



Experts in Business

A Rural Conversation: Together We Can, Together We Will

FSB response to the National Council of Rural Advisers

Federation of Small Businesses Scotland
July 2018

Overview

The Federation of Small Businesses (FSB) is Scotland's leading business organisation. Our mission is to help smaller businesses achieve their ambitions. These micro and small businesses comprise the majority of all enterprises in Scotland (98%), employ around one million people and contribute £68bn to the economy.

FSB welcomes the opportunity to contribute to the development of Scotland's rural economic strategy and respond on behalf of our members who create jobs and prosperity in their rural communities. A key aim for FSB is to create a flourishing and competitive business environment in our rural communities.

Small businesses have a critical role in the success of rural communities across the country, with small-to-medium sized enterprises (SMEs) accounting for over three quarters of private sector employment in remote rural areas (78.9%) and over two thirds in accessible rural areas (68.4%).¹

In this response, FSB sets out ways in which their role and contribution could be expanded. It is important to note that, given the focus of the consultation, FSB has concentrated on five key priorities for a rural economic strategy:

- Building on the strengths and economic importance of micro and small businesses
- Focusing on entrepreneurship to close the business start-up gap with urban areas
- Reforming the business support system to ensure it is fit-for-purpose for the rural economy
- Developing diverse local economies by tasking public bodies to purchase more goods and services from local small firms
- Tackling the substantial infrastructure challenges small firms experience in rural communities

By focusing exclusively on these priorities, we have excluded a range of other important issues that should be addressed – Brexit, housing stock, demographic changes, skills and training issues, and a matter of growing concern, recruitment. In so doing, it may be useful for the National Council of Rural Advisers (NCRA) to consider the evidence FSB submitted for the Islands Bill.¹

¹See: https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb_islands-bill_cr_0510.pdf?sfvrsn=0

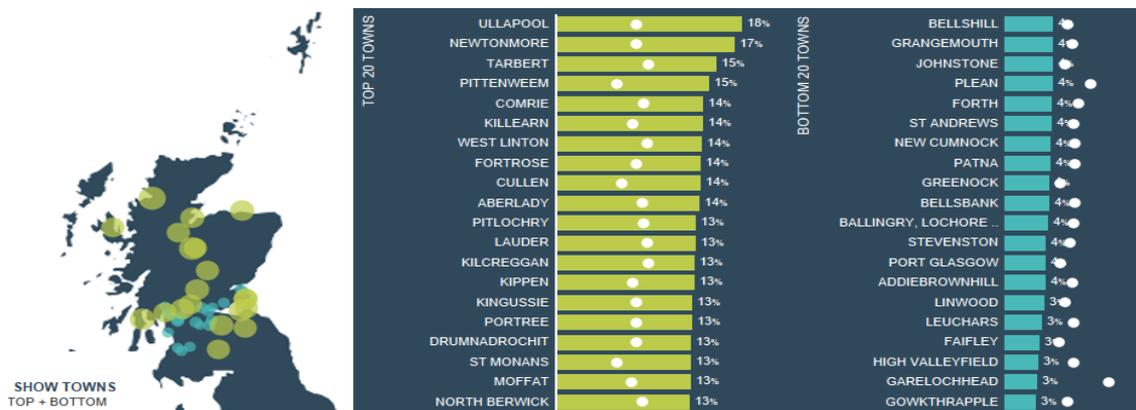
Small businesses and rural economies

As the National Council of Rural Advisors (NCRA) stated in its consultation document, small businesses are “at the heart of our rural economy”. Acknowledging this economic reality in the strategy and subsequent interventions is of fundamental importance if policymakers are to be successful in growing rural economies. Though there are limitations with data sets due to the exclusion of unregistered businesses, the importance of small businesses to rural areas cannot be overstated. Recent figures highlight that in rural areas:

- 97% of all businesses are small (50,855)
- 59% of all private sector jobs are provided by small businesses (178,650)
- 41% of private sector turnover is generated by small businesses (c£15bn)

Further, FSB research found that rural areas had some of the highest levels of self-employment in Scotland.² Indeed, people from rural towns are two and a half times more likely to be self-employed than people from urban areas.

Figure 1: Highest and lowest levels of self-employment by town



Despite this strong enterprise track record, however, business start-ups in rural areas – that is, the creation of new registered businesses – continue to lag behind urban places. Between 2010 and 2017, a period of time when Scotland experienced record high levels of entrepreneurship, there was an 8% growth in the business base in rural areas. In comparison, urban areas witnessed a 16% growth during the same period.³

The start-up divide between rural and urban areas is also evident in the South of Scotland. In Dumfries and Galloway, for example, the number of registered businesses declined by almost 2% over the last eight years, while the number in the Scottish Borders only slightly increased (2%). This at a time when the number of registered businesses in Scotland increased by over 10%.⁴

² See: <https://www.fsb.org.uk/standing-up-for-you/national-offices/scotland/entrepreneurial-towns>

³ See: <http://www.gov.scot/Resource/0052/00527402.pdf>

⁴ *Ibid.*

Needless to say, our analysis of the data comes with some caveats. Firstly, there is an established pattern of young people moving from rural areas to cities in Scotland and further afield to study, find employment, or start a business. And secondly, the data includes only registered businesses and many people in rural areas operate more than one unregistered micro business, frequently tourism-related. However, a clear pattern emerges from the available evidence which suggests that growing the numbers of businesses across a variety of sectors should be a strategic priority for the rural economic strategy.

Business support

To encourage future entrepreneurship, FSB agrees with the NCRA that improvements could be made to the business support system available to existing or aspiring rural businesses. Setting aside the importance of the education system in creating the entrepreneurs of the future,⁵ we argued during the Scottish Government's enterprise and skills review that publicly funded business support should:⁶

- Be shaped by user needs rather than public agencies;
- Deliver for micro and small businesses, who account for almost all of Scotland's businesses;
- Provide a seamless, co-ordinated and joined-up service;
- Provide an inclusive and expert service to all firms, irrespective of their growth ambitions;
- Adapt to fast-paced changes in the economy and labour market;

The work of the NCRA and the publication of a rural economic strategy offers the opportunity to examine whether the public support on offer matches these requirements and the needs of rural economies.

It is our view that, following the enterprise and skills review and the creation of a Strategic Board, the Scottish Government should ensure that the enterprise and skills agencies, as well as Business Gateway and local authorities, provide expert support that is more flexible and tailored to the needs of rural businesses.

The nature of rural populations and the rural economy in remote areas makes it essential that public agencies focus on practical, realistic changes to the economy. In practice, this means focusing on the urban-rural business start-up gap, increasing support for micro businesses and providing greater help and assistance for two key sectors of the rural economy – tourism and retail.

⁵ See: <https://www.fsb.org.uk/media-centre/latest-news/2016/05/03/how-do-we-create-the-entrepreneurs-of-the-future>

⁶ See: https://www.fsb.org.uk/docs/default-source/fsb-org-uk/cr_ent_amp_skillsreview_aug2016_fsb_final_reformatted5099e6bb4fa86562a286ff0000dc48fe.pdf?sfvrsn=1

A diverse economy

Building a diverse and resilient economy is critically important to the future success of rural communities. In our manifesto for the Scottish Parliament elections,⁷ and more recently in our work on a new agency for the South of Scotland,⁸ we argued that diverse local economies help to minimise the risk of relying on key sectors that are susceptible to external change.

The need to diversify the economy is of particular importance in a rural context given the changing sectoral composition of the economy and growth of non-traditional sectors (notably, business services), as well as the uncertainty surrounding Brexit. While business support will play a key role in facilitating growth in sectors such as care, tourism and e-commerce, FSB believes that more could be done to maximise the economic benefits of public procurement.

Although some public bodies have realised that procurement is not solely the provision of a service – island local authorities and Argyll and Bute, for instance⁹ – too many continue to ignore the evidence that procuring locally is better value for money. Research published by CLES for FSB highlighted that small local firms across the UK generated £746m more for the local economy compared to large local businesses.¹⁰ In addition, it found that:

"... an average spend of £158m on procurement [in Scotland] brought an average of £59.7m of direct benefit for local economies through spend with local firms and the re-spend of those firms back in the local economy."

As a result, FSB would recommend that key public bodies adopt strategies to encourage more procurement spending with local micro and small businesses.

Resilient infrastructure

High-quality, resilient and well-maintained infrastructure is an essential component of healthy rural economies. Without access to a functioning roads network, for example, many firms would be unable to get their products to market – tourists would be unable to travel to their accommodation or visit iconic Scottish landmarks. Likewise, without access to reliable superfast broadband and mobile services, firms would be prevented from selling their services to a national and international marketplace.

Despite the significant investment in infrastructure that the Scottish Government, its agencies and local authorities have made in rural communities, small businesses continue to operate in communities with substantial infrastructure challenges. It is outwith the scope of this consultation to outline these challenges in full,¹¹ nonetheless it is important to highlight two areas that require action if a rural economic strategy is to be taken seriously by the small business community.

⁷ See: https://www.fsb.org.uk/docs/default-source/Publications/fsb_manifesto2016db323cba4fa86562a286ff0000dc48fe.pdf?sfvrsn=0

⁸ See: https://www.fsb.org.uk/docs/default-source/fsb-org-uk/cr_sosagency_june18.pdf?sfvrsn=0

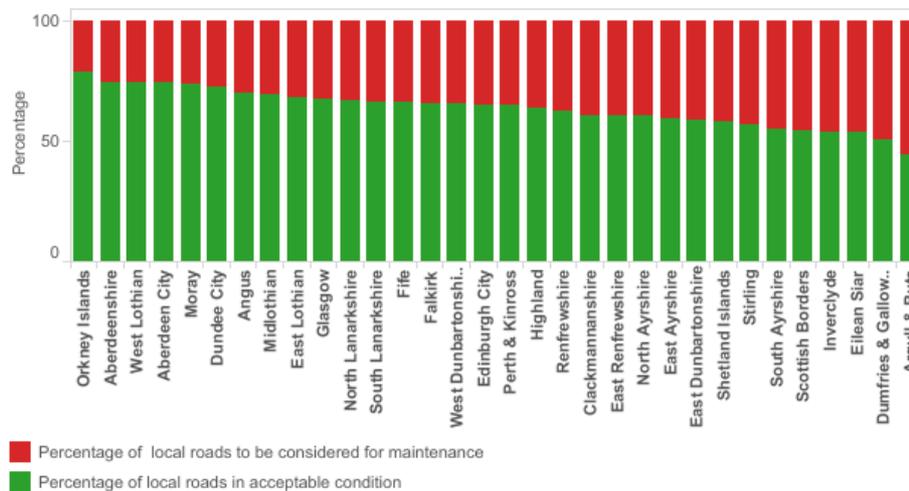
⁹ See: <http://www.improvementservice.org.uk/benchmarking/index.html>

¹⁰ See: https://www.fsb.org.uk/docs/default-source/Publications/publi_spec_scotprocure_july2013.pdf?sfvrsn=1

¹¹ See research FSB published in England on rural transport: <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-rural-transport.pdf?sfvrsn=0>

The first relates to the poor condition of local roads, where the backlog of repairs continue to mount, especially in areas dependent on tourism. While some rural councils score well in Audit Scotland’s report on road maintenance – Orkney and Aberdeenshire, for example – there are many that have over one third of their local roads in an unacceptable condition.¹²

Figure 2: Percentage of local roads in an acceptable condition¹³



The second challenge that requires urgent attention is the availability of superfast broadband and mobile phone coverage, where rural firms are at a significant competitive disadvantage to their competitors in the rest of Scotland and further afield. While substantial progress has been made by the Scottish Government in providing universal superfast broadband, many small firms in remote communities continue to be without this essential infrastructure.¹⁴ Completing the R100 programme on time and on budget – and critically to a standard which meets end-users’ expectations – should be a central part of the rural economic strategy.

In addition, FSB has significant concerns regarding the lack of progress in providing geographic mobile phone coverage in rural areas. It continues to be unacceptable that small businesses cannot capitalise on their plans for growth because of sub-standard mobile infrastructure. For example, 31% of Scotland’s landmass continues to have no access to 4G services by any operator. This compares to just 3% of Wales and England’s geography.¹⁵ As such, we would recommend that the NCRA and the Scottish Government recommend that the needs of rural economies are addressed in future spectrum auction sales.

¹² See: <http://www.audit-scotland.gov.uk/report/maintaining-scotlands-roads-a-follow-up-report-0>

¹³ *Ibid.*

¹⁴ See: https://www.fsb.org.uk/docs/default-source/fsb-org-uk/cr_digital-connectivity.pdf?sfvrsn=0

¹⁵ See: https://www.ofcom.org.uk/data/assets/pdf_file/0017/113543/Connected-Nations-update-Spring-2018.pdf

Further information

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Experts in Business

The FSB is Scotland's largest direct-membership organisation. It campaigns for a better social, political and economic environment in which to work and do business. With a strong grassroots structure and dedicated Scottish staff to deal with Scottish institutions, media and politicians, the FSB makes its members' voices heard at the heart of the decision-making process. It is therefore recognised as one of Scotland's most influential business organisations. The FSB also provides a suite of services to help our members reduce the cost and risk of doing good business – from legal and tax protection to business banking.

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