



Federation of Small Businesses
The UK's Leading Business Organisation



The Missing Links
***Revitalising our
rural economy***



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Foreword

Our rural economies have the potential to make a huge contribution to our entrepreneurial power and economic growth, but only given the right conditions. The rural economy is dominated by small businesses. Across Britain small firms make up 99.3 per cent of all businesses, contribute 51 per cent of the Gross Domestic Product (GDP) and employ 58 per cent of the private sector workforce.

The Government believes, and the Federation of Small Business (FSB) is in full agreement, that it is these small businesses in rural areas that will provide the engine for economic growth.

However, rural businesses face challenges not encountered by their urban counterparts. They struggle against the odds of poor communications, unreliable broadband services, and patchy transport services that exacerbate the distance they often are from their markets.

Market towns and village centres have declined with the closure of anchor businesses such as the village pub and post office. Until the announcement of recent reforms, the planning regime remains overly bureaucratic for small businesses to use and can seem hostile to economic development.

But despite these factors, the entrepreneurial spirit is alive in our rural communities. There are more businesses per head of population in most rural areas compared to the majority of urban areas. Nonetheless, rural entrepreneurs need to be further encouraged and the barriers blocking their future growth removed. This paper sets out a comprehensive approach to restore and sustain the vitality of our rural economy, including encouraging more tourists to visit our beautiful countryside and discover the diverse heritage of our rural areas.

There is no panacea to unlocking the power of the rural economy. It requires a concerted, shared effort from national and local government and local communities. However, if implemented in full and in a co-ordinated way, the

range of policy measures covered in this report will help improve the conditions in which our rural businesses can survive and thrive and create jobs.

Specifically, it requires high speed broadband to be rolled out to all rural areas and a strategic approach taken to transport, so that small businesses are better connected to markets at home and abroad. It needs a simplified planning system with a greater sensitivity to the needs of rural businesses. Local government can also have a central role to play through its business rates and the range of policy levers at its disposal. Also, as a country, we need to consider what further we can do to encourage tourism from abroad and how to attract it to our rural areas.

The FSB is the only business organisation putting the needs of small rural businesses in the spotlight. We urge government at all levels to act on our recommendations to ensure businesses based in these areas have every opportunity to prosper and grow.

Linda Walton,
Chair Rural Affairs and Tourism Committee

Executive Summary

While rural businesses already make a significant contribution to the GDP, there is significant untapped potential to generate economic growth and employment. This potential is untapped as a result of the unique barriers faced by firms in rural locations.

Rural businesses are very often based at a considerable distance from the markets they serve. If we are able to reduce the effect of this barrier by providing efficient transport links, putting in place a fast and efficient digital infrastructure and deploying effective policies for growth, we can unlock the huge potential rural economies have to offer.

Government needs to put in place policies that ensures rural firms are served by their local authorities. This includes local authorities being innovative and flexible in their use of business rates and being instrumental in the promotion of the benefits of farm diversification and tourism. It is also crucial for both central and local government to finally deliver a planning system that is responsive to small businesses' needs and allow them to play their part in creating vibrant rural communities.

While planning reform is vital, this report looks at how we might address the key barrier of distance to market. It examines ways in which by improving transport links and providing adequate digital infrastructure, we can realise the true potential of the rural economy.

Rural definition¹

- *Rural places make up 86 per cent of England*
- *18.9 per cent of the population of England lives in rural areas (9.8 million people in 2010)*
- *1.2 per cent of the population lives in sparse rural areas (620,000 people in 2010). These are areas where the surrounding area is defined as being remotely populated*

1. Department for Environment, Food and Rural Affairs (Defra) – www.defra.gov.uk

R *Recommendations*

1. Creating successful rural economies

Community Services

- We recognise the value of the Post Office Network in supporting businesses and communities. We call for the publication of a credible plan that creates a sustainable model and protects the current size of the network. We believe the creation of a Post Bank is one solution.
- We call for a full national public consultation before Post Office Ltd proceeds with the proposed rollout of the Locals model.

Rural rate relief

- The Department for Communities and Local Government should encourage local authorities to make greater use of the discretionary element of rural rate relief.
- Local authorities need to be placed under a duty to identify eligible small businesses, to make this fully automatic and ensure all are awarded Small Business Rate Relief (SBRR).
- Councils should make greater use of the wide range of reliefs they are able to offer to small rural firms.

Tourism

- Given the inclusion of aviation into the EU's Emission Trading Scheme, consideration should be given to a reduction or removal of Air Passenger Duty (APD) to encourage more international tourists to these shores.
- Local authorities should dedicate resources to stimulate business growth in local rural economies by taking advantage of the forthcoming localisation of business rates revenue.

Farm diversification

- Local authorities should provide tailored guidance on appropriate types of farm diversification suitable for their localities and what farmers need to do, to give them the best chance of submitting a successful planning application.
- There should be an assumption in favour of permitted development for small agricultural buildings and larger agricultural buildings should be subject to prior notification procedure rather than full planning control.

2. Encouraging sustainable development

Planning reform – next steps

- The development of local plans by councils must reflect the positive stance, of the National Planning Policy Framework (NPPF), towards business growth in rural areas.
- Local authorities should ensure the sequential test is not applied to small scale rural development applications.
- Local authorities should only require proportionate information in support of planning applications, provide jargon free guidance to applicants and adopt a 'pro-jobs' approach.
- Local authorities should ensure local business communities have a key role in neighbourhood planning, and that their needs are fully reflected in local development policies.
- Government and local councils should quickly implement the key recommendations of the Portas Review in local high streets, such as making local parking policies more reflective of the needs of shoppers, to ensure our market towns and villages remain vibrant business communities.
- Local Enterprise Partnerships (LEPs) should work strategically together.

Change of use

- Local authorities and LEPs should undertake a strategic review of redundant building stock within their areas in order to promote adaptive re-use of such premises for business or residential purposes.

Housing

- Government should be proactive in promoting the 'Home on the Farm' Scheme across England.

3. Improving access to markets

Transport

Fuel

- The Chancellor should reverse the three pence per litre increase in August 2012 and consider the implementation of a fuel duty stabilisation mechanism.

Roads

- The Government, the Highways Agency and local authorities must recognise the damage that poor road infrastructure creates on businesses and the economy as a whole and commit to more investment in the repair, maintenance and upgrading of UK roads.

The rural bus network

- Government should re-examine its decision not to legislate for local authorities to have the ability to introduce mandatory, competitively priced, bus-only multi-operator ticketing schemes for bus services.
- After 24 months, the Government should review whether its response to the Competition Commission's report on local bus services has delivered the changes needed to improve rural bus networks.

Digital infrastructure

Broadband

- The FSB calls for the delivery of high speed broadband (20Mbps) to 98 per cent of rural communities and businesses by 2015.

Mobile provision

- Government should urgently proceed with the spectrum auction to allow small rural businesses to benefit from a full range of 4G services.

1. *Creating successful rural economies*

Small rural businesses are the driving force behind successful rural communities. A successful rural economy provides community cohesion and creates opportunities for people to live and work in the same area and therefore helps to create sustainable local communities.

However, all too often, rural towns and villages are characterised by dying high streets and fading communities. Yet with the right help, small rural businesses can be the catalyst for the revitalisation of these rural towns and villages, but only if national and local government empower rural firms with the means to create vibrant rural communities.

The FSB welcomes the Government's £165 million package announced in the Rural Economy Growth Review in November 2011. The rural economy is contributing significantly to the national economy and this package of initiatives will play an important part in stimulating rural growth.

Community Services

As a first step toward releasing the potential of our rural economies we need to look at ways to preserve the backbone of our rural communities including our village shops, pubs and post offices.

The Commission for Rural Communities estimated that between 300 and 700 village shops were closing every year and the Campaign for Real Ale (CAMRA) reported in May 2012 that 12 pubs were closing each week. The FSB is at the forefront of efforts to get a fairer deal for tied house publicans in both rural and urban areas.

The FSB is especially concerned that reforms to the Post Office Network will not support the rural business community. It is critical that the conversion of the 2,000 sub-post offices to the new 'locals' model is sustainable and

One FSB member handed back his pub company due to unfair costs and trading conditions. He calls for the Government to reform pubcos with a legal framework code of practice and ombudsman.

"Our rural location was not so much the problem as my relationship with the Pubco. My pub was handed back to a national brewer/pub company early in 2011. Despite having a robust and potentially profitable business I was completely undermined by my Pubco, whose only care was for their profit. The rent they charged was not set in a reasonable and professional manner and no attention was paid to local competition and trading condition. The only real answer for the pub market is for the government to introduce a legal framework code of practice backed up by an ombudsman with powers to award compensation to tenants."

continues to provide the full range of services required by businesses within these areas. We are concerned in relation to the Post Office's planned restructuring, which is attempting to tackle some of the financial challenges facing the network. We believe the change will not create a sustainable post office model, nor will it increase revenues.

The failure of these vital businesses, especially in a small village, can devastate a local community. The FSB has long campaigned for urgent action to give relief to those businesses that are so often at the heart of village life.

Currently, there is 50 per cent mandatory rural rate relief for sole village businesses, such as village shops, post offices and pubs, with local authorities having the discretion to grant up to 100 per cent relief. However, too few local authorities offer any form of discretionary relief above the mandatory 50 per cent. Given the importance of local rural businesses to their communities, we believe local authorities should make far greater use of the discretionary element of rural rate relief to create sustainable rural communities.

- **We recognise the value of the Post Office Network in supporting businesses and communities. We call for the publication of a credible plan that creates a sustainable model and protects the current size of the network. We believe the creation of a Post Bank is one solution to this.**
- **We call for a full national public consultation before Post Office Ltd proceeds with the proposed rollout of the Locals model.**



Rural rate reliefs

The burden of business rates falls disproportionately on small businesses compared to large firms. This is even greater for small rural firms who are predominately micro² in nature.

It is the only tax that is not related to the ability to pay. Because of this, the FSB wants to see local authorities take a more flexible approach to the use of business rates to stimulate rural economies in their areas. A flexible use of the business rates system is one of the key levers local authorities can use to help create successful rural economies. It is essential that they use the powers available to them, in a creative and responsive way to ensure the survival, development and growth of rural communities.

The FSB has welcomed recent steps by Government to make the SBRR automatic. However, for this to be truly effective, councils need to be placed under a duty to identify eligible small businesses in their area and award them the relief. The FSB urges councils to be proactive and maximise the relief awarded to local businesses.

2. A micro business is defined as a business with fewer than 10 employees

Additionally, under Section 49 of the Local Government Finance Act 1988, councils have the power to reduce all, or part, of a business rates bill on the grounds that the ratepayer is in extreme financial hardship. Local authorities should make more use of this provision.

For the first time, the Localism Act has now given councils the power to offer entirely discretionary discounts to local businesses. We would urge them to take advantage of this new power to make targeted interventions to help boost local businesses and attract new firms.

- **The Department for Communities and Local Government should encourage local authorities to make greater use of the discretionary element of rural rate relief.**
- **Local authorities need to be placed under a duty to identify eligible small businesses, make this fully automatic and ensure all small rural businesses are awarded SBRR.**
- **Councils should make greater use of the wide range of reliefs they are able to offer to small rural firms**



Tourism

Tourism is often critically important to rural areas, with tourist spending not only benefitting traditional tourist businesses but also the wider rural economy as well. We are blessed with awe inspiring countryside, museums and theatres that are second to none, yet the UK is considered an uncompetitive destination by many tourists. Local authorities need to do more to overcome this barrier and stimulate the growth of tourism businesses in their rural areas, and create additional jobs in the economy.

International tourism

International tourism accounts for 10 per cent of global GDP³ making it the world's number one export earner, ahead of automotive products, chemicals, petroleum and food.

However, the UK has underperformed the average growth in world inbound tourism for more than the last decade.

Government figures show that the UK had a tourism deficit of £13.2 billion in 2009. This is the difference between the amount that UK citizens spent on their trips abroad compared to what visitors to the UK spent here.⁴ Given the importance of tourism to rural areas, this represents a huge loss of economic growth for rural businesses and communities.

Air Passenger Duty

In order to increase the level of inbound tourism to the UK's rural areas, we must

3. International Labour Organisation (ILO)

4. http://www.statistics.gov.uk/downloads/theme_economy/pinkbook2010.zip

look at the issues that make us internationally uncompetitive compared to other key tourism destinations. One of the key factors deterring inbound tourism to the UK is an excise duty on flights from the UK known as Air Passenger Duty (APD).

Current UK APD rates can add more than £170 to the cost of a return flight to the UK, a serious deterrent on increasing inbound tourism. For example, last year a family of four visiting from India or China had to pay £568 in APD to fly to the UK compared to just over £200 to visit all 25 countries in the EU's 'Schengen zone'.⁵

When APD was restructured in 2008, the rationale given was to help reduce CO₂ emissions. However, with the inclusion of the aviation sector into the European Emissions Trading Scheme, a strong case can be made for a significant reduction in, or the removal of, APD altogether.

The FSB was therefore disappointed to see the Chancellor press ahead with an increase in APD as announced at the 2011 Autumn Statement. Such rates will only serve as a deterrent to international tourists, with negligible environmental benefits. This policy therefore needs to be re-examined as a matter of urgency and, as a minimum, the level of duty decreased.

Our domestic tourist industry

Tourism related industries accounted for 10.2 per cent of enterprises, 7.3 per cent of turnover and 12.6 per cent of employment in rural areas in 2009/10.⁶ Increasing tourism not only benefits these tourism businesses, but also has huge knock-on effects to other parts of the rural economy. Increased visitor numbers benefit the retail, food and drink and leisure sectors as well as stimulating regeneration and improvements in infrastructure. Tourism can also help rural economies diversify and therefore become more resilient to economic downturns. By offering existing businesses additional revenue streams, tourism can help support rural communities when traditional sources of economic stability are under threat.

The Government's proposals in the Local Government Finance Bill will give councils a chance to retain any additional business rate revenues generated by stimulating economic growth in their local business sectors. We believe consideration should be given to how this radical change in council finance could be used to stimulate the growth of tourism in local areas. However, it is vital that this move is not seen as a step towards the re-localisation of the power to set businesses rates, which would be detrimental to the economy as a whole.

Business rate retention by local authorities could work by rewarding local authorities for dedicating resources to stimulate business growth in their areas and then allowing them to keep the subsequent rise in the business rates they collect. This would help overcome the ambivalent attitude some local authorities have to tourism due to higher perceived costs and help their local tourism businesses to flourish.

If used creatively, the mechanism could also help raise money to be reinvested in areas such as tourism marketing through LEPs, which in turn would lead to additional revenue and help local authorities improve the infrastructure of their local areas and drive regeneration. The key now is for

5. Tourism Alliance figures

6. The Department for the Environment, Food and Rural Affairs (Defra)

LEPs to take responsibility and steer local tourism, following the demise of the Regional Development Agency (RDA).

- **Given the inclusion of aviation into the EU's Emission Trading Scheme, consideration should be given to a reduction or removal of APD to encourage more international tourists to these shores.**
- **Local authorities should dedicate resources to stimulate business growth in local rural economies by taking advantage of the forthcoming localisation of business rates revenue.**
- **LEPs should become champions of local tourism.**



Farm diversification

During these difficult economic times, it is essential that entrepreneurial farmers should be supported in their efforts to diversify from their core farming business and into other commercial activities such as commercial and residential lettings, farm produce retailing and tourism.

Farm diversification brings significant revenue into rural economies. The Department for the Environment, Food and Rural Affairs reported that 50 per cent of farmers in England had diversified interests in 2009/10 which counted for £360 million in total income.

However, farmers face significant barriers to diversifying interests which need to be addressed, if we are to support farmers diversify their interests.

One of the key barriers faced by farmers looking to diversify is an overly restrictive planning system. While we recognise the welcome progress made in the Government's recently published NPPF, we believe there should be an presumption in favour of permitting development for small agricultural buildings, and larger agricultural buildings should be subject to prior notification procedure rather than full planning control. We strongly encourage the Government to take this into account when responding to the current consultation on the conversion of agricultural buildings.

While the FSB welcomes the NPPF's emphasis on rural economic growth, we now want to see local authorities take a proactive approach to encouraging farm diversification in their areas. For example, providing dedicated guidance on what types of diversification could be appropriate to their locality and how to prepare successful planning application submissions.

Another key barrier to farm diversification is the sheer amount of red tape involved. Complex local authority planning applications require full detailed plans, a design and access statement, landscape/environmental

assessments, transport assessments and fully completed application forms. This high level of administrative burden can deter farmers from submitting planning application for diversified enterprises

A member diversified his farm in 2005, converting it from farm building to office space and as a result, now rents office space to seven business tenants.

“My main concerns relating to planning are with the highways authority and conservation. Both were extremely negative in the consultation process, recommending refusal. Our planning was only achieved by lobbying our councillors and when it went to committee, we won by 10 votes to two.

“Highways need to better understand how rural communities deal with the small narrow lanes here in East Devon and how gateway accesses are used as passing places; they do not need to impose rigid guidelines.

“The conservation lobby on the other hand seems to want to cling on to a romantic view of the countryside without making way for change. Converting redundant farming facilities that are no longer relevant to today’s farming (such as our steel clad Dutch barn) will help to preserve it, change its use and create jobs and business opportunities in the rural setting, rather than destroying the country side.”

- **Local authorities should provide tailored guidance on appropriate types of farm diversification suitable for their localities and what farmers need to do, to give them the best chance of submitting a successful planning application.**
- **There should be an assumption in favour of permitting development for small agricultural buildings and larger agricultural buildings should be subject to prior notification procedure rather than full planning control.**



2. Encouraging sustainable development

Life in rural areas is often characterised by a perceived conflict between economic development, sustainability and environmental concerns. As a consequence, rural businesses find themselves constrained by a framework of legislation that has resulted in a national failure to realise the true potential of our rural economy. Yet it is rural businesses who are the true custodians of the countryside, they are the ones who value living and working in our rural areas and whose investment sustains local communities.

Our out of date planning system has severely restricted positive development in rural areas, not only harming economic growth but also the social wellbeing of rural towns and villages. We need to move away from the preconception that all development is bad development, especially in rural areas, to a system where development is seen as positive, unless proven otherwise. We need to make it clear that our countryside is open for business, allow it to attract new firms and create sustainable rural communities.

This out of date planning system has created a chronic lack of 'start-up' premises for new business in many rural areas, and those firms that wish to grow or expand often fall foul of the current overly restrictive planning system. This means that businesses which have been traditionally rooted in their local communities have to either limit growth or choose to move away if they want to expand.

Planning reforms – next steps

The FSB welcomes the Government's acknowledgement of the importance of the rural economy, especially the clear support for ensuring a prosperous rural economy in its recent NPPF.

The FSB urges local authorities without local plans to develop them urgently. These must reflect the positive stance of the NPPF towards business growth,

especially in rural areas. In particular, local authorities should ensure sustainable development is favoured in rural areas and not obstructed by overly restrictive local plan policies.

In particular, we urge local authorities to ensure their approach to the NPPF balances preserving town centres, which are vital hubs for so many rural areas, while allowing for the types of small scale rural development that is needed to help local businesses thrive and grow. This must include not applying the 'sequential test', which prioritises development in town centres to vitally needed rural development proposals. For areas where market towns are the predominant wealth creators, the FSB urges Government and local councils to enact the recommendations of the Portas Review,⁷ such as making local parking policies more reflective of the needs of local shoppers.

Local authorities have a pivotal role to play in ensuring the planning process is responsive to the needs of small rural businesses. As mentioned earlier, the planning system is currently far too complex and bureaucratic, with small businesses facing lengthy waits for planning decisions. This can be done by only asking for proportionate information in support of the application, providing jargon free guidance to applicants and adopting a 'pro-jobs' approach. Planning applications for minor development need to be removed where possible, by making more frequent use of Local Development Orders and through modernisation of the Use Classes Order.

Mary Webb is an FSB member who runs a serviced apartments business with 11 serviced flats available to rent for tourists and business visitors to the area. Her business has faced a number of difficulties including attracting more visitors to the area to rent her serviced apartments:

"Having decided to join two very successful tourism businesses to develop serviced apartments, we were faced with planning authorities saying we were doing a building development rather than a business development, even though we converted a hotel into serviced apartments with no extensions or altering to the outside of the building. Ultimately we had to pay change of use 11 times, one for each apartment.

"Our biggest issue is reservations. Cuts in Ministry of Defence (MOD) contracts are having a serious effect on reservations made direct with accommodation providers. MOD's insistence on using agencies to make reservations ensures small businesses lose out as they always go to the larger chains to ensure larger commissions."

Strategic planning for rural areas need to be seen above the confines of artificial planning authority boundaries. The FSB believes that in the absence of a regional approach to planning, Local Enterprise Partnerships (LEPs) must begin to take on greater responsibility for setting a strategic vision for

7. <http://www.bis.gov.uk/assets/biscore/business-sectors/docs/p/11-1434-portas-review-future-of-high-streets.pdf>

their areas, so that rural infrastructure and planning development moves forward in a way that reflects the needs of local economies. The FSB would like to see some independent funding for LEPs introduced as soon as possible, to increase their capacity and capability and see them work together on planning and infrastructure issues where necessary.

A B&B and wedding venue business owner with a farm in West Sussex has a major issue with planning laws.

“The planning system is far too slow and there is little or no information from the local authority for employers wanting to know what may be feasible for expansion or development. I want to expand equestrian use on my 50 acres but our council is so slow and obstructive that I really hesitate to proceed with a planning application for stables.”

- **The development of local plans by councils must reflect the positive stance of the NPPF towards business growth in rural areas.**
- **Local authorities should ensure the sequential test is not applied to small scale rural development applications.**
- **Local authorities should only require proportionate information in support of planning applications, and provide jargon free guidance to applicants and adopt a pro-jobs approach.**
- **Local authorities should ensure local business communities have a key role in neighbourhood planning and that their needs are fully reflected in local development policies.**
- **Government and local councils should quickly implement the key recommendations of the Portas Review in local high streets, such as making local parking policies more reflective of the needs of shoppers, to ensure our market towns and villages remain vibrant business communities.**
- **LEPs should work strategically together.**



The FSB lobbied hard to ensure the Localism Act recognised the importance of rural businesses in shaping their local communities. The move towards neighbourhood planning means that businesses can influence local development policies through their right to be involved in developing neighbourhood planning, which will empower rural communities to set a vision for their area and build new homes, businesses, and shops without requiring a separate traditional planning application process.

The Act will also empower neighbourhood business groups, parish councils and local authority employees to express an interest in taking over local authority services.

The legislation presents a golden opportunity for local business communities to play a key role in shaping the development of their local communities. It is those local businesses that will provide the revenue generating activities and enterprise to underpin and create sustainable rural communities. Local authorities must make it a priority to ensure that the local business voice is paramount in this neighbourhood activity.

Change of use

As discussed earlier, there is real scope for a flexible approach to the conversion of agricultural buildings for commercial and residential use. However, to maximise the opportunities, we believe a greater variety of redundant premises need to be made available to new or expanding businesses, including disused farm buildings. Over 30 per cent of our members submitting planning applications in rural areas in the past two years have done so looking for a change of use.⁸

Local government also needs to take a more flexible approach to businesses that wish to expand within local communities by granting extensions and new-builds where appropriate. We believe local authorities should be encouraged to undertake strategic reviews of redundant building stock within their areas, in order to promote adaptive re-use of such premises for business or residential purposes.

- **Local authorities should undertake a strategic review of redundant building stock within their areas in order to promote adaptive re-use of such premises for business or residential purposes.**



Housing

The provision of affordable housing, in order to help address skilled labour market concerns should be central to the development of council's local plans.

The costs of housing, transport and daily life are often higher in rural areas, and in some places the presence of a disproportionate number of retirees and properties used as second homes have exacerbated this situation, causing house prices in rural areas to rise. Yet this has not been met by corresponding rises in rural wages, which are often lower than in urban areas. This has led to a serious labour market imbalance in some areas, which needs to be addressed. Housing policy that redresses the balance and secures a bigger supply of affordable properties must therefore be a priority.

8. FSB 'Voice of Business' Survey Panel April 2012

The Government has pledged to implement the 'Home on the Farm Scheme' in England. The scheme was pioneered in Cumbria and works by providing grants to farmers to convert disused farm buildings into affordable housing, with local young people given priority for it. As more young people are unable to afford to live in rural areas, local village schools, shops and pubs find it harder to survive. However, farmers are ideally placed to help bring the community back together to help reverse this trend.

- **Government should be proactive in promoting the 'Home on the Farm' Scheme across England.**



3. *Improving access to markets*

While rural communities are often perceived as distinct from urban areas, there is a strong interdependence between rural and urban economies.

Urban centres are often major markets for rural based businesses and many rural residents work in local urban areas. Therefore, in order to realise the true potential of the rural economy, we need to diminish distance as a barrier to trade and economic growth between urban and rural areas.

Addressing the lack of adequate transport infrastructure and links as well as putting in place adequate digital infrastructure are two key ways in which we can bring rural businesses to market and help realise their potential for economic growth. Not only will this allow rural firms to enjoy greater access to domestic markets, it will also allow them to benefit from increased opportunities to export through improved links to international markets.

Transport

Those living and working in rural areas face a far greater challenge getting from A to B than their urban counterparts. Indeed, on average, people living in the most rural areas travelled 45 per cent further per year than those in England as a whole and 53 per cent further than those who are based in urban areas.⁹

The need to travel greater distances means efficient transport links and infrastructure is essential to realising the potential of rural economies. It is crucial that rural firms are served by a transport network that allows both individuals and small rural businesses to effectively and efficiently move goods and people, both within rural areas and, importantly, to urban areas where larger, more diverse markets often lie. The added benefit of good transport services is that it will attract additional visitors and their spending power to rural economies.

9. Department for Environment, Food and Rural Affairs (Defra).

Fuel

The cost of fuel is a crucial issue for businesses generally, but particularly so for our rural economies. The high price of fuel is hitting road dependent rural businesses hard and with a further three pence per litre increase due in August 2012, the FSB is calling on the Government to take action.

The FSB is campaigning for the Chancellor to reverse the planned increase in August 2012 as well as to consider the implementation of a proper fuel duty stabilisation mechanism.

Chantal Cornelius runs a marketing consultancy in West Berkshire. The business is located approximately one mile outside the main village so petrol prices and a lack of public transport is a huge barrier to the business.

“We visit most of our clients or they come to see us at the office. Our biggest problems are petrol prices and lack of public transport. We have a bus service that passes near our office four times a day. This is a problem for visiting clients as well as for staff. I currently employ three members of staff and am looking at taking on an apprentice, but I have to ask if they have access to their own transport otherwise I cannot take them on. They would not be able to work full-time for me and travel to and from work by public transport.”

“Lower petrol prices would help our business significantly because we are using the car so much and we have no alternative option”

While the cost of fuel is negatively impacting on small businesses across the UK, what is just as damaging is the sheer volatility of fuel prices and the resulting inability for businesses to know what its overheads are going to be in three or six months time.

Despite these pressures, the Government's 'Fair Fuel Stabiliser' offers little respite for hard pressed motorists. The 'Fair Fuel Stabiliser' offers no relief from one of the highest levels of taxation in the EU, it doesn't help families or businesses plan ahead and it has jeopardised the public finances by damaging the North Sea oil and gas industry.

The introduction of a true Fuel Duty Stabiliser would not only take the volatility out of fuel prices, it would also help small businesses plan ahead and factor fuel prices into their business plans.

- **The Chancellor should reverse the three pence per litre increase in August 2012 as well as to consider the implementation of a fuel duty stabilisation mechanism.**



A strategic approach to transport planning

The FSB believes there is a need for a more sophisticated approach to strategic transport planning that takes account of the unique needs of rural areas.

The FSB advocates catchment areas that champion the development of better managed transport solutions, providing cost-effective transport networks. This model stipulates that local transport is organised to reflect the movement of goods and people based on an assessment of the roads most in use.

The FSB argues that more strategic planning and management of transport can help markets work more effectively, and will shortly be publishing proposals for organising transport in a more effective way for all communities, including rural areas. It will include developing a strategic transport network based on an actual analysis of the movement of goods and people.

Roads

Roads are at the heart of rural transport yet small businesses based in rural areas have to use a road network that is in a poor state of repair. It is vital that the condition of this network is improved and the backlog of road repairs is addressed. In a recent FSB survey, 59 per cent of members in rural areas reported being adversely affected by the state of repair of the road network. Furthermore, 55 per cent of rural members reported adverse effects on their business from congestion. This is a clear signal investment is needed for additional road capacity to relieve bottlenecks in rural areas.

Small businesses need a transport network that allows them and their suppliers and customers to move quickly and easily, without undue cost. Inadequate transport infrastructure creates delays, damage to vehicles and in turn a loss of productivity and increased costs.

- **The Government, the Highways Agency and local authorities must recognise the damage that poor road infrastructure creates on businesses and the economy as a whole, and commit to more investment in the repair, maintenance and upgrading of UK roads.**



The public transport network

As well as improvements to rural road networks and bringing down the cost of motoring, the provision of suitable public transport links is crucial to helping small businesses access markets in urban centres. Reliable and frequent public transport makes it practical for employees to seek work in rural communities without having use of a car. Likewise, frequent rail and bus services bring customers and tourists to local rural businesses such as shops, hotels and B&Bs.

One FSB member runs a small insurance broking business with clients throughout the UK. For them working from a rural town was a conscious choice because the rent is cheaper than in an urban location:

“We rent a large office space in Steyning, West Sussex, and as we have no direct client contact but conduct most of our business over the phone or the internet, it does not matter where we are located. The only issue for us is transport. Links are really poor for any staff member without a car, and on the rare occasion that we have visitors to the office they have to be transported from the nearest railway station, which is approx seven miles away.”

The rural bus network

Bus routes are lifelines for rural communities. However, current arrangements for local bus services in rural areas are failing to produce an adequate level of competition or coverage that rural communities and businesses need. Indeed, research shows that in 2009, 42 per cent of households in rural areas had a regular bus service close by compared to 96 per cent of urban households.

A report by the Competition Commission in December 2011 found that competition between bus operators was generally weak or absent. Lucrative routes between towns were initially subject to an intense level of competition with operators deliberately running services that outstripped demand in order to put competitors out of business. The Competition Commission also found that many operators had agreed to informal geographic market segmentation which removed any form of competition from whole areas.

Not only does such an initial level of competition deter new entrants into the market, it also takes service provision away from less profitable, more isolated rural areas.

The FSB therefore supports the Government’s decision to partially devolve the Bus Services Operators Grant to local authorities for tendered services, with the aim of giving local councils more control over local bus services to address local needs. It is essential that councils co-ordinate their actions to ensure maximum coverage of rural areas and for progress to be routinely monitored.

However, we are disappointed that the Government has chosen not to legislate for local authorities to be able to introduce mandatory, competitively priced, bus-only multi-operator ticketing schemes for bus services. We also firmly support the Competition Commission’s recommendation to force bus operators to share major bus stations with rival operators.

- **Government should re-examine its decision not to legislate for local authorities to have the ability to introduce mandatory, competitively priced, bus-only multi-operator ticketing schemes for bus services and have more authority to address local needs.**
- **After 24 months the Government should review whether its response to the Competition Commission's report on local bus services has delivered the changes needed to improve rural bus networks.**



Digital infrastructure

Digital technology offers rural businesses the chance to overcome the barrier of distance to markets and customers to grow their firm.

There is a growing evidence base that demonstrates access to high quality digital infrastructure play a part in helping small businesses grow and expand.¹⁰ High quality broadband services are now an essential utility for all businesses to reach their full potential, particularly those located in remote areas.

According to the FSB research, 85 per cent of rural businesses and 84 per cent of urban businesses expect their reliance on the internet will increase. Yet, 34 per cent of small rural firms have said that they are dissatisfied with the reliability of their internet services and 24 per cent are dissatisfied with the value for money their internet service provider offers.

If the gap between rural and urban digital provision is not addressed, we will be unable to ever realise the true potential of the rural economy and we will risk further increasing the rural/urban digital divide.

Broadband

Rural businesses simply cannot plan to expand into digital markets without the certainty of high quality internet connectivity. They are therefore often at a competitive disadvantage compared to their urban counterparts, who enjoy far superior access to services.

Countryside businesses and households have long had problems either accessing broadband or with slow speeds. The FSB's 'Voice of Small Business' panel survey of over 3,000 members shows that 63 per cent of small firms are dissatisfied with the speed of their broadband connection compared to 48 per cent of businesses in urban areas. Another 34 per cent of small rural firms said they are dissatisfied with the reliability, and a quarter (24%) with the value for money of their broadband connection.

10. At the end of March 2012 Boston Consulting Group predicted the 'internet economy' will grow by 10 per cent every year until 2016. The same report also highlights that small businesses around the world embracing the internet are growing faster and adding more jobs than those that do not. Businesses in countries around the world encouraged and able to use the internet, can improve their competitiveness and growth prospects.

An FSB member operates two businesses, one located in Ditchling and one in Hickstead. At both sites, the internet access is of a very low standard with the connection constantly dropping and the signal only able to support one user at a time.

“A super fast broadband would speed up the large file transfers we handle. A noticeable delay occurs in up and download times at 3-4pm when most schools finish. This is particularly frustrating as our US based clients start to come online at this time of day. A superfast broadband connection that could handle more users being online at the same time would boost my business and increase my ability to communicate with national and international clients.”

The importance of access to high quality, high speed broadband is underlined by the Government's proposed 'digital by default'¹¹ strategy. Under this strategy, access to funding applications, grants, business rates and tax returns can only be completed online. Yet at present, there is a clear gap in the provision of those broadband services. To deliver that Government strategy and to allow rural businesses to fulfil their potential, high speed broadband urgently needs to be delivered to all areas and, importantly, alongside mobile solutions where there are a separate range of issues.

One farmer and FSB member highlighted that with more services being required online such as VAT and PAYE, broadband is essential.

“We have to do our cattle records, VAT and PAYE online. Unfortunately we do not have access to broadband but only a very slow dial up connection. We complained about this and were advised to get an agent to do it for us, which would incur additional fees, or go to a friend or a public computer. This is simply not acceptable.”

There is a risk that under current proposals, the digital divide between urban and rural businesses will become even greater. The 2012 Budget announced a target of 10 super connected cities by 2015;¹² good news for businesses in those areas but not for rural businesses who are still unable to access basic broadband to run their business effectively.

To close that gap, the FSB calls for the delivery of high speed broadband (20Mbps) to 98 per cent of rural communities and businesses by 2015. Internet Service Providers should prioritise areas for network expansion by not just the number of households, but by the number of businesses weighted to reflect the economic potential of those businesses to the national economy. This is an ambitious target but one that must be met if the needs of rural communities and businesses are to be met.

11. <http://www.cabinetoffice.gov.uk/news/digital-default-proposed-government-services>

12. http://cdn.hm-treasury.gov.uk/budget2012_complete.pdf

Broadband is critical for the expansion of rural business. One FSB member who diversified his farm 10 years ago is now letting office space to other small businesses because of a sufficient broadband connection.

“Our tenants would not have located here unless we could offer them sufficient broadband connections. Some of our tenants now rent their office space on a 10 year lease, giving our farming business that extra security. Broadband is critical for the expansion of rural business growth over and above businesses located at private homes.”

- **The FSB calls for the delivery of high speed broadband (20Mbps) to 98 per cent of rural communities and businesses by 2015.**



Mobile provision

An essential complement to fixed broadband is broadband delivered over a mobile network. Mobile broadband cannot entirely replace a fixed broadband connection due to cost and reliability, but can provide an essential alternative. Small rural businesses tell the FSB they face a daily struggle with inadequate fixed broadband connections and 48 per cent have told us they are already using mobile broadband or that they would use mobile broadband, if it was available in their area.

As with broadband services, mobile network provision is patchy. The forthcoming spectrum auction is a golden opportunity to redress this issue. An improved and consistent 4G network is crucial for small businesses and is expected to provide a significantly superior service to current 3G network offered in rural areas.

This technology has the potential to place small businesses at the forefront of digital and technological development, giving them a better chance to grow, diversify and overcome the barrier of greater distances to markets.

- **Government should urgently proceed with the Spectrum auction to allow small rural businesses to benefit from a full range of 4G services.**



Conclusion

Our rural businesses already make a huge contribution to the wealth and well-being of the communities in which they are based. However, they have the potential to expand, grow further and revitalise local rural communities.

In order to achieve their true potential, we need to address the barriers they face from operating in a rural location. Local and national Government need to put in place effective policies to help local rural business grow. By ensuring rural firms are served by local authorities who are willing to be innovative in the use of business rates and the promotion of the benefits of farm diversification and tourism, as well as operating a planning system that is responsive to their needs, we can help small business play their part in creating vibrant rural communities.

More crucially however, we need to address the key barrier of distance to market as a reason that holds back rural economic growth and expansion. By improving transport links and providing adequate digital infrastructure, we can help overcome this barrier and realise the true potential of the rural economy.

“Local and national Government need to put in place effective policies to help local rural business grow”



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