

A WORKING COUNTRYSIDE



FIRST DRAFT

Small businesses in the
rural East of England

The Federation of Small Businesses
East of England Area Policy Unit

Introduction

In their *“State of the Countryside Report” for 2004*, The Countryside Agency highlight the fact that the East of England is essentially a rural area comprising England’s second largest region and having 15% of England’s total land area.

Within the region there are 216 market towns, 62 % of which have populations of between 2,500 and 5,000. Despite having internationally renowned cities such as Cambridge and Norwich, there is no natural regional capital and the individual counties still seek to retain their own distinctive identities.

In the past much of the East of England’s wealth derived from agriculture and related industries, spawning major companies such as Colmans, famous for their mustard, who have survived into the 21st century whilst others such as Garretts of Leiston in Suffolk who were at the forefront of the steam revolution across the world have disappeared in obscurity.

Today agriculture only accounts for 11% of the total business base in rural areas across the Region, with a large percentage of businesses now being in the retail, wholesale and motor trade sectors. Service based industries such as the hospitality and care sectors are also significant.

In total 86% of all businesses based in rural areas are small or medium sized enterprises (sme’s) with the majority being what are now described as “micro businesses” in that they employ less than ten people.

Small businesses are therefore extremely important to the future health of rural economy yet increasingly they have having to contend with rules, regulations and attitudes that owe more to urban areas and viewpoints than rural ones. Within this policy paper we aim to set out some ideas for how we feel that can be remedied.

What is a Rural Small Business

Once this was quite easy to define since the majority were involved in agriculture or related industries, today it is not so easy.

The findings of the FSB's 2004 survey "*Lifting the Barriers to Growth in UK Small Businesses*", from which the tables below are taken, found that rural businesses were widely spread. The survey showed that 16% of respondents were in retail, wholesale and motor trade, compared with 24% of urban businesses. Another 12% of rural respondents are in business services and manufacturing.

Not surprisingly, 11% of respondents are in the agriculture, fishing and forestry sector, far exceeding the 2% of urban businesses. Just over 11% of rural businesses are in the construction sector, while 17% fall into the other category.

Table UR-10 Industry by Urban/ Rural

	Not ticked	Agriculture, Forestry & Fishing	Mining & Quarrying	Manufacturing	Energy & Water	Construction	Retail, Wholesale & Motor Trade	Hotels & Restaurants	Transport & Communications	Financial Services	Business Services	Public Administration & Defence	Education	Health & Social Work	Personal Services	Other
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Urban	1	2	0	11	1	10	24	7	4	4	15	0	2	3	2	15
Rural	1	11	0	12	1	11	16	9	4	3	12	0	1	2	1	17
Postcode unmatched	1	3	0	9	1	10	21	6	4	4	20	0	1	2	2	15
UK	1	3	0	11	1	10	22	7	4	4	16	0	2	2	2	15

The survey also found that the just under half (44%) of rural small businesses are comparatively new being in business for less than five years. Only 11% had been in existence for any real length of time (21-30 years).

Interestingly, 22% of rural based businesses sell their products to national UK customers compared with 17% of their urban counterparts. Local markets figure slightly less with rural businesses than urban ones, 42% compared with 49%.

Table UR-15 More than 50% sales to markets by Urban/ Rural

	Local markets	Regional markets	National UK-wide markets	Rest of the EU	Rest of Europe (non EU)	Rest of World	None ticked
	%	%	%	%	%	%	%
Urban	49	8	17	1	0	1	26
Rural	42	9	22	0	0	2	28
Postcode unmatched	46	9	19	1	0	2	26
UK	47	8	18	1	0	1	26

The definition of what constitutes a rural town is also variable with DeFRA regarding any town of less than 25,000 population as falling into that category.

There is much dispute over what constitutes a rural business. In 2004 Alan Spedding writing in *Rural Focus* suggested that there are five main types of rural businesses.

1. 'Urban Hinterland or Accessible Rural' - rural businesses sited close to urbanised towns.
2. 'Market Towns' - businesses in towns that depend on the surrounding countryside.
3. 'Remote Rural' - an official category covering about 200,000 businesses.
4. 'Remote, Remote Rural' - businesses with the worst problems of isolation and access.
5. 'Urban Businesses with Rural Interests' - these firms have customers or suppliers in rural areas, live in rural areas, aspire to work in rural areas or are just interested in rural life.

According to the DTI a small business is officially one that employees less than 50 though from our surveys we know that 95% of small businesses employ less than 10 staff and in the East of England 85% of rural small businesses are similar

- **The FSB believes a rural *small* business is:**

'A business, typically employing less than 50 staff, based in market towns, villages and their hinterlands.'

Planning Issues

Planning regulations obviously have to relate to both urban and rural situations but there is increasingly a perception that urban solutions are being applied to rural problems. The business community, particularly small businesses, feel alienated by the planning process. However, it is crucial for rural employers to be more aware of planning requirements and what it will mean to their business. Easy to follow information, delivered in the form of a booklet or via a website, should be made widely available. Such information should detail the basics of how to gain planning permission and how it will impact on public infrastructure. In addition, local authorities should make their experienced planners available to small employers at certain times of the week. The planners should advise businesses with proposed planning changes, of the impact on local infrastructure.

A recent Government consultation is attempting to loosen the restrictions on diversification planning on a national basis. However, organisations such as the Countryside Agency and the Campaign for the Protection of Rural England (CPRE) believe a national 'one-size fits all' policy is not effective. They argue there is a need for a more sophisticated approach to rural diversification, concentrated at a local level and meeting local needs. Further arguments centre on the need for all diversification projects to prove their ability to protect and enhance the countryside.

Government policy on brownfield sites has been undergoing review, with no definite outcome decided. The FSB is concerned that there must be a careful balance between sites that may have the potential for further housing, however such sites should not be developed at the expense of business opportunities.

However, for such policies to be effective, a better relationship must be established between local planning authorities and the business community. Planning guidance and decisions must be made on a localised, but consistent basis. Decisions must be transparent, in order for industry and authorities to understand the planning process.

In addition to pressure from national policies, small businesses in the East of England will need to take account of the final outcome of the Regional Assembly's proposed East of England Plan. We are concerned that the plan, whilst acknowledging the importance of market towns for potential future growth to prevent out commuting, does not appear to take account of the fact that many small businesses are increasingly to be found in the small villages and remote rural areas. We believe that these areas should also be allowed to develop to prevent them becoming dormitory areas for commuters.

Affordable housing is a contentious issue in our Region's market towns, villages and remote rural areas. The lack of affordable properties potentially poses a significant barrier to business development and growth in rural areas as existing and potential employees are forced to re-locate elsewhere in order to find somewhere they can afford to live in.

The proposals within the East of England Plan for affordable housing give out mixed messages. It appears that the 30% proposed is to be by way of social rented housing for key workers, predominantly in the public sector. This will not, we believe, do anything to alleviate the problems facing people, especially the young, living in rural areas and that such housing should be affordable for purchase and not just rent and that the definition of key workers should also include those in the private sector.

The FSB therefore calls for:

- **Better provision of advice on planning issues for small businesses, either in booklet form or on local authority websites**
- **Greater access for small business owners to meet planning officers and training for members of planning committees to enable them to better understand the needs of small businesses**
- **Greater consistency in planning policies with increased emphasis on a more localised rather than a one size fits all national approach**
- **Employment sites zoned as brownfield to remain in employment use after redevelopment**
- **Support to be given to small businesses affected by redevelopment of brownfield sites to be given support to either remain where they are or to relocate to an affordable site elsewhere, with all proven costs or trading losses included in any compensation agreement**
- **Smaller villages and remote rural areas to be given the same consideration within the East of England Plan for development as is envisaged for market towns and larger villages**
- **The East of England Plan to include provision of properties for purchase rather than for renting as part of its 30% affordable housing target**

Shops and services

The retail sector is an important section of business within rural areas and for many residents of a village their small shop can also be a lifeline. Small businesses also hold a unique position in the grocery sector, they are part of the supply chain, but they are also business competitors and consumers of supermarket goods.

According to *"The Grocer"* (March 2004) supermarkets control over three-quarters of the grocery sector, making them the most powerful player in the marketplace. The small business supplier is already at a disadvantage and their difficulties are well documented.

The Office of Fair Trading (OFT) in its "Supermarkets Code of Practice Report" in February 2004 outlined the major barriers of trading with supermarkets as being thus:

- Food suppliers find that unless they have joined assured produce schemes the supermarkets will not buy their produce.
- Suppliers have to pay the price for customer complaints.
- Supermarkets requiring their suppliers to make non-cost related payments or discounts.
- Contributions to marketing costs
- Suppliers may face retrospective reductions in price without reasonable notice.

In March 2003 the Friends of the Earth in their snapshot survey, *"Farmers and the Supermarket Code of Practice"* found that 26% of farmers have been required to make changes to the transport or packaging of their products, without being compensated for additional costs. Another 16% had been required to meet the cost of unsold or wasted products unrelated to a quality product with the product, while 17% of farmers had to wait longer than 30 days for payment.

The solution to such practices was the introduction of a Code of Practice for Supermarkets in their dealings with suppliers, launched in 2002. Its' intention was to create a fair and balanced supply system. The main areas of focus, were prices and payments, promotion practices, compensation, consumer complaints and third party dealings.

However, the Code is voluntary and despite the major supermarket chains signing the agreement, there does not appear to be any change in their behaviour. The Fair Deal Group, of which the FSB is a member, believes that the Code is currently not working properly and in order for it to have real teeth it must be made statutory.

Not surprisingly, supermarkets have a strong competitive advantage over their small business competitors. Their current buying power means they sell goods at prices that the small competitor has to purchase them. When an edge of town store opened in Fakenham in Norfolk it caused a 64% drop in sales in local shops.

Recently, some supermarket chains have entered the high street market, by acquiring small retail chain outlets. Such purchases will lead to stores that appear to be small businesses, but offer the same prices as a large supermarket. Other small retailers will be undercut and the likely outcome is heavily reduced profits, or the closure of the business.

The FSB has undertaken a number of campaigns to raise public awareness of small businesses and their importance to local economies. In Suffolk we have run "Use It or Lose It" with support from Suffolk County Council and other groups such as the Women's Institute and National Federation of Sub Postmasters. In Hertfordshire and Bedfordshire we have run "Be Vocal Shop Local" campaigns, again with support from local authorities.

Linked with retail outlets is the provision of services such as banks and post offices, both of which are becoming scarcer in rural areas. Government support has ensured that rural postal services remain available, particularly in remote areas. However, these are often limited in service, as they can only stay open for certain hours of the day and are unable to offer additional services such as banking.

There are 116,000 post boxes and 16,000 post offices in the UK, which far exceeds the number of access points required by Royal Mail's licence. Under condition 3 of the licence, the premises of at least 95% of all users must be within 10km of a post office, in all postcode areas.

Due to the fact that the number of post offices and boxes far outweigh the obligations Royal Mail has under condition 3, they have the ability to remove large numbers of post boxes without breaching the licence.

More importantly, as the licence does not currently require Royal Mail to provide post boxes in rural areas, these can be removed at any opportunity. It may also be the case that should a box become faulty in a rural area, Royal Mail is not under an obligation to repair it, which will impact heavily on remote, rural villages. Business is calling on Postcomm, the mail regulator, to redefine Condition 3 of Royal Mail's licence to incorporate rural needs.

Banking is critical to business success. Over half the FSB rural respondents (54%) have used a bank overdraft in the past two years. Another 30% have a bank loan, with a quarter (25%) using credit card debt as a source of finance. While a growing number of rural employers use online or telephone banking,,

anecdotal evidence suggests unreliable telecommunications infrastructure can make this process a difficult one.

The ability of cash-dependent small businesses to access bank branches is a key concern for the FSB. Many small businesses regularly use bank services to pay in cash and cheques or make withdrawals, services a rural post office may not always be in a position to offer. Post offices can only offer assistance to those with personal bank accounts.

The FSB therefore calls for:

- **The FSB would like the OFT to use its new powers and resources to conduct a market investigation into the whole grocery sector. Such an investigation should address not only the problems of suppliers, but also the related issues surrounding competitors.**
- **Supermarkets should be banned from the process of 'below cost selling,' so that small businesses will no longer suffer this unfair competition and small suppliers will not be trading on unviable terms.**
- **The voluntary Code of Practice encouraging best practice between supermarkets and their suppliers does not appear to be delivering, despite all the major supermarkets being signatories to the code. The Code must now become statutory, in order to force supermarkets to behave in less of a monopolistic manner.**
- **The demand for produce found in niche farmer's markets continues to rise throughout the country. Small, independent retailer chains should work with local suppliers to provide local goods to the region. An independent body that would co-ordinate programmes on a regional basis should lead such a project.**

Tourism

Tourism is already a significant contributor to the economy of the East of England with places such as Cambridge, the Norfolk Broads, Great Yarmouth, Southwold and “Constable Country” already figuring highly as popular destinations. These together with major airports such as Stansted and Luton, as well as ports such as Harwich with its link to the Hook of Holland, mean that the East of England should be well placed to prosper from tourism.

We note that in the East of England Plan it is envisaged that tourism together with leisure and heritage is projected to be a major contributor to a growth in the Region’s gross domestic product. We also welcome the recognition within the Plan that tourism development should not focus solely on destinations but should exploit opportunities from a range of tourism initiatives not necessarily linked to places of interest.

Many existing or potential tourist locations are situated within our market towns or larger villages and we believe that planning policies should recognize the importance that tourism has to the economy of such places. Whilst seeking to retain the character of such places recognition also needs to be given for the provision of suitable advertising and car parking provision requiring wherever possible a flexible approach to the interpretation and implementation of planning policies.

We also support the development of flagship tourism projects such as the SNOASIS scheme in Suffolk or the National Institute for Research into Aquatic Habitats that is being proposed for Bedfordshire. Such projects not only bring direct employment opportunities to their locality but also opportunities for small businesses to develop or grow.

The FSB therefore calls for:

- **The provision and retention of on street parking facilities within tourist destinations**
- **Where existing free car parking exists that every effort is made to retain it**
- **Support to be given to the development of suitable flagship projects, as well as the Regions airports and ports, in order to encourage visitors to the East of England**
- **All future strategies to consider including the importance of visitors taking their custom to rural small businesses in addition to encouraging visits to well known tourist attractions in the countryside**

Infrastructure

Transport

Small businesses in rural areas are more likely than their urban counterparts to be dissatisfied with the effect of transport issues on their ability to do business.

Many small businesses argue transport is vital to their business operations, and private transport is allowing a higher degree of access than the countryside has ever known, from the ability to transport goods to a wider choice of labour market.

However, car-based transport brings its own problems. Almost two-thirds (69%) of rural employers are unhappy with the cost of fuel and the impact this has on their business. The state of roads also remains a greater concern for small rural businesses, than their urban counterparts. The table below gives results from the FSB's 2004 survey, *"Lifting the Barriers to Growth in UK Small Businesses"*

Table UR-72 (Very) Dissatisfied with effect of Transport issues on business

	Passenger transport %	Road network (trunk roads motorways) %	Road infrastructure (local roads repair) %	Fuel costs %	Road %	Parking %	Road Congestion charge %	Local transport planning %	None ticked %
Urban	25	34	48	65	49	55	31	43	19
Rural	25	32	46	69	52	41	28	39	20
Postcode	27	35	49	66	50	53	31	43	20
	26	34	48	66	50	53	30	43	19

Both rural and urban employers placed the state of roads high on their list of transport issues. Road infrastructure and vehicle access are of core importance to most businesses in the countryside and these issues are compounded when road works are in effect. Much of the problems for small firms stem from a lack of notice about road works and their expected completion date. Further, completion dates are often based on estimation and can extend far longer than expected.

Local bus services are of particular concern for those based in rural areas where other forms of public transport are generally non-existent. As mentioned above the absence of public transport can restrict small firms ability to recruit suitable employees. Access to labour is restricted to those able to get to the place of work and, unlike larger companies, small firms are often unable to offer company cars to employees to circumvent this problem.

The provision of frequent bus services in rural areas is not important simply for access to labour but also access to customers. Whilst poor transport can provide a captive market for the local village store or newsagent it can seriously limit the ability for others to access their services. The lack of public transport options may also limit areas that have potential for tourism but can only be reached by car.

The FSB welcomes government funding provision for rural public transport and supports local authority initiatives to improve rural bus services. Better mobility in rural areas will not only allow small firms better access to the labour market and customers but also reduce road congestion, which is increasing in rural areas due to high dependency on cars

IT and E-Commerce

A growing trend, particularly in the countryside, is the rise of home-based businesses. The impact of these businesses may alter the dynamics of the traditional rural economy. Working from home generally indicates less commuting, which relieves congestion. Further, most of these businesses are sole traders in the professional services. Such businesses may well choose to obtain the majority of their supplies from the local village high street, leading to greater income for local communities.

However, home businesses will also require access to public services, such as banks and post offices. An even greater priority is access to telecommunications. The DTI estimate that 2.2 million people in the UK are teleworkers. From this number, 1.8 million (82%) cannot work without a computer and telephone. A robust telecommunications infrastructure is vital to the development of the home-based business and potentially, a more sustainable countryside.

While ICT has revolutionised businesses across the globe, broadband, or lack of it, has been the core business issue dividing the rural from urban economy. Small businesses in the countryside must have equal right of entry, in order to compete on a level playing field, from full mobile phone coverage to always on access. Rural communities have shown they can benefit from technology; they must now be better placed to exploit it.

Small businesses in the rural economy are connected to the internet in vast numbers, but connection via broadband remains significantly lower than their urban counterparts. Almost half of our rural respondents (49%) are connected via modem over the telephone line, compared with 35% of urban businesses. Further, 26% of urban firms are connected via broadband over telephone networks (ADSL,) compared with 10% of rural businesses. A total of 12% of our rural businesses are connected via broadband, compared with 30% of urban businesses.

Table UR-55 Connected to the internet by Urban/ Rural

	Not ticked %	Yes (via Broadband over telephone network (ADSL)) %	Yes (via Broadband over cable) %	Yes (via Broadband over satellite) %	Yes (via Broadband over wireless) %	Yes (via ISDN/ Home/ Business Highway) %	Yes (via Modem over telephone line) %	No %
Urban	5	26	4	0	0	9	35	19
Rural	5	10	1	1	0	19	49	15
Postcode unmatched	5	23	5	0	0	12	36	18
UK	5	23	4	0	0	11	38	18

Hence, the majority of all small businesses are connected to the internet via means other than broadband. There are a number of reasons why this may be the case, not limited to businesses in the countryside:

- Costs of connection
- Lack of access
- Lack of understanding the business benefits.

BT has been the major supplier of internet exchanges in the countryside. In April 2004, they announced that they intended to enable every exchange, which currently has a broadband trigger level, by the summer of 2005. This is not before time; anecdotal evidence suggests there has been a worrying trend of businesses leaving areas that cannot get broadband. Should this occur, the advantages to rural businesses would be increased, particularly in the area of online sales. However, a wide-ranging and extensive awareness raising campaign illustrating the benefits of broadband must accompany the proposed expansion.

FSB studies show that for most small businesses at present, involvement in e-business is likely to be on a superficial basis and mainly for communication purposes. Only a small minority engage in online selling or procurement. So, not surprisingly, for most small firms the economic impact of e-commerce is currently minimal. FSB results show rural businesses are increasing the business benefits of online services. Rural respondents are more likely to use email to communicate with customers and suppliers (71%) and purchase online (39%) than their urban counterparts.

Table UR-57 Uses of Internet by Urban/ Rural

	e-mail to communicate with customers/ suppliers %	e-mail to communicate internally %	File transfers %	Remote access to the office system %	Purchasing %	None ticked %
Urban	68	18	30	12	36	29
Rural	71	16	28	11	39	26
Postcode unmatched	70	20	33	13	37	28
UK	69	19	30	13	37	28

Further, when the FSB investigated the proportion of turnover by online sales, rural businesses are more likely to sell goods and services over the internet. The

majority of small businesses sell less than 25% of their goods online. However, rural businesses are more likely to do so than urban firms, especially amongst younger business owners. Rural employers aged below 34 have a higher proportion of online sales than young urban employers.

Hence, while e-commerce is currently playing a minor role in business development, rural employers are becoming increasingly aware of its benefits. The FSB hopes this burgeoning trend is on this rise, especially with the increase of broadband access, as we foresee growing opportunities for more small business in the rural economy.

The FSB therefore calls for:

- **Calls upon the Region's local authorities to ensure that investment in the local road networks is improved in future capital programmes and for increased support to local bus networks in rural areas**
- **The FSB support the appointment of a dedicated official by Defra whose sole remit would be to liaise with central government on rural broadband. Similar officials are required in Scotland and Wales.**
- **Government should sponsor a well-funded, well-targeted campaign to raise awareness of broadband to the rural economy. Such a campaign could be advertised through the internet, as well as the more traditional broadcasting methods.**
- **Alongside the growing number of exchanges, there should be greater training opportunities for small businesses on how to make best use of new technology.**

Conclusions

The Countryside Agency in their *State of the Countryside 2020* published in 2003 stated that they believe the future will allow more people to work from home, thereby encouraging local networking and strengthening local communities. Further migration to more pleasurable surroundings will see country towns become increasingly desirable targets for business, as they become economically independent. The countryside will expand, with farms diversifying and ex-industrial estates evolving into commuter countryside.

However, such movement will make an impact on the transport infrastructure of the UK, as well as the fragile environment. There may be further road improvements, but travel patterns will become more complex, as people travel not only to nearby cities, but cross-country also. More travel and migration will also need to be balanced against the needs of the environment and the health of the countryside.

The importance of a strong telecommunications structure cannot be over-emphasised. All parts of the UK must be able to access flexible forms of information technology, in order to expand, enter new markets and assist in the development of home offices. Housing will also be a crucial issue, as a lack of low-cost housing will create a shortage of skilled and key workers vital to the development of the countryside.

The FSB believes more decisions affecting the countryside should be taken at a local and regional level, where people are best placed to identify the potential of their area and how it can be successfully developed.

The opportunities for small businesses in the East of England and rural areas in particular are endless. However, the correct infrastructure and business support must be in place for small employers to best exploit the economy, wherever they are located. The East of England Plan and EEDA's Regional Economic Strategy have the ability to ensure this is done, we remain to see whether they will or not.