation is important, but our proposed Pay-as-you-drive (PAYD) scheme will continue to raise significant revenue. More fundamentally though, if motoring charges are effective in meeting their aims then revenue is supposed to reduce over time as people adjust their behaviour and fewer of them use cars, at least on busy roads and at peak times when charges will be highest.

We do not believe that the objective of current motoring taxes is clear. Changes to the Vehicle Excise Duty (VED) rates have directly addressed carbon emission, and this is to be welcomed (although we feel that VED punishes infrequent drivers by charging them the same as frequent drivers, which PAYD will address).

However, the main motoring tax, fuel duty, is a blunt and unfair instrument which takes no account of where and when people are using the roads.

Green or sin taxes need to be set at an appropriate level to discourage certain behaviour, but recently petrol duty changes have not achieved this objective and have done little to reduce congestion on our roads. This has only increased the public perception that such taxes are really about providing a steady revenue stream for the government rather than a genuine attempt to address congestion or vehicle emissions.

A Pay-as-you-drive (PAYD) system of road pricing, in which people pay depending on which roads they use and when they use them, is both a fairer and more efficient way of allocating scarce road space.

In the past there has been significant public opposition to schemes of road pricing. In part, this is because the Edinburgh congestion charge proposal, the most recent attempt to implement such a scheme, was effectively a tax rise because it would not have been accompanied by a commensurate reduction or abolition of any other motoring charge. Opinion polls tend to illustrate that while people do not support road pricing, it is more popular than the existing motoring taxation regime.

Furthermore, other schemes (such as London's congestion charge) have found favour once they are up and running.

We believe that a policy to introduce Pay-as-you-drive (PAYD) road pricing could gain public support if the policy was properly explained. This explanation would need to highlight the following key points:

- Vehicle Excise Duty and Fuel Duty would be abolished and replaced by a fair system of motoring charging called Pay-as-you-drive (PAYD). This need not have a significant effect on the government's tax take because: current motoring taxes are aimed, albeit unsuccessfully, at reducing car use so by definition revenue would constantly reduce if they were successful; the government would be in charge of the figure at which roads were priced, and accountable to the electorate for it

- PAYD can reduce carbon emissions from road transport and help Scotland meet its climate change obligations because: people will consider using public transport, car-shares or may even cycle or walk (which will also be good for public health); people will consider shopping more locally, which will reduce food miles (and will also benefit the high street and the local economy); and congestion, which is a contributor to increased emissions, will reduce through behaviour change
- PAYD can reduce congestion and journey times, which will: benefit businesses and the economy due to the quicker movement of people and goods; and reduce frustration on our roads and make for more pleasant journeys
- PAYD can be fairer, because: all drivers will pay a fair price for the roads they choose to use, and the times they choose to use them; infrequent drivers will pay less than frequent drivers, in contrast to VED which charges drivers the same amount irrespective of how much they drive; rural and remote drivers (who may have less access to public transport), and those who have to travel at unsocial times, will pay less because they cause less congestion. This is in contrast to the situation under Fuel Duty, which involves rural and remote drivers paying the same level of tax as urban drivers despite urban drivers contributing more in terms of congestion and emissions and yet having greater access to public transport alternatives.

Whilst we recognise that a Pay-as-you-drive policy wouldn't change everyone's driving habits, and some may continue to behave as they do at present, it would be with a greater awareness of the costs of doing so.

PAYD has the potential to be a useful policy tool for government, allowing drivers to be charged fairly for the choices they make, and also to be charged appropriately for their impact on the road network and the wider environment.

3.3 Colleges

The college sector has a vital role to play in working with businesses to ensure students are looking for jobs with the right skills and training. Reform Scotland believes that too often an emphasis is placed on university, to the detriment of college and the potential it offers. In the report '[A new deal for Scotland's colleges]', published in June 2013, Reform Scotland argued that college was a vital path for many pupils from more disadvantaged backgrounds, either onto higher education or into training and work and in order to fully achieve their, and their students', potential colleges must be set free of government and become autonomous charities. The following is an extract from that report.

All too often colleges are viewed as the lesser alternative to university, which is unfair as colleges play a vital role in the economy and society. In our report Power to Learn, we outlined the importance of the FE sector in helping social mobility and included a case study of John Wheatley College in Glasgow (now merged with North Glasgow College and Stow College) which has achieved a great deal in one of the most deprived parts of Scotland.

Colleges perform a vital role in helping individuals, often from the most deprived backgrounds, acquire vital life and employment skills in addition to providing the vocational and academic qualifications needed to progress. Colleges are vital not just to more disadvantaged individuals, but to a range of people whether they are less academic, or more interested in vocational studies, or prefer the ethos and environment that a college offers compared to a school or university.

Choosing college over university should not be viewed as a lesser choice, just a different choice. After all, it could be argued that going to college and becoming a qualified electrician has far better job and income prospects than going to university and gaining an arts degree. However, it could be argued that colleges themselves, and the careers service, do not do enough to highlight and advertise further education options to a wider range of school leavers.

It is also important to stress that college can also be a vital step towards university for many people, especially those from more disadvantaged backgrounds. If the Scottish government wants to widen participation in universities, it needs to recognise the important role that colleges will play in achieving that goal. It would be useful for the Scottish government to carry out some research, providing evidence on the routes taken into university for individuals at university from more disadvantaged backgrounds, and what proportion first attend college.

Although the Scottish Government's policy of increasing the university participation of people from disadvantaged backgrounds is well-intentioned, there is a danger of unintended consequences. Statistics indicate that school leavers from the most deprived areas of Scotland are far more likely to go to college than university to continue their education whether academically, as a route to moving on to university, or vocationally. Therefore, there is a danger that placing too great an emphasis on university could reinforce the suggestion that college is a lesser choice and diminish the standing of FE vis-a-vis HE.

Further, making funding decisions which place greater emphasis on universities to the detriment of colleges could, unintentionally, harm the very people the Scottish government is trying to help.

The current colleges structure, highlights that colleges are examples of such public bodies. Reform Scotland does not understand why universities should be afforded far greater autonomy and freedom than colleges. We believe that colleges would be better placed to respond to the needs and circumstances of their students and communities if they had greater autonomy, not less. As a result, we believe that legislation is needed to remove colleges' status as public bodies and enshrine them as fully independent private charities, which would in turn enter into a contractual relationship with government to deliver certain services. Such a change would not affect the government's ability to provide and direct certain FE services. However, it would give the regional colleges greater autonomy and independence to deliver courses and services in a way which best suits their local communities and students.

Diversity is a key factor in ensuring our public services are able to respond to the different priorities and circumstances faced by the people they serve. If too much power resides at the centre, it can be difficult for colleges to develop distinctive and innovative approaches. Increasing the autonomy of colleges is, therefore, essential to allow for diverse solutions to the different situations they face. A one-size-fits-all approach will not work as we are a diverse nation.

If colleges were independent organisations they would be able to achieve charitable status in their own right, as universities do, rather than having to be deemed an exception to charities legislation. Being independent bodies rather than government bodies would also allow them, as charities, to hold a financial surplus and reinvest it as they saw fit. We also believe that giving colleges the same legal status as universities would encourage more people to view the sectors in an equal light. It is also worth highlighting that university education is best where universities are most free of government control. This is why the US and the UK dominate the league tables. If anything, universities would benefit from greater independence and what applies to Higher Education should apply to Further Education too.

3.4 Quangos

Reform Scotland has often highlighted the scale of quangos in Scotland, a number of which have a huge impact on businesses in Scotland, most notably Scottish Enterprise and Highlands & Islands Enterprise. We believe that these organisations, which are neither fully part of, nor independent of, government, lack transparency and accountability. In our report Democratic Power, published in February 2010, we first argued that quangos functions should either be transferred back to government departments, where decisions would be accountable to ministers; carried out by fully independent bodies which could contract with government to provide certain functions; or be devolved to local authorities.

A quango, or 'non-departmental public body', is an organisation that has responsibility for developing, managing and delivering public policy objectives at 'arm's length' from government. Such bodies assist in the delivery of public services in Scotland including culture, healthcare, the environment and justice. They have a long history of operation in the UK and have become an established part of public sector delivery. In particular, quangos carry out statutory, regulatory and advisory functions and are managed by a Board whose members are directly appointed by Government Ministers.

However, Reform Scotland's view is that they are not sufficiently accountable to the Scottish Parliament or the Scottish people. Inside government, departments are headed by a minister who is accountable to the Scottish Parliament between elections and to the public at elections. Equally, independent organisations which enter into contractual relationships with government to deliver certain services also offer greater clarity and transparency in the delivery of government objectives. The growth of quangos has reduced accountability, with less direct ministerial involvement. Indeed, the growth in quango numbers and budgets has meant significant expenditure streams are largely invisible.

The current lack of openness and accountability is not conducive to good governance. This needs to change because the power exercised by government in our democracy derives from the consent of the people and should be exercised in their interests.

It is difficult for people to judge whether that is the case when the current way in which government carries out its functions blurs accountability. Many politicians have spoken about the need to reduce the number of quangos. However, until they realise that the problem is not a numbers game, but rather an inherent problem with the nature of quangos themselves, it is unlikely that the problem will be addressed.

Reform Scotland believes that quangos should cease to exist as arm's-length bodies because they are not sufficiently accountable. We believe each quango's functions should either be transferred to existing government departments reporting directly to a minister, or turned into a genuinely autonomous body which could then enter into an open and transparent contractual relationship with government to undertake certain functions. In some cases, the best option will be to devolve their functions to local authorities – delivering the double benefit of accountability and real devolution. Our recommendation would introduce greater clarity, openness and transparency into the political process in Scotland, and enhance the accountability of public expenditure to the Scottish electorate

3.5 Planning

The planning system in Scotland can too often be seen as an inhibitor of economic growth due to the length of time it takes for planning permission and its inability to respond adequately to demand. Reform Scotland examined this issue in the report 'Planning Power', published in February 2011. The following is an extract from that report.

The planning and housing systems in Scotland could be made more responsive to the needs and wishes of people living here. The 2006 Planning Act was a step in the right direction since it increased the opportunity for people to become involved in the planning process from an early stage. However, too many decisions in relation to both housing and planning are still taken by central bodies which do not have the necessary knowledge to make decisions for diverse communities across Scotland.

The problems of the planning system in Scotland stem from the lack of the appropriate incentives to ensure that a balance is struck between the need for economic development and the public's desire to preserve and enhance the quality of the environment. Under the current system of financing local government, councils find they do not gain sufficient financial benefit from allowing new development to make it worth their while to do so. Further, there is often a disincentive because new developments usually mean they have to finance additional services associated with these developments such as new roads or schools. Local communities have even less incentive to support development as they invariably lose out from new development due to loss of environmental amenity.

Reform Scotland has consistently advocated pushing power down within society so that decisions are taken as close to those affected as possible. Therefore, where communities wished to take on this responsibility, local planning decisions should be taken at the level of the local community to ensure that decisions are taken as close to the affected community as possible. This builds on the greater local engagement and involvement in the planning system encouraged by the 2006 Planning Act and, combined with an appropriate system of finance, this would help to achieve the right balance between local economic development and the preservation of the local environment.

This could be done by giving local communities the right to acquire powers over areas such as planning from existing local authorities. This would only happen where communities wished to go down this route and expressed this desire in a local referendum.

Such an evolutionary approach recognises that the current network of community councils in Scotland is patchy with some working better than others. Until areas have a properly-constituted community council in place, decisions would be taken by representative committees of local councillors. Initially, local communities would receive funding associated with the powers devolved to them. However, this should take into account increases in households and businesses resulting from any permitted development. They should also be able to attach conditions and negotiate compensation agreements with developers. This greater local control should result in necessary development taking place where the relative value of the development to the local community outweighs its costs in terms of loss of environmental amenity.

This will encourage development that is sensitive to the local environment, e.g. more small scale developments in keeping with the existing nature of the local area, since developers would have a financial interest in minimising the detrimental effects of any development. It is certainly preferable to a system whereby a higher authority can impose a development on a local community in return for what they view as adequate compensation, but which may not be viewed as such by the community affected.

For developments defined as national or major this is, however, unavoidable as these would still be decided by the Scottish Government and the wider local authority. Even in these cases though, developers would have to negotiate with affected local communities to promote sensitive development. The financial incentive should limit the 'Nimby' mentality and force local communities to look at the costs and benefits of any development to their community.

With well over a thousand community councils in Scotland, competition would also mean that if any developer felt they were being held to ransom they could just go elsewhere. Instead, a process of negotiation would be encouraged.

As far as possible, housing policy should be determined at the local level with the Scottish Government concentrating on providing the necessary support to households. This will ensure that policies are more responsive to local needs and so help to provide a better balance between supply and demand. Combined with local government gaining greater autonomy and financial responsibility, it will also help to encourage diversity and innovation in housing provision and particularly in relation to the funding of new infrastructure though methods such as Tax Increment Financing and municipal bonds. Such models, together with new forms of private finance, could be developed in conjunction with the Scottish Futures Trust. As with planning, areas such as building guidelines should be part of a local framework and local authorities should be free to decide on their own policies in relation to other aspects of housing such as support for home ownership. While the right to buy scheme was undoubtedly successful in boosting home ownership in Scotland, it was a policy which saw national priorities override local autonomy. Reform Scotland has consistently argued that greater powers need to be passed down to local authorities because they are best placed to make decisions for their local areas. In keeping with this, it is right that it is local councils, not Holyrood, which decide whether the right to buy scheme should apply to new tenants in their areas. Local authorities would also be free to introduce any other policies to boost home ownership or to transfer their housing stock.

3.6 Childcare

Childcare has a huge impact on the potential of the Scottish workforce. The availability of trusted and affordable childcare providers enables parents to remain in, or re-join, the workforce. The lack of such facilities can also deter individuals from having any, or additional, children. However, this is not just an issue that affects parents, or employers seeking skilled workers, but affects the wider economy. There are currently more people over 65 in Scotland than under 16, and population projections suggest that Scotland will age significantly,[19] which can have long-term implications for the economy and public services in general.

Reform Scotland first considered this issue in the report 'An Equal Start: Fair Access to Nursery Provision', published in January 2013.

Although there had been historical provision for some three and four year olds to attend nursery in Scotland, provision varied from area to area and it was not until the enactment of The Standards in Scotland's Schools Etc Act 2000 that a duty was placed on local authorities to provide pre-school education to all three and four-year olds and set a minimum entitlement. Section 35 of the Act also gave authorities express power to secure provision through suppliers other than themselves.

[19] http://www.gov.scot/Topics/People/Equality/Equalities/DataGrid/Age/AgePopMig

The Children and Young People (Scotland) Act 2014 increased the entitlement so that all three and four-year olds are now entitled to 600 hours of government-funded nursery provision as well as vulnerable two–year olds.

Operation of the system varies from council to council. It is up to each local authority who it commissions care from and, therefore, not all privately-run nurseries will necessarily be partnership providers. The ease of gaining partnership status will vary from council to council with some local authorities granting partnership status to a nursery, while others will only fund a certain number of places at a partnership nursery.

Arguably, there seems to be a misunderstanding by some politicians that parents are actively choosing private sector provision over the public sector and taking what they see as council money and giving it to the private sector. As a result, councils such as Glasgow, East Dunbartonshire and East Lothian have restricted the number of places that they will fund in partnership nurseries. Officials have suggested that parents can move their child to an alternative nursery either a council-run one or a different partnership one, as if the child was an object that could be taken out of one environment that they were secure and happy in and placed in another without consequence every time the council changed its mind about which nurseries they would give partnership places to.

This attitude also ignores the fact that in reality the public and private sector are usually offering very different provision. The majority of state nurseries, though this will vary from council to council, offer around 3 hours a day, for 5 days a week during the school year – which makes up the 600 hours funded by the Scottish Government. Some councils may allow hours to be bundled so that more than one session is taken in one day, others will not. Some may allow only part of a provision to be taken up, others will not. And these policies may change over time. There are no catchment areas for council nurseries, including nurseries attached to schools, so there is no guarantee of a place in a nursery at a convenient location (especially important if parents are also organising the drop-off and pick-up of other children at school or nursery.)

Therefore, for many working parents it is almost impossible to take up a place at a council nursery under those circumstances, unless you have some sort of wrap-around system in place through family, friends, or another nursery. Therefore, their only option is to use an alternative provider.

While there are problems getting a child’s entitlement in some parts of the country, in other areas parents already receive a virtual voucher in the form of a discount applied to their nursery invoice.

Reform Scotland believes that as long as a provider meets necessary standards set by both Education Scotland and the Care Inspectorate parents should be able to take up their entitlement with that provider. This will offer far greater flexibility as parents can then access their child's entitlement in a way which better complements their family life. In reality, this would mean that a virtual voucher scheme would be in place, where the funding follows the child and parents are able to choose the partnership provider which suits them best, rather than have their choice restricted by the council.

It is our hope that a premium could be added to the nursery entitlement scheme to help children from more disadvantaged backgrounds or those with special needs.

What Reform Scotland is calling for is not new, and works to a lesser or greater degree in some areas of Scotland at present, but is fully dependent on the attitude of the different local authorities.

Whilst Reform Scotland is fully committed to decentralisation and greater local decision making, that does not mean that a local authority can fail to meet its responsibilities. Equally, the Scottish Government should not claim to have delivered policies, when that delivery is in the hands of local authorities, and open to their interpretations - it is the Scottish Government's responsibility to ensure that its policy is actually delivered. It is unfair on both parents and children for the Scottish Government to set a policy, but allow local authorities to restrict the ability of parents to access that vital provision. It is not an excuse to argue that you have provided enough places in local authority nurseries, if parents are unable to access those places because the hours or location on offer make it impossible to take-up.

All political parties argue they want to help get people into employment, training or education, so policies in other areas, such as nursery provision, need to reflect that, and that means enabling parents to take-up their child's nursery entitlement at an establishment which fits in with their working patterns.

Reform Scotland believes that virtual vouchers, where the entitlement follows the child, is one answer to the current funding problem facing many working parents across Scotland.

Giving parents greater choice over where they can send their children also helps establish new providers, as they are guaranteed partnership funding as long as they meet necessary standards.

3.7 More powers

For too long there has been a lack of clarity as to who is responsible for economic development in Scotland. When there is good news both parliaments try to take credit, but when there is bad news, both blame the other. This situation has led to a lack of transparency and accountability. The Scottish Parliament is responsible for a number of the policy areas affecting business growth in Scotland, yet has no control over a number of key taxes, including corporation tax and income tax. Reform Scotland has been arguing from its inception that more powers needed to be devolved to the Scottish Parliament to give it greater responsibility for the Scottish economy.

There have now been numerous reports from sources based in England which recognise the link between devolving more powers over taxation and spending, and increasing economic growth. The following are some examples:

- In October 2014 a report by the Royal Society for the Encouragement of Arts, Manufactures and Commerce claimed that if UK cities were granted greater power over local taxation and spending, it would boost economic growth by £79bn by 2030 as productivity would increase by 5%. The report commented that "*Our centralised political economy is not 'fit for purpose'*" and that "*In a world in which cities are the new drivers of growth, decentralising our political economy will boost GDP and enable our major metros to achieve their social and economic potential*."[20]

- In September 2014, IPPR North published 'Decentralisation Decade'. The report stated that "*the guiding principle behind the whole approach is that decentralisation will lead to higher economic growth*".[21] The report also highlights the contrast between the UK and other European countries where there are greater fiscal powers devolved – "*Economically, seven of the eight English 'core cities' outside London have consistently performed below the national average in terms of GDP per capita. This is atypical. In Germany, Italy, Sweden and even France, so-called second-tier cities have been at the forefront of economic growth, wielding clear regional policies and devolved economic development powers to outperform their capital cities*".

- In July 2014 the House of Commons Communities and Local Government Committee published its report 'Devolution in England: the case for local government'. The report considered the link between economic growth and devolving fiscal powers. The report stated "*We conclude that there is evidence of at least an indirect connection between fiscal devolution and growth. There is also evidence that fiscal*

20 Brinded. L "UK City Devolution Could Boost Economic Growth by £79bn by 2030", International Business Times, 22 October 2014
[21] IPPR North, Decentralisation Decade, September 2014

devolution—as part of a package of wider decentralisation—would encourage greater economic growth across England. The Government has, through its own business rates retention scheme, accepted the logic behind this. Putting a wider range of tax and borrowing powers into the hands of local politicians simply extends this logic. London, already in the vanguard of UK growth, would not be pressing for devolution if it was not to its advantage. Placing power in the hands of other areas, too, would provide an opportunity to contribute to a more balanced economy. Cities and their wider regions have the most potential to drive growth".[22]

Some of the specific powers Reform Scotland believes should be devolved are referred to in other policy recommendations. However, the ultimate goal has to be that Holyrood is responsible for raising the money that it spends. There are a number of ways that this can be achieved, as have been set out in previous Reform Scotland reports including 'Fiscal Powers', 'Fiscal Powers – Second Edition', 'Devolution Plus', as well as the work of the Campaign for Scottish Home Rule which we set up.

It is also worth noting that devolving greater taxes would also present an opportunity to simplify and reform the system in Scotland. For example, if Corporation Tax and Income Tax were devolved in full there would be an opportunity to correct the current anomaly where if you have two self-employed people with similar income/profit levels, one paying corporation tax and the other income tax.

[22] Communities and Local Government Committee, "Devolution in England – the case for local government", July 2014.

4. New Reform Scotland Policy Recommendations

In addition to the policy recommendations set out in the previous section, which have all featured in previous reports, we also believe the following policy recommendations would help improve the business environment in Scotland.

4.1 Late payments

Late payment of invoices is a significant problem for small and medium-sized businesses. Late payments can hamper cashflow, delay payments to other businesses in a supply chain, and can also threaten the very survival of a company.

The problem arises when larger commercial companies refuse to pay their invoices on time. Unfortunately, because of the imbalance in the relationship between a very large company and a smaller one, there is little a smaller company can do other than wait.

The Late Payment of Commercial Debts (Interest) Act 1998 allows companies to claim interest, compensation and reasonable costs of collecting the debt. Interest can be claimed at 8% over base together with compensation at the rate of £40 - £100 per invoice.[23] It only applies to the commercial supply of goods and services where there is not a provision for interest in the Terms of Business.

Although there are options such as this legislation, or going to court, this has not stopped the problem. Court can be expensive and the large company will have plenty of lawyers and can afford for the case to be dragged out; alternatively reporting the company for late payments can have a negative impact on the potential for repeat business. So the SME ends up between a rock and a hard place, potentially struggling for survival.

Indeed, despite the late payment legislation being passed nearly 20 years ago, a recent UK survey of companies by the Institute of Directors, published in December 2014, found that of 925 companies with fewer than 250 employees, 66% had experienced a problem with late payment of invoices. When then asked about the consequences of the late payments, 13% said they had been unable to grow their business as planned; 28% said they had to delay payments to suppliers; and 10% said they had to organise or extend finance facilities.[24]

[23] https://www.lovetts.co.uk/knowledge/Claiming-Late-Payment-Interest-and-Compensation.aspx
[24] IoD - http://www.iod.com/influencing/press-office/press-releases/two-thirds-of-smes-are-suffering-from-late-payment-finds-new-iod-survey

With reference to Scotland, the Scottish Government Small Business Survey 2014 found that late payments are a problem for 43% of SMEs,[25] while the Federation of Small Businesses found that in Scotland the top 3 effects of late payment on small businesses were:

- 32% reduced profitability
- 30% restricted business growth
- 29% late paying suppliers[26]

There is a problem with larger companies taking advantage of their market position. As a result, waiting a long period for payments is not always defined as late payments as large companies can use their position to impose long payment terms, or even change the payment terms in existing contracts. For example, in January 2015 it was reported that Heinz had extended its payment terms for suppliers from 45 days to 97 days, while brewer Inbev was imposing a 120-day payment term.[27] Payments in these contracts would not be classified as 'late', but would still have a huge impact on the small and medium-sized businesses in the supply chain.

According to the FSB's manifesto for the 2015 General Election, £46.1 billion was due in late payments in 2014, an increase from £18.6 billion in 2008. And this is despite that fact that many FTSE 350 firms have signed up to the Prompt Payment Code.[28]

The Prompt Payment Code (PPC) was established in December 2008 and sets standards for payment practices and best practice. It is administered by the Chartered Institute of Credit Management.

Companies which sign up to the code undertake to:

- Pay suppliers on time without attempting to change payment terms retrospectively
- Providing suppliers with clear and easily accessible guidance on payment procedures
- Request that lead suppliers encourage adoption of the code throughout their own supply chains
- Undertake to pay suppliers within a maximum of 60 days and work towards adopting 30 days as the norm, while avoiding practices which could affect the supply chain.

[25] Scottish Government 2014 Small Business Survey, pg 23, sample size 853 www.gov.scot/Resource/0047/00475624.pdf

[26] FSB Research by Design – Full Member Report March 2014, sample size 375

[27] Sutherland. R, "The supply chain bullies: The giant household names that stand accused of hurting small suppliers", Daily Mail, 22 January 2015

[28] FSB Business Manifesto for the 2015–20 Government - http://www.fsb.org.uk/pressroom/assets/fsb_a4_manifesto_final_web.pdf

In January 2015, Labour MP Debbie Abrahams hosted a Westminster cross party parliamentary roundtable to “identify possible solutions to the deterioration of payment practices in the UK”. She commented that making unilateral changes to contracts was “as unethical as tax evasion” and it was necessary to “shift the burden of having to take legal action away from the victims of late payment practices once and for all” adding “It’s simply a case of big businesses using smaller businesses as a credit line by applying bullying tactics that are unfair and have the knock-on effect of stifling growth in the economy.” [29]

Most political parties have agreed that the situation needs to change. The Labour party manifesto stated:
“*We will address rising costs for small businesses and strengthen rules on late payment*.”

Whilst the Conservative one commented:
“*We will go further by establishing a new Small Business Conciliation service to mediate in disputes, especially over late payment*.”

As part of Sage’s Responsible Business Week during the election campaign, it called for all FTSE companies to publicly commit to move towards 30-day payment terms in order to help small businesses grow and thrive. Sage also reported research that it had conducted which suggested that 60% of businesses often have to wait for 60 days or more for payment and that the average small business in the UK is owed £12,000 in outstanding invoices and spends 336 hours per year chasing them. [30]

So what is the solution? At large part of this problem stems from the imbalance in the relationship between an SME and a large corporation. An SME can’t afford to try and challenge late payments or long payment terms without risking much-needed repeat business. The large corporation sees no great problem with in late payments as they enjoy a secure market position. And as evidence suggests that the problem is rife, SMEs don’t have the option of not dealing with late payers and they certainly don’t have the power to negotiate terms. The SMEs are the victims of the situation and any solution that involves action needing to be prompted by the victim is unlikely to change the culture.

[29] Green,W, “Late payment threatens to 'undermine economic recovery', IoD warns”, Supply Management, 20 January 2015 - www.supplymanagement.com/news/2015/late-payment-threatens-to-undermine-economic-recovery-iod-warns
[30] http://www.sage.co.uk/blog/index.php/2015/04/rbweek-the-perfect-time-to-address-late-payments/

The 2015 Queen's Speech included a proposal for an Enterprise Bill with proposals including "*Creating a Small Business Conciliation Service to help resolve business-to-business disputes, especially over late payment*".[31]

However, given the in balance in size between the businesses that are usually involved in disputes over late payments, it remains to be seen what impact this will have.

What is really needed is a change in business behaviour that encourages a culture of prompt payment, as the CBI put it "Paying late needs to become the business equivalent of having a drink before getting behind the wheel."[32] Both Scottish and Westminster Governments can use their influence as major purchasers to put pressure on their suppliers to change behaviour.

Reform Scotland would agree with the FSB's recommendation that all government contractors should be signed up to and be compliant with the Prompt Payment Code. While Scottish Government contractors have to pay suppliers in the supply chain within 30 days, being signatories to the code would mean all suppliers have to be paid within the set period.

Whilst it is certainly not Reform Scotland's aim to create further bureaucracy, we recognise that if large companies continue to delay payments to the current extent where they are actually harming growth, then statutory regulation should be considered.

4.2 One-stop-shop

Reform Scotland has previously highlighted what can be a very mixed online presence when it comes to Scotland's public services, with some schools and GP practices having no website at all. However, when it comes to business advice, that online presence can at times be overwhelming with a number of publicly-funded sources offering advice. As a result, it can be the case that a business may not be compliant with a regulation or missing out on support simply because there is such a huge number of different resources, not all of which a businessperson will be aware of. For example the following web sites are some of the publicly-funded sites that offer business advice and guidance:

- Business.Scotland.Gov
- Business Gateway

[31] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/430149/QS_lobby_pack_FINAL_NEW_2.pdf
[32] Fell. M, "Late payment is a chronic problem for UK business – and culture change is the solution", CBI blog, January 2014 http://www.cbi.org.uk/media-centre/the-point/2014/01/late-payment-is-a-chronic-problem-for-uk-business-and-culture-change-is-the-solution/

- Scottish Enterprise
- Highlands & Islands Enterprise
- Gov.UK
- Gov.Scot
- Local authorities
- Ready Scotland
- Great Business
- Scotland On Tap
- Health & Safety Executive
- Skills Development Scotland
- Trading Standards
- Trading Standards Scotland
- Skills Development International
- Accountant in Bankruptcy
- Food Standards Scotland
- Visit Scotland

Reform Scotland believes that it would be of benefit to bring together all the publicly-funded advice, whether it originates from local government, Holyrood or Westminster, into one dedicated site, organised in a manner which is more likely to help business, in a sort of one-stop shop. This is much better than leaving them left unsure what it is they are looking for and where to go. While Reform Scotland acknowledges work which has been done on the beta version of mygov.scot, more rapid progress is required.

4.3 Certified identification

Scotland has an opportunity to be a person-centred country that empowers and values citizens in a person-centred way. Whether individuals are a customer of a business, in receipt of benefits, a patient, a High Net Worth Individual, or sophisticated investor, identity is important. Some individuals are an important source of investment for small and medium sized businesses in Scotland. These individuals, who earn at least £100,000 per year, or have net assets (excluding property and pension assets) of at least £250,000, can act as business angels and be approached with a view to making an investment and providing informal venture capital.

The investment and guidance such individuals can provide to smaller businesses can be invaluable. However, to make an investment, it is necessary for such individuals to provide certified copies of identification. As a result, for people making a number of investments into small businesses, they can constantly have to provide the same information. This is inefficient and a poor use of time and resources.

Reform Scotland wanted to find a way which could improve this interaction. However, we soon realised that the problems of transferring and certifying personal information were also widespread in all other areas of life. For example, many services require individuals to provide physical evidence to prove who they are and their entitlement. This can mean that in a digital age, people still have to fax or post a large number of items or attend premises in person. Again, this is inefficient, wastes time and can lead to a service provider, including those within the public sector, having to incur the cost of enabling paper-based transactions as well as other formats.

One solution to this would of course be identity cards, an issue which has been debated many times across the UK. However, such a system would force everyone to buy into it and leaves the government, not the individual, in control of a person's information.

What is needed is a digital system where individuals can choose whether or not, to opt in, and where the individual, rather than government, is in control of their own personal data and how it is used. A person-centred, trusted electronic system would get round the paperwork problems highlighted.

In April 2015 Citizens Advice Bureau published the report 'Personal data empowerment: Time for a fairer data deal?' This report set out to articulate a vision for consumer-centred use of personal data. It highlights the wide opportunities and potential for improving the digital use of information. One such example it refers to is how personal information from energy supplier, HMRC and the DWP could help simplify access to energy entitlements such as subsidised insulation schemes. The report also highlights the lack of a role for the individual in data management:

"*We must address the lack of consumer voice in the development of frameworks and practice for delivering changes to the way personal data is managed. This, of course, is not an issue limited to personal data-too often in business and regulation the voice of the consumer is absent – but in this case it is arguably even more of a problem. For people whose behaviours, preferences and habits are more visible than ever, there is a distinct lack of agency to influence how all of these are used for anything other than company or state interests.*"[33]

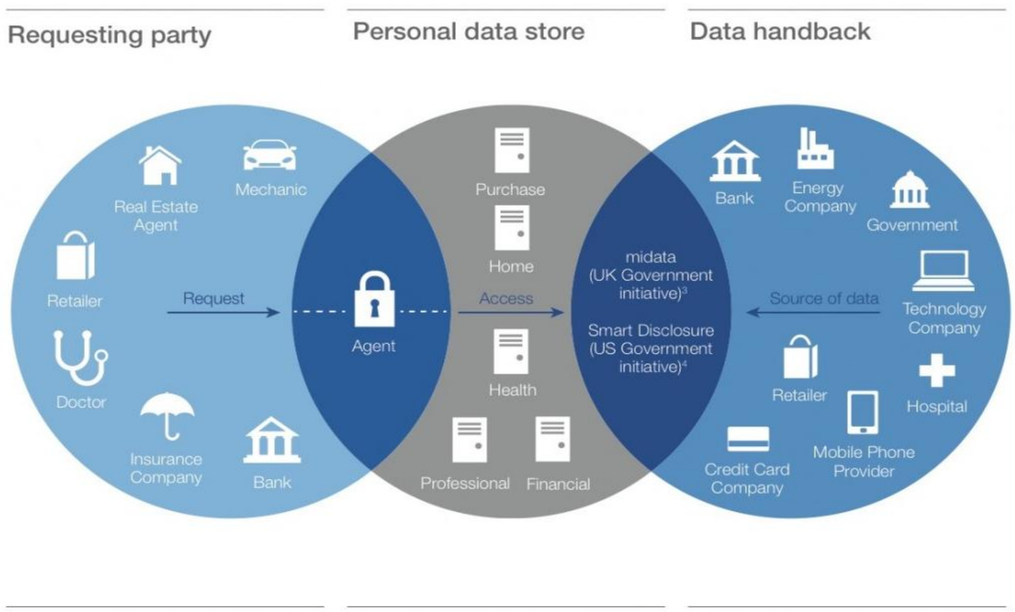
[33] Citizens Advice Bureau, 'Personal data empowerment: Time for a fairer data deal', April 2015

The report defines personal data empowerment as "*consumers having meaningful control over the use of their personal data, and being easily able to understand and determine how it is used and the benefits they will derive, all within trust mechanisms*".

At the heart of personal data empowerment is the ability of individuals to store, manage and share their own data safely. Scottish Community Interest Company Mydex CIC is an example of a social enterprise providing personal data stores across the UK. Each Personal Data Store is encrypted by the individual, who holds one of the keys, and Mydex itself is unable to 'look inside', akin to a safe deposit box system. Individuals can view, store, manage and share their personal data, including enabling verified proof of identify to be provided to a third party.

For the full potential of such a system to work, the providers of verified data attributes, such as the Scottish Government, Improvement Service, GPs, DWP, DVLA, HMRC, Professional Firms and utility companies, would need to join the trust framework as would requesters of information, such as Local Authorities, Health and Care Partnerships, Housing Associations and the voluntary and community sector. An individual would be able to control their information and decide which bits of information they wished to share with whom in their life around them.

The illustration below is the World Economic Forum's vision of the new personal data eco-system, with the data-empowered individual at its heart, and illustrates the potential.[34]



[34] Citizens Advice Bureau, 'Personal data empowerment: Time for a fairer data deal', April 2015

Reform Scotland believes that not only would such a system ease the bureaucracy surrounding sophisticated investors investing in SMEs, it would present opportunities for everyone to cut down on the amount of paperwork they need to engage with. However, for such a system to be fully operational, government needs to get behind and engage with it. As a result Reform Scotland recommends that the Scottish Government set up a task force to review the way individual's data is held by public bodies in Scotland, including across the health, education and local authority services to consider whether this could be managed with a more person-centred approach, and ultimately, what the Scottish Government could do to help promote engagement, tackle inequalities and grow the economy with a new person-centred data ecosystem.

4.4 Improving the international outlook

As noted earlier, it has been estimated that around half of Scottish overseas exports are accounted for by just 60 companies.[35] So, while the Scottish Government's target to increase the value of Scottish exports is worthwhile, it is also necessary to increase the number of companies exporting.

Both the SCDI and the Chamber of Commerce have highlighted the need to increase the international outlook of business in Scotland. There are some issues that they have highlighted, such as the importance of successful businesspeople helping to mentor others to make the next step towards exporting, where there is less of a role for the government. However, other issues where government can help have been highlighted.

Both have highlighted the need for a greater emphasis on learning languages. The Scottish Chambers of Commerce highlight that, over the past two decades, the number of students studying modern languages at Higher or equivalent has fallen by over 20%.[36] While Reform Scotland sees the benefits of increasing the number of pupils studying languages, we feel that this is a matter for schools, both primary and secondary, working in conjunction with local communities, and the importance of school autonomy is covered in the report '[By Diverse Means: Improving Scottish Education]' by the Commission on School Reform, a Commission that Reform Scotland was involved in setting up.

In May 2014, Brian Wilson's review of Scottish international trade was published.[37] The report had been commissioned by the Scotland Office and

[35] http://www.businessforscotland.co.uk/scotland-is-a-leading-exporter-we-can-do-more-with-independence/
[36] Scottish Chambers of Commerce press release, 9 March 2015 http://www.scottishchambers.org.uk/press-policy/press-releases/2015/04/814
[37] The Scotland Office, The Wilson Review of Support for Scottish Exporting, May 2014, https://www.gov.uk/government/publications/wilson-review-of-support-for-scottish-exporting

looked at how the public sector could best support exporters, both actual and potential.

It commented that the landscape was confused by the existence of a plethora of bodies, all of them with a stake in the promotion of exports, including local authorities, development agencies, chambers of commerce, trade associations, and others. The Commission noted that while all have legitimate roles to play it was essential that they should do so within a framework that is clear and comprehensible to the businesses that they are seeking to serve.

The report also noted that, as exporters come in all shapes and sizes, attempts to generalise about either strategies or solutions were largely pointless.

In order to address this issue, the Wilson Commission recommended collaboration among all the organisations, public and private, Scottish and UK-wide, that provide guidance, advice, trade missions, and other support for Scottish exporters or businesses looking to export. Reform Scotland would add that ideally such a one-stop-shop approach could be incorporated into the wider one-stop-shop online resource highlighted in section 4.2.

The report also noted “major shortages of the skills which are required to support a successful exporting economy”. Reform Scotland believes that by giving FE colleges greater freedoms, as outlined in section 3.3, this would help colleges better respond to the needs of the local communities, including business communities, in which they operate.

There are also wider cultural issues that have an impact, which include issues such as our poor take-up of foreign languages.

However, one step that Reform Scotland does think would make a different is with regard to Air Passenger Duty.

Air passenger duty (APD) is due to be devolved to the Scottish Parliament, following the publication of draft legislation based on the Smith Commission in January 2015.

APD is an excise duty which is applied to all chargeable air passengers travelling from a UK airport. The tax came into effect in 1994.[38] From April 2015 there are two destination bands and three rates of pay, depending on the class of travel.

[38] HMRC, Excise Notice 550: Air Passenger Duty, 27 February 2015

There are a couple of exemptions that are worth noting. From 1 May 2015, children who are under the age of 12 years on the date of the flight, and in the lowest class of travel, are not chargeable passengers.

In addition, passengers carried on flights departing from airports in the Scottish Highlands and Islands region are not chargeable passengers. However, passengers travelling from other areas of the UK to the Highlands and Islands are classed as chargeable passengers. The APD rates as of 1 April 2015 are detailed in Table 4 below:

Table 4: Air Passenger Duty Rates as of 1 April 2015[39]

Destination Bands and distance from London (miles)	Reduced rate: (for travel in the lowest class of travel available on the aircraft)	Standard rate: (for travel in any other class of travel)	Higher rate: (for travel in aircraft of 20 tonnes or more equipped to carry fewer than 19 passengers)
Band A (0 to 2,000 miles)	£13	£26	£78
Band B (over 2,000 miles)	£71	£142	£426

The tax raised £251m in Scotland in 2013/14, 0.5% of all tax revenue raised in Scotland

However, a study by Edinburgh Airport has suggested that the Scottish Government’s pledge to cut the tax by 50% could generate up to 3,800 jobs by 2020 and bring an economic benefit of £200m per year[40].

Reform Scotland believes that by going further and scrapping the tax altogether, the economy will benefit even more, a stance shared by the Scottish Chambers of Commerce.[41] We believe that such a policy change would also help improve Scottish businesses’ international reach.

[39] HMRC, Rates and allowances: Excise Duty - Air Passenger Duty, 6 April 2015, https://www.gov.uk/government/publications/rates-and-allowances-excise-duty-air-passenger-duty/rates-and-allowances-excise-duty-air-passenger-duty
[40] http://www.edinburghairport.com/about-us/media-centre/press-releases/slashing-air-passenger-duty-will-add-1bn-to-scottish-economy-and-create-4000-jobs
[41] http://www.scottishchambers.org.uk/press-policy/press-releases/2015/04/814

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