




# THE GROWTH BELT

Supporting Rural Small Businesses

Published: April 2023

 @fsb\_policy

[fsb.org.uk](https://fsb.org.uk)

**fsb**<sup>08</sup>  
Federation of  
Small Businesses

# ACKNOWLEDGEMENTS

This report was authored by Rebecca Hyrslova, Policy Advisor and Emelia Quist, Head of Policy Research. Special thanks to FSB's policy, public affairs, and media teams, in particular the project team responsible for delivering the report: Ben Butler, Fil Pollara, Anna Slater and Isaac Seiger.

Also, colleagues in the devolved nations: Neil Hutcheson (FSB Northern Ireland), Stacey Dingwall (FSB Scotland), Llyr ap Gareth (FSB Wales), Brett John (FSB Wales).

The quantitative research was carried out by Verve – the market research agency responsible for administering the survey. The report was designed by Cactus Design Limited – a small business based in Wales. This project would not have been possible without all the FSB members who participated in this research, generously taking the time out of running their small businesses.

# WHO WE ARE

The Federation of Small Businesses (FSB) is a non-profit making, grassroots and non-party political business organisation that represents members in every community across the UK. Set up in 1974, we are the authoritative voice on policy issues affecting the UK's 5.5 million small businesses, microbusinesses and the self-employed.

We provide our members with a wide range of vital business services, helping them to start, run, and grow successful businesses through high quality protection and support. This includes 24/7 legal support, legal and tax insurance, financial expertise, training and events, debt recovery, health and safety, payroll and pensions, help with care, and employment/HR advice – alongside a powerful voice in Government. FSB is the UK's largest business group and leading business campaigner, focused on achieving change which supports smaller businesses to grow and succeed.

Our policy and advocacy work starts with our expert team in Westminster, which focuses on UK and England policy issues, the UK Government, Parliament and the media. Further to this, our teams in Glasgow, Cardiff and Belfast work with Governments, elected representatives and media in Scotland, Wales and Northern Ireland.

# THE GROWTH BELT

Supporting Rural Small Businesses.



On average in 2022, **49% of urban small businesses** reported they **plan to grow** compared to only **43% of rural small businesses with the same ambition**



In 2022, **37%** of rural businesses on average reported **more than a 10% increase in the cost of running their business** over the past year



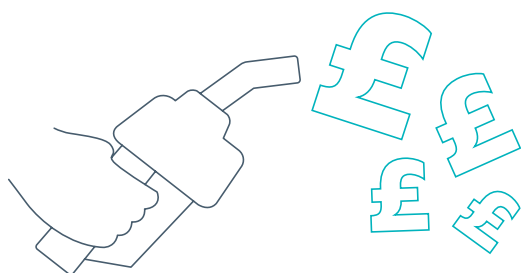
On average in 2022, **30%** of rural small firms reported **finding appropriately skilled staff** as the **greatest barrier to their future growth aspirations**



Almost a third (**32%**) of rural small businesses **report issues with the reliability of their broadband**



Only **58%** of rural small businesses state that the **speed of their broadband is sufficient for their current and future business needs**



In 2022, a quarter (**25%**) of rural small businesses on average **highlighted fuel costs as a barrier to growth**, compared to only **17%** of urban firms



**17%** of small businesses in rural areas **depend on alternative fuels**, such as heating oil or LPG compared to **2%** of urban-based small businesses

# CONTENTS

<u>Foreword</u> . . . . .	5
<u>Key findings</u> . . . . .	6
<u>Recommendations</u> . . . . .	7
<u>Economic growth in rural areas</u> . . . . .	10
<u>Levelling Up and rural small businesses</u> . . . . .	24
<u>Digital connectivity</u> . . . . .	36
<u>Transport</u> . . . . .	45
<u>Rural small businesses and energy</u> . . . . .	50
<u>Methodology</u> . . . . .	54

# FOREWORD

Small businesses and the self-employed help rural and coastal communities thrive across the United Kingdom. They provide local employment opportunities, drive innovation, and generate economic growth. From small-scale established family-owned businesses to start ups, the rural economy boasts a diverse array of firms. Rural enterprises are small businesses, producers and consumers and power the social life of their communities.

The rural economy is based on a bedrock of small business. It's a common misconception that rural areas are sleepy hamlets with just a handful of residents. In reality, the rural economy is a complex and diverse ecosystem. However, despite the diversity, poise and ambition of rural enterprises, the productivity rate in rural areas is in decline.

Rural small businesses continue to face specific and often disproportionate infrastructural challenges compared to businesses based in urban areas. After decades of promises, poor digital connectivity and inadequate transport infrastructure continue to blight the prospects of small firms in rural and coastal areas. It is essential that policymakers recognise this and address the rural productivity gap, to create a more sustainable and resilient economy that benefits everyone, no matter how small or large their rural town is.

Rural small businesses should have a central role in determining the shape and future of their communities. Local authorities must consider their role in supporting rural small firms, working with small and micro businesses on tackling the issues that have the most significant impact on their local areas. Recognising rural small businesses as social agents and economic players is vital if we are to see a much-needed boost to productivity in rural communities.

Rural areas hold enormous potential for businesses to thrive and contribute to their local communities and the larger economy. To do this, these businesses require sustained support to weather the challenges and investment in essential infrastructure. By nurturing and empowering rural small firms, we can unlock their full potential to drive growth and prosperity for generations ahead.



**Michael Weedon**

FSB, Place-based Economy  
and Local Government Policy Champion

# KEY FINDINGS

## Economic growth

- On average in 2022, almost half (49%) of urban small businesses reported they plan to grow compared to only 43 per cent of rural small businesses with the same ambition.
- On average in 2022, 30 per cent of rural small firms reported finding appropriately skilled staff as the greatest barrier to their future growth aspirations.
- On average in 2022, 37 per cent of rural businesses reported more than a 10 per cent increase in the cost of running their business over the past year.
- Overall, in 2022, 41 per cent of rural firms report their business prospects worsened.
- In 2022, a quarter (25%) of rural small businesses on average highlighted fuel costs as a barrier to growth, compared to only 17 per cent of urban firms.

## Connectivity

- Almost a third (32%) of rural small businesses report issues with the reliability of their broadband, compared to 17 per cent of urban businesses.
- Twice as many rural businesses reported that unreliable broadband has affected their ability to contact customers (14% vs. 6%), reduced the competitiveness of their business (11% vs. 5%), and led to a loss of business or sales (10% vs. 5%).
- Only 58 per cent of rural small businesses state that the speed of their broadband is sufficient for their current and future business needs.
- 43 per cent of rural-based businesses have not yet changed their transport habits because of the insufficient local infrastructure to support electric vehicles (e.g. charge points).

## Energy

- 17 per cent of small businesses in rural areas depend on alternative fuels, such as heating oil or LPG (Liquefied Petroleum Gas), compared to 2 per cent of urban-based small businesses.
- 18 per cent of rural-based small businesses have seen their energy costs triple or worsen within the space of a year.
- Rural businesses demonstrate higher levels of extreme concern (40%) compared to urban businesses (36%) in regard to rising energy costs.

# RECOMMENDATIONS

## Levelling up

- Department for Environment, Food and Rural Affairs (Defra)'s new training module on rural proofing should become compulsory for all civil servants working on domestic policy. (p35)
- The UK Government should ensure appropriate or additional metrics are considered in policy development where existing metrics may fail to accurately capture the rural experience. (p35)
- Local authorities should appoint either elected members or senior management as Local Business Champions. These individuals would be given clear responsibility and accountability for business engagement and application to all available funding. (p35)
- Local authorities should create dedicated business engagement panels for the purposes of funding applications and conduct rapid user testing before launching business support programmes, to minimise barriers to uptake. (p35)
- Local authorities should use 'tell us once' data systems, to reduce duplicated forms and minimise administrative burden on businesses. (p36)
- The UK Government should set out clear metrics for the evaluation of its pride in place mission, which reflect the social value that small businesses create in their communities. (p36)

## Economic outlook

- The UK Government should raise the VAT taxable turnover threshold from £85k to £100k, and in future link threshold increases to RPI. (p22)
- Increase the Small Business Rate Relief threshold to £25,000 from £12,000. (p22)
- Extend the Youth Mobility Scheme to EU countries with no annual quotas. (p23)
- The UK Government should adopt the Migration Advisory Committee's recommendation and pilot a remote visa. (p23)
- The UK Government should change payment of the Community Infrastructure Levy to a post-sale levy rather than a post build levy to boost opportunities to small housebuilders. (p23)

## Digital connectivity

- The UK Government should update the Universal Service Obligation minimum requirements for both upload and download speeds to ensure businesses have the right to decent broadband speed to meet their digital needs, and it should set a fairer safeguard cap at £35/month. (p44)
- The Department for Science, Innovation and Technology (DSIT) should ringfence a proportion of the remaining Project Gigabit budget to support projects that will help connect hard to reach and very hard to reach areas with superfast broadband. (p44)
- Ofcom should look to make current Voluntary Codes of Practice for broadband providers compulsory and extend the existing compensation schemes so that they also apply to business contracts. (p44)
- DSIT must ensure the Shared Rural Network does not fall behind its 2025 target of 95 per cent 4G coverage across the UK. (p44)
- Broadband providers should make it easier and cheaper for small businesses to leave broadband contracts before the minimum contract term has expired. (p44)

## Transport

- Extend the 'Get Around for £2' scheme until the end of 2023. (p51)
- Governments across the UK must publish a coherent set of target-based infrastructure strategies to deliver the necessary charging and rapid charging infrastructure for electric vehicles by 2030 for remote rural parts of the UK to complement the UK Government's existing strategies. (p51)
- Local authorities should work together on rural transport schemes to ensure that projects cover a wider catchment area. (p51)
- The UK Government should commit to a long-term fuel duty freeze and make the temporary 5p-per-litre cut into a permanent policy. (p51)



## Energy and the environment

- The UK Government should ensure that the needs of businesses using alternative fuels are mainstreamed in future energy policy development. (p54)
- The UK Government should issue £5,000 grants or vouchers for businesses to spend on qualifying environmental products and services under a Help To Green initiative. (p54)
- Energy suppliers should allow vulnerable businesses that negotiated a new energy contract within the peak wholesale price period of 2022 to renegotiate or 'blend and extend' their energy contracts to reflect significantly lower wholesale prices now available. The Department for Energy Security and Net Zero should encourage suppliers across the UK to implement this. (p55)

# ECONOMIC GROWTH IN RURAL AREAS

In rural and coastal areas, smaller businesses provide significant levels of employment opportunities while driving economic growth across the country. According to the Department for Environment, Food and Rural Affairs (Defra) ‘in 2020/21, there was 548,000 registered rural small-medium-enterprises (SMEs), representing 99.8 per cent of all registered rural enterprises, and 23 per cent of all registered SMEs in England. In 2020/21, 2.6 million people were employed in registered rural SMEs, representing 71 per cent of all those employed by registered rural enterprises in England’.<sup>1</sup>

In this report, rural is defined in accordance with the UK Government’s Rural Urban Classification.<sup>2</sup> The Classification identifies areas outside settlements with more than 10,000 resident population as rural. Rural businesses therefore encompass enterprises based in those areas. The focus of this report is on non-farming rural businesses, their experience and the barriers they face.

Analysis of FSB’s, *Small Business Index*<sup>3</sup> in 2022 found 43 per cent of rural small businesses state they aspire to grow their business over the next 12 months compared to almost half of urban small businesses (49%). Growth plans of rural businesses also varied nationally and regionally. Rural small firms based in Scotland (36%) and Wales (38%) were less likely to state intentions to grow their business in comparison to small firms in England (44%) and Northern Ireland (44%). The data for Northern Ireland is below the level we would generally rely on for statistical significance.

**“All businesses are inherently looking to grow – it’s a matter of how you grow. We’ve recently looked at making an acquisition, but the business we tried to buy wasn’t in a good enough shape to deal with situations that are coming up now. Instead, we are diversifying our business as an alternative avenue to growth. We are using automation and going more digital as means of increasing productivity.”**

FSB member, Manufacturing, Somerset

Over 2022, only a third (35%) of small firms based in rural Yorkshire and the north east of England expressed their plan to grow, almost 10 per cent below the rural England average (44%). Similarly, there was a sectoral difference in growth aspirations of small firms based in rural areas, with rural small businesses in accommodation and food services (32%) and construction (32%) reporting the lowest average levels of growth ambitions

---

1 Department for Environment Food and Rural Affairs (DEFRA), 2023, [Rural Economic Bulletin](#)

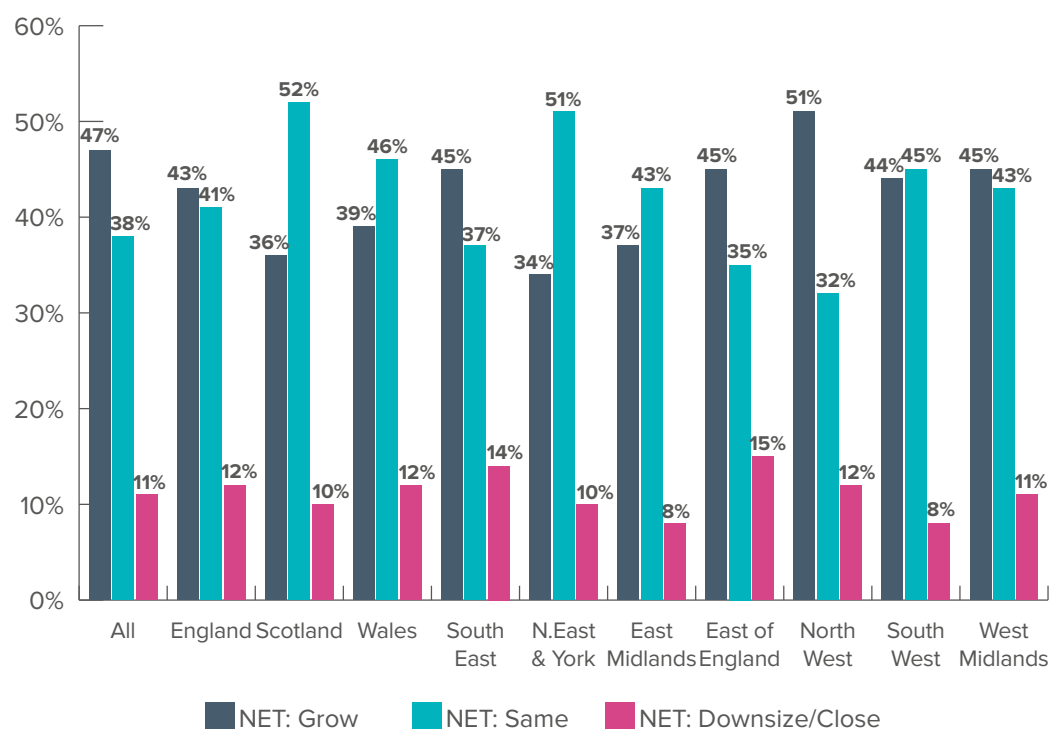
2 DEFRA, 2016, [Urban Rural Classification](#)

3 FSB, 2022, [Small Business Index](#)

in 2022. Rural small firms in professional, scientific and technical activities (49%) and arts, entertainment and recreation (46%) were more likely to state they plan to grow their business in the next 12 months.

**Figure 1:** Rural small business growth aspirations by nation and region

**Source:** FSB, Small Business Index, 2022



**“My sense from all the customers that we speak to, particularly in the Highlands, is that there’s a feeling of survival rather than growth.”**  
 FSB member, Marketing, Scottish Highlands

On average in 2022, of those rural small businesses that planned to grow in the next twelve months, the majority (63%) perceived the domestic economy to be one of the three greatest barriers to achieving growth. This was followed by consumer demand (30%) and appropriately skilled staff (30%) in joint second place. Whilst both rural and urban firms identified the same three main barriers to growth, rural businesses were more likely to express concerns over the domestic economy (63% vs. 60% urban) and consumer demand (30% vs. 28% urban).

“VAT is now eating us - we need to see the rate lowered and the threshold at which we start paying VAT increased. This would help alleviate the sting of high energy costs, which all has a knock-on effect. The Government takes VAT on our turnover, not our profits, which means they’re taking more because we’ve had to put our prices up to cope with high costs. Inflation is at an all-time high, and interest rates are on the rise – lowering the rate and increasing the VAT threshold would unlock pent up activity and encourage growth, thus mitigating the impact of inflation. Covid seems like a walk in the park in comparison to this.

FSB member, pub, West Midlands

Our research also identified some geographical differences in perceived barriers to growth. On average in 2022, rural small businesses were more likely to highlight input or raw material costs (28% vs. 22% urban) and fuel costs (25% vs. 17% urban) as a barrier to their growth aspirations.

In 2021 more than half (58%) of Northern Ireland businesses were located in rural areas.<sup>4</sup>Prior to the ceasing of the NI Assembly, the Minister for Agriculture, Environment and Rural Affairs (DAERA) sought to build on the Rural Needs Act 2016 and help to address barriers that prevent rural NI communities from growing sustainably.

In practice, the delays mean more uncertainty and longstanding problems persist and affect small businesses. This is in addition to delays in the roll out of the NI High Street Task Force <sup>5</sup> recommendations into which FSB has contributed significantly. Despite the interruptions, DAERA appears to have a grasp of the relevant issues affecting smaller businesses.

There is more to do and DAERA must mitigate the risk that a plethora of policies, strategies and moving parts <sup>6</sup>across NI and the UK will act as barrier rather than an accelerant to progress.

---

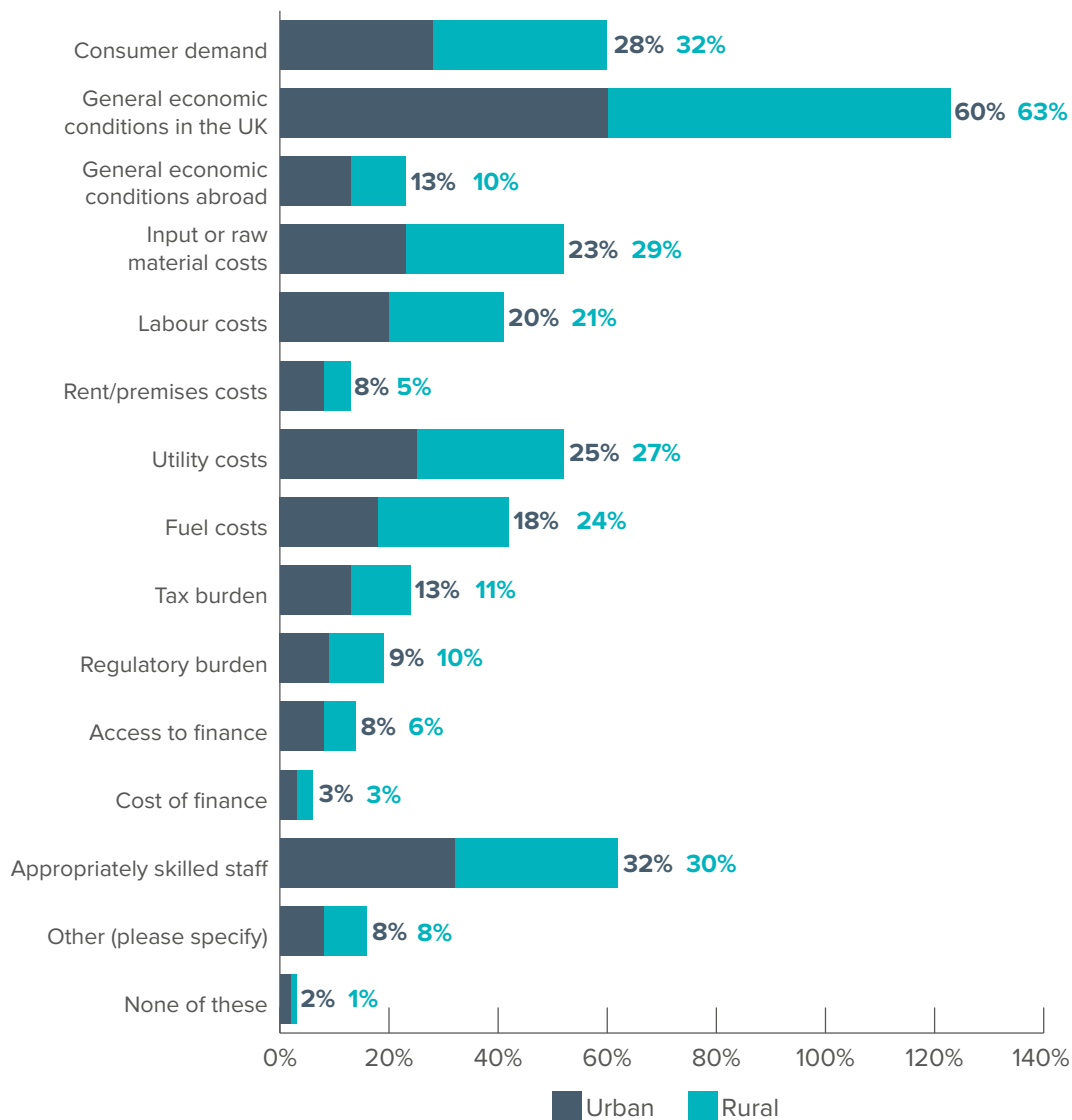
4 The Department of Agriculture, Environment and Rural Affairs, Key Rural Issues, 2021, <https://www.daera-ni.gov.uk/news/key-rural-issues-publication-2021>

5 The Executive Office, Northern Ireland, High Street Task Force, Date published: 22 March 2022 <https://www.executiveoffice-ni.gov.uk/publications/high-street-task-force-report-and-recommendations>

6 DAERA, 2021, [Draft Environment Strategy](#)

**Figure 2: Barriers to growth for UK small businesses**

Source: FSB, Small Business Index, 2022



Overall, in 2022, only 22 per cent of rural small firms stated their business prospects had improved, however, 41 per cent reported they had worsened. This was assessed based on the business’s overall performance, looking at the next three months compared to the previous three months. In Q1 2022, one in four (26%) rural firms expected their business prospects to worsen. This increased to over half (55%) by Q4 2022. By comparison, only forty-four per cent of urban small firms reported their business prospects weakened. Moreover, the number of rural small firms reporting their business prospects in the next three months as ‘much worse’ almost tripled from Q1 to Q4 in 2022, from eight per cent to twenty-two per cent.

**“Our ambition is to attract businesses that may be going to the big cities thinking that big city marketing agencies are where it’s at, and show them that the skills, creativity and experience exists in the Highlands, often at better value as well.”**

**FSB member, Marketing, Scottish Highlands**

There is a huge diversity of businesses based in rural areas. Evidence from Defra shows there are proportionately more small businesses in rural areas.<sup>7</sup> This is a mix of small family businesses and ambitious start-ups. It is essential that the infrastructure in place caters to all types of small rural enterprises and allows them to thrive. In 2019, there were 56 registered business start-ups per 10,000 population in Predominantly Urban areas (excluding London) compared with 45 per 10,000 population in Predominantly Rural areas.<sup>8</sup> High-growth, digital-savvy businesses are not based exclusively in urban areas, small business owners in these sectors highlighted poor infrastructure as an obstacle to future growth.

**“When we set up our business, we didn’t think of all the ways the rural setting might affect us, but we soon realised that there is a bias or negative perception towards businesses based in rural areas. Initially, what we couldn’t find locally, we outsourced – we were lucky that we’re a digital company and we could outsource. However, with time, growth, and the more senior we tried to recruit, we realised there are limitations to whom you can reach, but also who is looking to rural areas for employment in digital tech. For that reason, we have started attending career fairs, to raise awareness that there are high-growth tech businesses like ours in rural settings and not all digital talent has to go to the cities.”**

**FSB member, animation, Anglesey, Wales**

It is important that the UK Government pays attention to and designs support for not just businesses in high-growth industries or start-ups looking to scale up, but also for the foundation economy that many rural small firms represent.

**“Just because we are rural doesn’t mean we’re low tech.”**

**FSB member, veterinary practice, Hertfordshire**

---

7 DEFRA, 2023, [Rural Economic Bulletin](#)

8 DEFRA, 2023, [Rural Economic Bulletin](#)

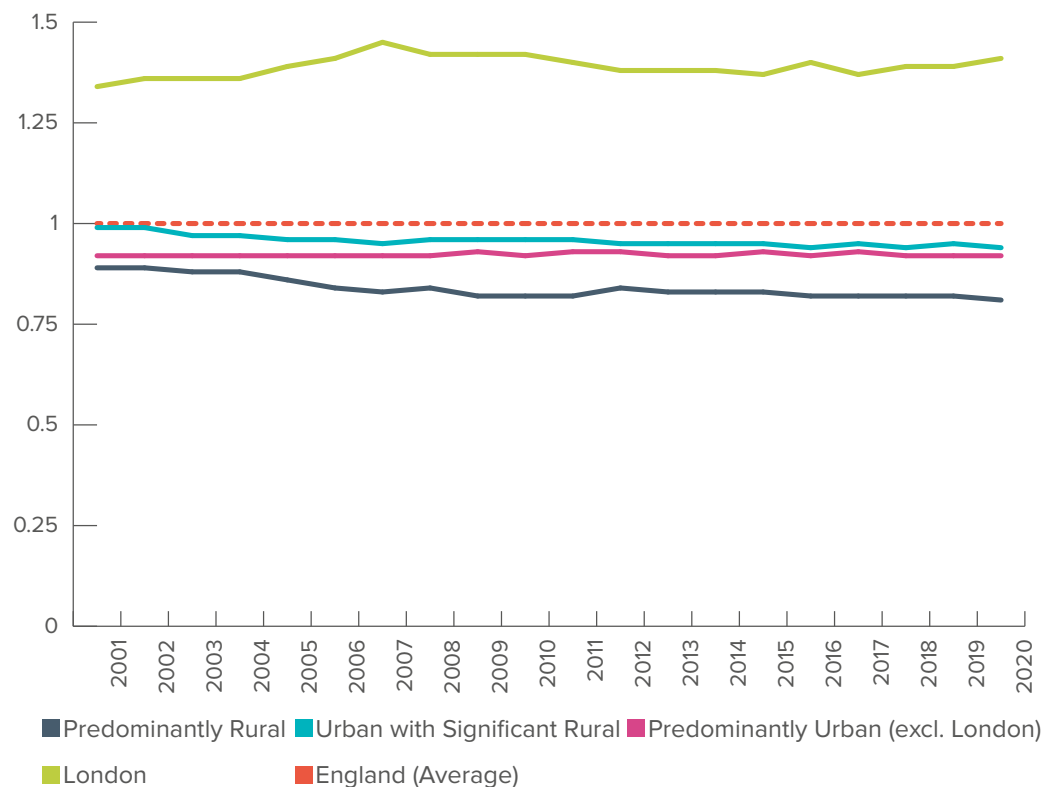
### Productivity

Research from Defra found ‘in 2020, Gross Value Added (GVA) from Predominantly Rural areas contributed 15 per cent of England’s GVA and was worth an estimated £253 billion.’<sup>9</sup> Increased productivity creates economic growth – the more productive small businesses are, the more they can augment their profits, which in turn would allow them to increase wages and reinvest in their businesses, generating further growth for their business and the wider economy.

However, productive capacity of economies is not a universal experience across the UK. Defra figures show that in 2020, the productivity of predominantly rural areas was around 81 per cent of that for England as whole. As shown in the graph below, this had fallen from 89 per cent in 2001.<sup>10</sup>

**Figure 3: GVA per workforce job (WFJ)**

**Source:** Defra, Rural Economic Bulletin, 2023



The rural productivity challenge, however, isn’t a new phenomenon. The UK Government realised both the potential of and the need to improve rural productivity and published its 10-point plan for rural productivity in 2015.<sup>11</sup> While the UK Government has made progress in regard to its

9 DEFRA, 2023, Rural Economic Bulletin

10 DEFRA, 2023, Rural Economic Bulletin

11 DEFRA, 2015, Towards a one nation economy: A 10-point plan for boosting productivity in rural areas

ambition to devolve more powers to local governance, it is disappointing that many of the key productivity boosting missions outlined in 2015, such as better connectivity, access to skills and housing, are still lacking eight years on. Equally disappointing is that despite focusing specifically on rural productivity, the approach of the plan shows little rural proofing. For example, the approaches to boosting productivity and business growth in rural areas mention no rural-focused policies, nor a rural perspective on existing policy direction. The urban/rural productivity gap therefore remains.

This gap is largely a result of poor infrastructure and insufficient skills provision in rural areas. The All-Party Parliamentary Group on Rural Business and the Rural Powerhouse estimates that closing this gap could add up to a £43 billion of additional GVA to the UK economy each year.<sup>12</sup> It is therefore evident that the rural productivity challenge has a far wider impact than just on local economies. Not addressing barriers that lead to lower productivity often in more rural settings presents a structural economic weakness on a national level. While an ongoing challenge, there is also opportunity in seeking to address these barriers in the context of the Levelling Up agenda and calls for greater devolution of power to local government agents.

## Employment

In 2020/21 in England, 2.6 million people were employed in rural small businesses, representing 71 per cent of all those employed in rural enterprises.<sup>13</sup>

On average in 2022, 30 per cent of rural small firms reported finding appropriately skilled staff as the greatest barrier to their future growth aspirations. Previous FSB research found that 78 per cent of all small businesses found it difficult to recruit staff between 2021-22.<sup>14</sup> The figure rose to 82 per cent of small business employers in rural areas. Almost a third of rural businesses (30%) stated that the reason as to why they found it difficult was due to the remote location and few available transport options – a barrier reported by only 4 per cent of urban businesses recognised. Difficulty with staffing, in association with poor transport connectivity, can disproportionately affect individuals from accessing local employment.

---

12 APPG for Rural Business and the Rural Powerhouse, 2022, [Levelling up the rural economy: an enquiry into rural productivity](#)

13 DEFRA, 2023, [Rural Economic Bulletin](#)

14 FSB, 2022, [Scaling up Skills: Developing education and training to help small businesses and the economy](#)



“If you employ youngsters, the lack of public transport becomes a particularly pressing issue when you are trying to access staff. They often don’t have cars and their parents may be unable to drive them to work every day. I know of small hospitality businesses that had to close for a number of days when they were unable to get staff to come in. In my business, I had to resort to ferrying my staff to and from work, as there was no other way for them to get in for their shifts. The lack of public transport in rural areas is a real barrier to employment.”

FSB member, accommodation services, Cumbria

## Immigration

FSB’s, *A World of Talent report: Building an immigration system that works for small businesses*<sup>15</sup> 2020 report found that 26 per cent of rural based small business employers employed at least one person from the EU, excluding the Republic of Ireland. The report recommended the Government pilot a rural visa modelled on the Canadian Rural and Northern Immigration Pilot which was launched in 2019 and expanded by the Canadian government in August 2022.<sup>16</sup> In December 2022, the Migration Advisory Committee (MAC) stated in their annual report they ‘*believe inward migration could prove a more effective tool in the specific case of rural depopulation and its symptoms. Further evidence on the efficacy of rural visas as a policy tool in the UK is needed, and on this basis the MAC continues to support a UK-wide rural visa pilot.*’<sup>17</sup>

In September 2022, the Scottish Government announced their proposal to introduce a visa pilot for remote and rural areas of Scotland – the Scottish Rural Community Immigration Pilot (SRCIP). SRCIP would be a community-driven, employer-based migration route, operating within the UK immigration framework. Migrants would be required to adhere to conditions of employment where they are employed within the designated Community Pilot Area, with restrictions easing gradually over a period of four years.

During our qualitative research, FSB members based in remote and rural areas of Scotland responded positively to the SRCIP proposal in light of severe labour shortages in their communities. However, they also raised concerns about the availability of local affordable housing, and access to public and private services, such as health and childcare. FSB members felt there is already a shortage of affordable housing for existing residents.

15 FSB, 2020, *A World of Talent: Building an immigration system that works for small businesses*

16 Government of Canada, 2022, *Expanding the benefits of immigration in rural and northern communities*

17 Migration Advisory Committee, 2022, *Annual Report*

FSB members also highlighted the proposed scheme doesn't reflect the seasonality of work in remote areas of Scotland. Therefore, the SRCIP may not provide an adequate solution to rural seasonal labour needs often found in areas with a significant tourism sector, such as the Highlands.

The Youth Mobility Scheme (YMS) is a short-term route which enables adults under the age of 31 who are nationals or passport holders of certain specified countries to live and work in the UK for two years. The YMS does not require employer sponsorship thus removing many of the challenges small employers face in engaging with immigration system. It is vital that the UK Government commits to its 2020 proposal of '*remaining open to concluding further YMS agreements with other countries and territories.*'<sup>18</sup>

### **Tourism and hospitality**

Tourism makes a significant contribution not only to the rural economy, but also to the UK's overall economic productivity. In 2018, GVA from tourism in predominantly rural areas was worth an estimated £11.5 billion, contributing 4 per cent of total GVA in these areas.<sup>19</sup> In 2019/20, there were 66,800 tourist related businesses registered in rural areas, accounting for 11 per cent of all registered businesses in rural areas. Defra figures show that the tourism sector makes up 15 per cent of the rural workforce compared with only 11 per cent of the urban one.<sup>20</sup> Not only do tourist related small businesses bring in revenue and create employment in rural areas, but they also establish a better market for other rural businesses across various sectors, generate greater footfall.

Amid the Covid-19 pandemic, the UK Government released the Tourism Recovery Plan outlining the ambitions for domestic and international tourism as well as future policy direction for the sector.<sup>21</sup> While much of the Plan focused on Covid-19 recovery, there were some more longevous themes and barriers addressed in the plan.

The Plan explicitly identified what kind of infrastructure is needed to realise its key objectives, such as crating a productive, innovative and resilient tourism industry where the benefits are shared across every nation and region. The Plan states that the UK Government's ambitions demand 'a fast, well-connected transport offer across the whole passenger journey, particularly for rural destinations'<sup>22</sup>, as well as 'making full use of digital, technology and data to engage new audiences, enhance the visitor experience and provide an offer that continues to meet consumer

---

<sup>18</sup> Home Office, 2020, [The UK's Points-Based Immigration System](#)

<sup>19</sup> DEFRA, 2023, [Rural Economic Bulletin](#)

<sup>20</sup> DCMS, 2021, [The Tourism Recovery Plan](#)

<sup>21</sup> DCMS, 2021, [The Tourism Recovery Plan](#)

<sup>22</sup> DCMS, 2021, [The Tourism Recovery Plan](#)

expectations.<sup>23</sup> Both of these are barriers more likely to be experienced by tourism businesses in more remote settings. Yet, the framework for tourism policy that the Tourism Recovery Plan sets out lacks effective rural proofing, which can lead to a delay in delivery of the UK Government's objectives. Moreover, the 2022 Annual Report on delivery of the Tourism Recovery Plan lacks any rural perspective and makes no mention of the delivery in, or recommendations for, tourism businesses in rural areas.

Destination Management Organisations (DMOs) can play an important role in managing and developing rural tourism. However, the piecemeal approach to DMOs in many areas does not work for small businesses in the tourism sector. DMOs are well-valued by small businesses across England but are undervalued and underfunded more broadly. Where DMOs are well run and well-funded, they are capable of delivering excellent service and value to small businesses, residents and authorities in their area, as well as to visiting tourists. The best DMOs are also involved more broadly in the management and development of the local economy, working with local stakeholders to improve the area for everyone. However, there is a disjointed approach to DMOs, with some businesses gaining the benefit of large, professional DMOs, and some losing out through poor planning and representation.

### **Small business housebuilding**

Rural areas face a unique set of challenges in improving the availability and affordability of housing. The UK Government's Statistical Digest of Rural England shows that house prices are less affordable in Predominantly Rural areas compared to Predominantly Urban areas (excluding London).<sup>24</sup> Whilst a UK wide issue, Scottish rural areas face particular challenges in terms of depopulation and availability of affordable housing. The Scottish Federation of Housing Associations' 2020 research showed there was a backlog of 53,000 homes in terms of affordable housing need across Scotland between 2021-26, with around 10 per cent of that need found in rural remote areas.<sup>25</sup>

Housebuilders in the SME sector can make a substantial contribution to building more homes in rural areas. Small housebuilders are more likely to build on smaller sites that would otherwise be of little interest to larger firms, and by nature of the size of the site, they can do so more quickly, helping to raise supply.<sup>26</sup> However, the role of small firms in the

---

23 DCMS, 2021, [The Tourism Recovery Plan](#)

24 DEFRA, 2023, [Statistical Digest of Rural England: Housing](#)

25 Scottish Federation of Housing Associations, 2020, [Affordable Housing Need in Scotland post-2021](#)

26 APPG for Small and Micro Businesses, 2018, [An inquiry into support for small housebuilders](#)

housebuilding industry has collapsed – in 1988, SME housebuilders built 39 per cent of new homes, whereas now they build only 10 per cent.<sup>27</sup>

In 2022, the UK Government announced the £1.5 billion Levelling Up Home Building Fund to provide loans to SME housebuilders. FSB welcomed this fund to enable SME housebuilders to access the desperately needed funds, that traditional lenders are often unwilling to provide. However, more support is needed.

Multiple national and local development levies impact the ability for smaller housebuilders to grow and invest. Section 106 payments and the Community Infrastructure Levy (CIL) are important instruments which help local authorities fulfil Levelling Up principles, but this should not come at the cost of local residential developers. In order to boost opportunities for small housebuilders, and consequently boost housebuilding in rural areas, changing the payment schedule for CIL would allow smaller housebuilders to invest in the materials and labour they need to make developments viable.

---

<sup>27</sup> Savills and LDS, 2021, [A review of the availability of development sites for SME housebuilders in England and Wales](#)

## Recommendations

- **UK Government should raise the VAT taxable turnover threshold from £85k to £100k, and in future link threshold increases to RPI.** Previous FSB research shows that the VAT threshold is a barrier to growth for 24 per cent of small businesses, as they seek to avoid the sudden cost of crossing the threshold, to keep costs down for customers. This situation will only have worsened with the significant inflation we have seen over the past year, while the threshold has remained fixed. Uprating the VAT threshold would strongly encourage a large number of businesses to grow immediately, and this increase in economic activity would have knock-on benefits for rural economies.
- **Increase the Small Business Rate Relief threshold to £25,000 from £12,000.** Previous FSB research found 24 per cent of rural small businesses would invest more in their business, if business rate relief were expanded. These measures in combination will have a positive impact on small firms' investment intentions.
- **Extend the Youth Mobility Scheme to EU countries and do not include annual quotas.** Agreeing reciprocal youth mobility schemes as part of our future relationship with the EEA and selected other countries will play an important role in the UK's future immigration system especially in supporting UK hospitality and tourism businesses that many rural economies depend on. The scheme allows those aged 18-30 to come to the UK for two years during which time they can freely work and study if they wish.
- **The UK Government should adopt the Migration Advisory Committee's recommendation and pilot a remote visa.** A remote visa could be built on the existing points-based system with applicants requiring a job offer, with a skill level of RQF2 (GCSE equivalent), but at a lower salary threshold than the Skilled Worker visa. A remote visa may also contain a seasonal element to allow the many non-UK nationals who return to the UK season after season, to support local remote economies. Government may wish to look at the Rural and Northern Immigration Pilot in Canada, which focuses on community groups and employers, with the goal of helping migrants settle and thus increase retention in more rural areas.

- **The UK Government should change payment of the Community Infrastructure Levy to a post-sale levy rather than a post build levy to boost opportunities to small housebuilders.** The Government should also exempt sites of ten units or less from affordable housing contributions and to ensure that local authorities do not simply increase Community Infrastructure Levy (CIL) contributions on these sites to negate the Government’s intention. The UK Government should ensure the CIL takes better account of the higher costs of building small developments. The levy, and the way it is applied by local authorities, is preventing smaller housebuilders from taking on otherwise viable projects. Small housebuilders are much more likely to need to use external sources of finance to build developments than larger housebuilders. Therefore, to boost opportunities to small housebuilders, Government could change the time at which the Community Infrastructure Levy is collected, so it becomes a post-sale levy, not a post-build levy.
- **The Index of Multiple Deprivation (IMD) should be replaced with a more accurate and targeted Rural Deprivation Index or amended, so that the IMD metrics effectively capture rural disadvantage.** The place-based IMD indices fail to accurately measure rural deprivation, as poverty in rural areas tends to be dispersed amongst more affluent households. Moreover, the index doesn’t take into account the cost-of-living disparity across the country, including often higher housing costs and fuel costs in rural areas.

Using place-based measures of poverty, such as the IMD, which tend to underestimate the extent of rural disadvantage can lead to resources not reaching the communities and business population where they are needed the most. Either ‘rural proofing’ the metrics of IMD or introducing a rural-specific deprivation index would ensure a more accurate picture of deprivation across all geographies and allow a fair assessment of needs for each area.

- **Specify tasks and responsibilities for what Destination Management Organisations (DMOs) should do, creating basic service levels for these organisations to adhere to. This should involve the inclusion and consideration of small businesses and the self-employed in their activities, engagement and decision-making.** Local discretion should be built in – the output of the rural Lake District will look very different to what works for London, not least looking at different target markets and the international/domestic/local audiences they will aim at. As a part of this, a central body in England should be funded appropriately to ensure DMOs are providing core services that are needed in every DMO, to a high standard, and help underperforming DMOs to improve. This would also help to streamline the overlapping and piecemeal current approach to DMOs. The central oversight could come in the form of basic standards required to operate as a DMO, or as a less intensive option, could establish a charter or standard to which DMOs could sign up. The central body should also support DMOs to work together. This should be delivered through VisitBritain/VisitEngland.

# LEVELLING UP AND RURAL SMALL BUSINESSES

In February 2022, the UK Government published the Levelling Up White Paper; a wide-ranging policy to reduce geographic economic, social and health inequalities across the UK. The White Paper includes twelve strategic missions, the missions are centred around the issues of living standards, R&D, transport infrastructure, digital connectivity, education, skills, health, well-being, pride in place, housing, crime, and local leadership.<sup>28</sup>

Whilst the White Paper talks broadly about addressing regional inequalities, it is clear that the mission areas of focus not only have the power to impact how different communities 'level up', but also how business opportunities are distributed across all parts and geographies of the UK. The 12 specific missions imply there are areas of opportunity to promote growth, but also that there are concrete issues where there is a disparity that can put areas, and indeed businesses located within them, at a disadvantage.

It is also evident that some of the key missions will have a greater impact on rural communities, such as the Levelling Up targets on digital connectivity and transport infrastructure, but also in relation to skills and housing.

## Funding the Levelling Up agenda

To support its levelling up ambitions, the UK Government introduced a number of domestic funding pots. The UK Shared Prosperity Fund (UKSPF) offers £2.6 billion with the aim to build pride in place and increase life chances across the country. It focuses on three priorities – Community and Place; Supporting Local Business; and People and Skills.<sup>29</sup> Additionally, to UKSPF, in September 2022, Department for Environment, Food and Rural Affairs (Defra) launched the Rural England Prosperity Fund (REPF), a top up to the UK Shared Prosperity Fund aimed specifically to support the development and growth of rural communities and businesses.<sup>30</sup>

Separate from the UKSPF but sharing the aim of funding the UK Government's levelling up ambition is the Levelling Up Fund (LUF). The LUF is a £4.8 billion programme focusing on infrastructure projects to regenerate town centres and high streets, upgrade local transport, and invest in cultural and heritage assets.<sup>31</sup>

Some of these funding schemes introduce a domestic replacement of the European Structural and Investment Programme (ESIF), which has been a unique part of the UK's regional funding landscape. As a result, concerns have been raised over a potential funding gap between the original EU

---

28 DLUHC, 2022, [Levelling Up the United Kingdom White Paper](#)

29 DLUHC, 2022, [UK Shared Prosperity Fund: prospectus](#)

30 DEFRA, 2022, [Rural England Prosperity Fund: prospectus](#)

31 HMT, 2021, [Levelling Up Fund: Prospectus](#)



funding pots and the domestic UK Government programmes that aim to replace them.

For example, the REPF succeeds funding from the LEADER Programme which was funded by the European Agricultural Fund for Rural Development, as part of ESIFs, and used to support the development of rural economies.<sup>32</sup> Whilst not a direct replacement in scope, much like the other domestic successors of EU structural funds, REPF aims to broadly match the LEADER funding amount available. Between 2015 – 2022, a total of £138 million was made available to rural England through the LEADER scheme. By comparison, the REPF offers up to £110 million in funding to rural England between 2022 and 2025. Despite the shorter allocation time frame of the REPF, there are concerns regarding the LEADER/REPF funding gap in light of the cost-of-living crisis and rising inflation.

Similarly in the case of UKSPF, it is worth noting that while the areas of responsibility covered by ESIFs and now UKSPF and the funding amount provided are broadly similar, the way in which funding is controlled and allocated is very different, particularly in the devolved administrations of Scotland, Wales and Northern Ireland.

### **Rural proofing**

To ensure policies deliver for rural communities, Defra introduced rural proofing; a mission to “to understand the impacts of government policy intervention and to ensure fair and equitable policy outcomes for rural areas”<sup>33</sup>. Rural communities and economies encompass far more than the stereotypical image of farming and the countryside. The rural economy has great potential, yet policies to help it realise this potential seem to either fall between the cracks or reach beyond the remit of Defra.

To address Whitehall’s lack of cross-departmental policy agency to support rural areas, Defra published its first rural proofing report in March 2021, designed to set out “how government departments are working to ensure rural areas are taken into account in designing and delivering policies.”<sup>34</sup> To align rural proofing efforts with the Levelling Up agenda, Defra published its second rural proofing report in September 2022, which also included the launch of the REPF.

Whilst government initiatives to rural proof policies is welcome, it should not be seen as a silver bullet, but rather a first step to account for ways in which the metrics in the white paper disproportionately favour urban/suburban priorities. Rural impacts and policy proposals need to be set out at the outset of the policy cycle across all major policy areas impacting rural

---

32 DLUHC, 2021, [UK Shared Prosperity Fund: prospectus](#)

33 DEFRA, 2022, [Rural Proofing Guidance](#)

34 DEFRA, 2020, [Rural Proofing in England 2020](#)

economies. The Levelling Up White Paper promises a strategic agenda, yet the rural proofing report released seven months after the publication of the White Paper merely suggests a retrospective look at whether the Levelling Up agenda delivers for rural communities across the UK. For rural small businesses to thrive, it is vital that there is a strategic vision for rural communities to guide future policy making.

**“Many of the barriers to business that rural enterprises face require improvements to infrastructure that should already be in place. In fact, there isn’t necessarily an issue of a lack of funding for rural businesses, many of us are not asking for handouts, it is a question of getting the system in place working and doing what it should be doing for every corner of the UK.**

**What frightens me about any grant like the Rural England Prosperity Fund is that local authorities will use the funds to make improvements, such as adding bus routes. That is not what ‘rural funding’ should be. That should already be in place, we’ve paid for it in our taxes over and over again”.**

FSB member, accommodation services, Cumbria

## **Local authorities and devolution**

Monitoring, approving and funding business activity, local authorities can empower small businesses to support the rural population and help rural economies grow. Equally, a negative relationship or an insufficient dialogue between local authorities and local enterprises can have adverse effects on business and domestic communities alike.

**“You need more of a can-do attitude from local authorities. They act more as a barrier than they do as a catalyst for improvement.”**

FSB member, accommodation services, Yorkshire Dales

With the UK Government’s commitment to the Levelling Up agenda and the initiative to devolve more powers from central government to local governments, local and combined authorities have increasing levels of oversight and control. The Levelling Up White Paper promises that the project “presents an opportunity to reset the relationship between central and local government and put councils at the heart of delivering the Government’s ambitious programme to improve opportunities and outcomes in all parts of the country.”<sup>35</sup> Many business grants are indeed distributed, and applied for, on a local authority level. However, whilst

---

<sup>35</sup> Local Government Association, 2022, [Levelling Up White Paper: LGA Briefing](#)

charged with the responsibility by the central government, a question arises whether local authorities are sufficiently informed of the needs of and barriers to their business community to make those impactful decisions.

**“I do think the local authorities do some great work, but in terms of dealing with the rural fringe, I don’t think they do themselves any favours sometimes. They don’t have many meaningful discussions about what people want in those rural areas. They seem to always quote the deprivation index – all the money that they have seems to have to go to those deprived areas. The issue is, rural areas have different needs and, sometimes, they get forgotten.”**

FSB member, business consultancy, Nottinghamshire

**“I am aware of the grants available to us, and we try to take advantage of them when we can, but there doesn’t seem to be any active support from the local authorities or engagement with the business community. There is plenty of oversight – planning, public health, licensing – many opportunities for them to say no, but they certainly do not go out of their way to work with businesses in supporting and engaging with the local rural community.”**

FSB member, veterinary practice, Hertfordshire

FSB qualitative research found that small business owners often highlight poor communication, or lack thereof, with their local authority. Establishing an effective dialogue between local authorities and business networks would help inform businesses of the support available, as well as help local authorities understand the needs of their business community. Unless this dialogue is strengthened and delivered on a regular basis, even the most effectively ring-fenced funding won’t reach the designated beneficiaries. Alongside this dialogue, better communication between local authorities and businesses can create the data and knowledge necessary to target funds where they are needed, but also to identify where they will have the most impact in terms of the twelve levelling up missions.

**“Often people don’t know what’s available, and there is little interface with the local authorities and businesses, so there is a disconnect. It would be great if local authorities could commission some business champions who were business owners themselves to host information sessions on their behalf and help inform local business networks.”**

**FSB member, business consultancy, Nottinghamshire**

**“We come across grants because I do a lot of work finding out what we are eligible for and invest a lot of time and effort to make sure we get them. It is certainly not publicised and usually the only engagement with our local authority on the process would be them saying no.”**

**FSB member, veterinary practice, Hertfordshire**

Another issue arises in the context of the ease of accessibility of grants administered by local authorities. Some small firms cite complicated and time-consuming application processes, as well as limited help and advice from local authorities, as off-putting. Small businesses risk losing revenue by dedicating their limited time and resources to complex applications. Alternatively, they miss out on grant opportunities in order to keep the everyday running of their business undisturbed. If local authorities operate in isolation from the business community they represent, it is more likely that schemes and processes they propose will be complicated and pose additional barriers to small businesses. Local authorities should therefore implement measures to limit the burden on small businesses applying for grants, such as ‘tell us once’ data systems and rapid user testing with local businesses before launching schemes, to minimise unintended barriers.

In addition, local authorities could set up business engagement panels which are representative and inclusive of the local business community. These panels could help small and micro firms with funding applications. When combined with existing comprehensive stakeholder engagement approaches present in some local authorities, these panels could help direct these funds to where they are needed most.

**“We’re all running businesses, we’re really busy people. You get to the stage where you have to put tasks like applying for grants on the shelf because there are other, more pressing things that you have to get on with. And that’s why we need support with this sort of stuff. Realistically, even if we have all the knowledge and all the contacts, we still can’t do it all ourselves.”**

FSB member, tourism sector, Anglesey, Wales

**“Some councils make you jump through hoops to access grants. Even though they are being given the money by central government anyway, you can be made to feel as though you should not be having it.”**

FSB member, accommodation services, Yorkshire Dales

However, rural businesses emphasise that additional grants aren’t the only solution, nor, in many cases, the preferred solution to help boost rural productivity. Whilst targeted funding for rural small businesses is indeed welcome, it does not address the perceived lack of a fair standard in regard to basic key infrastructure, which is still missing from many rural parts of the UK. Some major barriers prevail, and many businesses agree that these should be remedied by national policies and strategies, rather than given up on and supplemented by alternative grants that don’t treat the root cause of the rural business challenge.

### **Levelling Up and devolution**

On a national level, the Levelling Up White Paper promotes devolution of power from central government to local government agents. For Levelling Up to truly deliver in every part of the Union, devolution of power and agency to national governments of Scotland, Wales and Northern Ireland is equally important. The UK Government “is committed to facilitating collaboration and engagement with the devolved governments and stakeholders in Scotland, Wales and Northern Ireland”<sup>36</sup>, as the goals of Levelling Up are of a shared interest for the whole of the UK. It is therefore vital that responsibilities are effectively devolved across all tiers of government across the UK.

In order to do so, Governments at all levels must establish a partnership, working across regions in England and the devolved nations, and where possible including clear interface structures between UK and devolved Governments.

---

<sup>36</sup> DLUHC, 2022, [Levelling Up the United Kingdom White Paper](#)

## Wales

Through the UK Government's round two of the Levelling Up fund, Wales was successful in bidding for £208m of funding, covering eleven projects – including a focus on upgrading town centres, transport and improving cultural and heritage assets.

Under EU schemes to support economic development, Wales received five times more in funding per person than England between 2014 and 2020 – owing to higher levels of deprivation<sup>37</sup>. The Levelling Up agenda has therefore been of particular interest to Welsh communities, including those in rural economies.

However, the devolved aspect of Levelling Up has been a source of contention, as Wales had been particularly dependent on EU funding and both the quantum and structure of replacement funding has provoked tensions between the Welsh and UK Governments.

This has been amplified in the political discourse due the fact that under the previous EU funding regime, the responsibility for the funding allocation and decisions sat with the Welsh Government under their devolved responsibility for Economic Development. Under the new regime, the UK allocates funding to local authorities, essentially bypassing the Welsh Government, although the UK Government has stated it welcomes input from the Welsh Government.

FSB Wales has called for an improved relationship between the Welsh and UK Governments – as has been demonstrated elsewhere through the initial stages of the freeports development. FSB's 'Building Business'<sup>38</sup> report explored some of these themes, including the prospect of levelling up activity, as well as recommendations to bolster an improved operating environment for small businesses in Wales.

## Scotland

There are three parts of the Levelling Up Bill which are of particular significance to Scotland:

- Part 1 would create a duty on UK Government Ministers to publish a statement of levelling-up missions. The missions would apply across the UK and UK Ministers would have to report annually on the progress towards each mission.

---

37 BBC, 'Brexit: Wales' EU aid replacement progress 'unacceptable', 2 October 2020, <https://www.bbc.co.uk/news/uk-wales-54374532>

38 FSB, 2022, [Building Business: Building communities through business support in Wales 2022](#)

- Part 3, Chapter 1 would give the UK Secretary of State the power to regulate the processing of planning data by planning authorities and create binding standards for processing data across the UK.
- Part 5 would give the UK Secretary of State the power to specify outcomes relating to environmental protection and would introduce a new approach to environmental assessment in the form of Environmental Outcome Reports (EORs).

The Scottish Government has been clear that while it welcomes additional funding for Scotland, it does not share the UK Government's view that Part 1 of the Bill does not require a Legislative Consent Memorandum, given that the levelling up missions cover areas that are within the devolved responsibility of the Scottish Government and Scottish Parliament. As such, the Scottish Government lodged a Legislative Consent Memorandum related to the Bill in July 2022.

The Scottish Government disputed the UK Government prerogative to decide how funding is spent in areas of devolved responsibility and has also indicated it had no engagement with the UK Government on its Levelling Up White Paper published in February 2022, which sets out the "missions" the UK Government has for all parts of the UK.

While relations over Levelling Up have been strained over the Levelling Up agenda, given that Scotland's rural economy was a key beneficiary of the UK Government controlled Shared Prosperity Fund's European predecessor, the European Regional Development Fund (ERDF), it can be expected that these tensions will continue.

### **Northern Ireland**

The primary issue in Northern Ireland arises from the transition of European Social Funding (ESF) to UKSPF has been a considerable delay in the opening, processing and announcing of successfully funded projects – specifically under the UKSPF Economic Inactivity funding stream, worth around £42m. Applications closed on 27th January 2023. At the time of writing on 24 March 2022, organisations that submitted proposals were yet to be notified of the outcome.

This is significant for at least two reasons:

- First, the UK Government has announced a considerable range of aims and measures to help ensure people who are economically inactive, become economically active. Northern Ireland has the highest rate of economically inactive people compared with the UK (26.3% to 21.4% as of December 2022).

- Second, in practical terms the UKSPF competition delays mean that many hundreds, if not thousands of workers in the NI Community and Voluntary Sector have been put on protective notice and are to be made redundant at the end of March 2023 when the current stream of ESF funding ends.

Given the length of time UK Government has had to prepare and deploy UKSPF funding, we would encourage the UK Government to resolve this as soon as possible.

### **Small businesses and communities**

Whilst there are some missions in the White Paper where rural areas are likely to be the target regions to ‘level up’, there are others where rural communities, and small businesses within them, can be the key enablers to achieve the UK Government’s target. The mission to promote pride in place, described as an effort to restore “a sense of community, local pride and belonging”<sup>39</sup>, is certainly worth pursuing and deserving of its place among the 12 growth and productivity focused Levelling Up missions. Where people feel content within their community, they are more likely to stay, spend, work and invest. An effort to boost civic pride can therefore seamlessly complement a focus on economic growth and prosperity.

**“We make a point in our business of actively and financially supporting various organisations, charities, and grassroots sport teams in our local community. We do have a really active role in our local community, but we arrange it ourselves, on our terms. I perceive the local authorities as a brake on pretty much everything we do in our business. If we want to engage with our local community, the best way I find is to avoid any involvement with the local authorities.”**

**FSB member, veterinary practice, Hertfordshire**

Defra found that “in 2021, 89 per cent of people living in rural areas reported that they were satisfied with their local area as a place to live, compared with 77 per cent of those living in urban areas.”<sup>40</sup> In this context, the role of small businesses is not to be overlooked – they are both social and economic agents in their communities.

---

39 DLUHC, 2022, [Levelling Up the United Kingdom White Paper](#)

40 DEFRA, 2022, [Delivering for rural England – the second report on rural proofing](#)



**“It can be quite isolating living in a rural community, but with our pub gone, the town’s meeting point has gone. We have no coffee shops here, so it has removed a big part of our social lives. The Government doesn’t realise how important pubs are to rural areas. If a pub in an urban area shut down, it would be sad, but may not have a huge impact on people’s social circles. But in a place like our village, it’s taken more of a hit.”**

**Rural community, North West England**

Rural enterprises directly and indirectly support and enhance their local economies. From attracting visitors to providing employment opportunities to local residents and enabling other businesses to set up and prosper in the area, small rural firms boost social capital and generate economic growth in their communities. Additionally, they are often involved with regional events and charities, regularly paying back to their communities and contributing funds and resources toward good causes. Pride in place may in part be dependent on the physical infrastructure in place, but the less tangible sense of belonging that the social impact of rural small businesses helps to create is not to be underestimated.

**“All of the suppliers for my café are small, local, independent businesses. It costs a lot more, but it’s worth every penny. I love being a part of the success stories of these small businesses.”**

**FSB member, hospitality and catering, Lake District**

## Recommendations

- **Department for Environment, Food and Rural Affairs (Defra)'s new training module on rural proofing should be made compulsory for all civil servants working on domestic policy.** It is encouraging to see that Defra has developed a new module to train civil servants on the meaning and objectives of rural proofing. However, to help all policy makers understand how to take the needs of rural businesses and rural communities into account when designing and implementing proposals, this module should be made compulsory for civil servants across all Government departments.
- **The UK Government should ensure appropriate or additional metrics are considered in policy development where existing metrics may fail to accurately capture the rural experience.** Additional metrics, such as house price to local earnings ratio, public transport provision to access employment, education or key services, as well numbers of the self-employed and non-VAT-registered micro businesses in the local community and rates of seasonal employment could be considered to ensure rural areas are not disadvantaged by often urban-focused metrics. Only accurate and fair assessment of rural deprivation can allow for suitable funding to be allocated to support rural businesses and communities.
- **Local authorities should appoint either elected members or senior management as Local Business Local Champions. These individuals would be given clear responsibility and accountability for business engagement and application to all available funding.** Many small firms cite the lack of awareness of grants available, as well as opaque application processes, as barriers to growth. Some businesses note this is a result of lacking quality connections between local authorities awarding or administering grants and their local business communities. Appointed Local Business Champions should ensure effective and productive deliberation with the business community. This would allow local authorities gain a better insight into the needs of small businesses in their catchment area, and enterprises have more awareness of grants available to them and support through the application process.
- **Local authorities should create dedicated business engagement panels for the purposes of funding applications and conduct rapid user testing before launching business support programmes, to minimise barriers to uptake.** The best applications result from deliberative and inclusive engagement with the business community incorporating not only the familiar loudest voices. This requires more

than the minimum statutory style of consultation. Local authorities need to be sufficiently resourced to give this priority; strengthening the business community will promote greater cohesion and resilience of the local community. Sharing knowledge and best practice among businesses can also boost economic growth and productivity in the area. making this a priority.

- **Local authorities should use ‘tell us once’ data systems, to reduce duplicated forms and minimise administrative burden on businesses.** ‘Tell us once’ data systems allow local authorities to efficiently collect data and connect it to previous information stored locally about a business. This ensures that businesses don’t have to produce duplicate forms for funding applications, minimising the administrative and financial burden on businesses. Additionally, local authorities should have good enough data about their local businesses as a result, enabling local authorities to quickly identify and include businesses when opportunities arise.
- **The UK Government should set out clear metrics for the evaluation of its pride in place mission, which reflect the social value that small businesses create in their communities.** It is clear that boosting civic pride can, in turn, help boost economic productivity. However, it is not stipulated who can boost it and how, nor how success might be quantified. Acknowledging the contribution of social value toward achieving better pride in place could reward and incentivise more small businesses to take on an active role as social agents in their local communities. Policy makers should embrace new ways of measuring, encouraging, and rewarding the value that smaller businesses create for their communities through, for example, reducing social exclusion, improving health and wellbeing, increasing employability, creating better access to services, improving the local environment and creating greater community cohesion.

# DIGITAL CONNECTIVITY

Fast and reliable broadband is a critical enabler of productivity and broader business competitiveness. From starting a business to taking a business online, small firms depend on broadband connectivity to conduct day to day operations, as well as to support their ambitions to grow and diversify. The pandemic highlighted the importance of digital connectivity for businesses, with 16 per cent of small businesses and sole traders developing a new online presence or increasing their existing one.<sup>41</sup> However, vast differences in the quality and reliability of broadband connection across the UK put rural and urban small businesses on an uneven playing field.

**“Poor broadband will deter people from moving to rural areas to start a business. Nothing can function without it. You will simply not do it, if you don’t have decent digital connectivity.”**

FSB member, accommodation services, Cumbria

Ofcom found that twice as many rural small businesses are fairly dissatisfied with the reliability of their broadband connection compared to small firms based in urban areas (5% urban vs. 10% rural).<sup>42</sup> This aligns with our research which shows rural small businesses suffer more than urban businesses from poor broadband connection, with 32 per cent of rural small businesses reporting reliability issues with their broadband compared to only 17 per cent of urban small businesses. It is therefore evident that unreliable broadband poses a disproportionate barrier to small businesses in rural areas.

The implications of this digital divide are significant. FSB research found that over twice as many rural small businesses (14%) compared to urban small businesses (6%) reported that unreliable broadband has affected their ability to contact customers, reduced the competitiveness of their business (11% of rural small firms vs. 5% of urban small firms) and led to a loss of business or sales (10% rural vs. 5% urban). Furthermore, the adverse impacts of unreliable broadband not only affect the current business operations, but future business aspirations of rural small businesses too. FSB data shows that 11 per cent of rural small businesses perceive unreliable broadband as a barrier to growth of their business, an experience that only 6 per cent of urban businesses recognise.

---

41 FSB, 2020, [New Horizons: How Small Firms are Navigating the COVID-19 Crisis](#)

42 Ofcom, 2022, [SME Consumer Experience in the Communications Market](#)

**Figure 4: Business impact of broadband connectivity****Source:** FSB, Online platforms survey, November 2022

Impact on business	Rural SMEs	Urban SMEs
Broadband speed is sufficient for current and future needs	58%	75%
Broadband can be unreliable, and it has affected customer communications	14%	6%
Broadband can be unreliable, and it is a barrier to business growth	11%	6%
Broadband can be unreliable, and it has reduced business competitiveness	11%	5%
Broadband can be unreliable, and it has led to a loss of business or sales	10%	5%
Broadband can be unreliable, and it has discouraged digital adoption	8%	5%
Broadband can be unreliable, and it has prevented staff online training	6%	3%
None of the above	10%	7%

**“Broadband is a genuine issue. The tills, card machines, everything goes down if the internet goes down. We don’t even have very good 3G, yet I’m trying to work with people all across the UK who cannot even imagine internet connection ever being a problem. This makes for such an unlevel playing field.”**

**FSB member, tourism business, Anglesey, Wales**

**“There’s often a delay on our lines, so we have to use 4G plug-ins. They are one of our biggest overheads. The world has changed since Covid – our trainers have to attend a lot of Zoom calls and our clients require flexibility from us. That really focuses the mind on connectivity which for us, in general, is awful. So much so that in the last year, we’ve talked about moving. Despite being in the perfect location for our business and clients, we’ll have to move, as we cannot get adequate broadband and transport services to make it viable.”**

**FSB member, business consultancy, Nottinghamshire**

Rural small businesses based in poorly connected areas experience an additional barrier in their struggle to overcome them. Similarly, insufficient broadband can impact growth aspirations of a business, or present a disproportionate barrier for rural small firms if their business objective is to diversify.

It is not only issues with broadband reliability that rural businesses disproportionately struggle with. Ofcom found that 7 per cent of rural small businesses are very dissatisfied with the speed of service while online, compared to only 3 per cent of urban small businesses.<sup>43</sup> FSB research found that speed of connection presents another barrier to business, with 75 per cent of urban small businesses stating that their broadband speed is sufficient their current and future needs, compared to only 58 per cent of rural businesses.

**“The biggest issue I’ve got is with my internet connection – it’s ludicrously slow and it’s interrupted quite frequently. We are trying to go direct to consumer – previously, we have only done B2B, but during lockdown, it became apparent that we need to establish a B2C connection and automate our B2B connection instead. We are trying to do more business digitally. It made us realise just how bad the local internet is. If my business required access to the internet just to read things online, perhaps then the broadband we currently have would be sufficient. However, now that we sell products B2C on an online retailer platform and a number of our own websites, I need better connection to upload and download information.”**

**FSB member, manufacturing, Somerset**

---

43 Ofcom, 2022, [SME Consumer Experience in the Communications Market](#)

Currently, premises are considered to have access to a decent fixed connection if the broadband speed is above a download speed of at least 10 megabit per second and an upload speed of at least 1 megabit per second.<sup>44</sup> With the latest Ofcom estimates at 123,000 premises currently without a decent broadband connection, it is evident that there are still issues with ensuring that everyone in the UK has access to decent broadband from either fixed or wireless networks. Equally concerning is Ofcom's expectation that "many of the remaining premises will have to contribute to the costs of building a connection and, for a significant number of these, connection costs will be very high, which means they may not be able to gain decent broadband through the universal service scheme."<sup>45</sup> It is important that the UK Government and Ofcom work together to create a strategy, as well as possible way of funding to extend decent broadband to these outstanding premises.

**"I see major broadband providers creating superfast broadband packages for domestic consumers. I would like to see a business-targeted alternative to those packages. Unfortunately, I don't think the providers consider this lucrative."**

FSB member, manufacturing, Somerset

Further to ensuring a sound strategy and possible funding avenues to connect premises in rural areas currently disadvantaged by the lack of good broadband, the very minimum requirements for what is considered a decent fixed broadband connection should be reviewed to reflect actual business needs in this day and age. In particular, the minimum upload speed should be increased, as the current 1 megabit per second threshold is not sufficient for many businesses and their operations.

**"It is not just the download speed, upload speed. We often send and receive very large data files. The speed that may suffice for a domestic customer to download a movie won't be the same as what businesses need – we require a strong, two-way communication. Broadband is the one reason why I would be looking to relocate."**

FSB member, veterinary practice, Hertfordshire

Work to improve broadband connectivity should not be limited to UK Government only. Cross-government work should be encouraged to ensure improved speed, reliability and affordability of broadband in England and the devolved nations. As an example, UK and Welsh Governments have

<sup>44</sup> Ofcom, 2021, [Connected Nations 2021](#)

<sup>45</sup> Ofcom, 2021, [Connected Nations 2021](#)

worked together constructively over the past decade to ensure continued good progress in Wales on broadband infrastructure. While it is a reserved matter, Welsh Government's Superfast Cymru project, with coverage of premises going from 55 per cent (2014) to 97 per cent (2019 – UK 98%) in five years. Broadband infrastructure has vastly improved and at pace. Thought still needs to be given to areas which are harder to reach and how they are catered for.

A lesson that can be learnt from Wales is that Government intervention can be used to address market failure, and it is important that the Welsh Government continues to view this as a priority, alongside continued work with UK Government on continued expansion of 4G and 5G networks to rural areas.

Northern Ireland is benefitting from a roll out of highspeed broadband that will see its coverage 'world-class' across much of the region by 2025. The publication of a Mobile Action Plan for NI <sup>46</sup> in June 2022 was a positive step.

## Mobile

Whilst poor broadband is undoubtedly a significant barrier that rural businesses face in relation to their everyday operations as well as future ambitions, there are other challenges related to insufficient digital connectivity that must be addressed to help rural economies prosper. Mobile voice connection and mobile data connection remain a significant and disproportionate obstacle to business productivity in rural areas. The latest Ofcom report of SME consumer experience in the communications market found that only 3 per cent of urban SMEs were very dissatisfied with the reliability of the reception or signal strength, compared to 12 per cent of rural SMEs.<sup>47</sup> Among other adverse effects, unreliable mobile connection can result in loss of business and additional that small rural businesses must absorb cost to ensure connectivity.

**“My mobile coverage is quite patchy, which can be difficult when I'm out and about and want to redirect my landline to my mobile. This means I can miss bookings.”**

FSB member, accommodation services, Yorkshire Dales

---

<sup>46</sup> Department for Economy, 2022, [Northern Ireland, Mobile Action Plan for Northern Ireland](#)

<sup>47</sup> Ofcom, 2022, [SME Consumer Experience in the Communications Market](#)



**“Mobile signal is perhaps a bigger problem than broadband connection for us. We are so close to London, yet there are so many black spots. I equip our surgeons in their vehicles with multi-sim two-way radio pagers with GPS locaters. We are using mobile voice connection, mobile data connection, radio and satellite. Even with all this together, we still lose contact.**

**Our broadband connectivity is okay, but only because we make it. I would rather invest in supplementary telecom equipment than to let the inadequate digital infrastructure compromise my business. I am spending between £375 and £400 each month on radio transmissions alone, simply because we cannot get any mobile phone signal.”**

**FSB member, veterinary practice, Hertfordshire**

It is evident that small businesses in rural areas experience disproportionate difficulties trying to achieve a reliable broadband and mobile connection; something that is essential for businesses to thrive and grow in today’s market. Rural businesses with poor digital connectivity try to overcome this disadvantage and they go to great lengths to substitute the insufficient infrastructure in place. This often means that the disproportionate difficulties rural small businesses experience are met with disproportionate costs to ensure suitable telecommunications and connectivity.

The rising cost of broadband contracts is not an issue reserved for rural businesses. However, it may be felt harder in an area that is already disadvantaged by insufficient digital connectivity and a need for supplementations as well the costs associated with it.

Many providers, however, offer generally cheaper broadband tariffs, which businesses could make use of to help mitigate the cost pressures associated with internet connection. It is important that providers effectively promote their cheaper tariffs to raise awareness of alternative cost options, and that the process of switching broadband plans is simple, straightforward and does not incur additional costs to small businesses.

It is worth noting that good digital connectivity isn’t just important for business owners and their employees, but also for their customers.

**“From a hospitality perspective, customers arriving from urban areas have high expectations when it comes to broadband and mobile connection. Poor broadband can leave them disappointed, and it can affect their stay overall, as well as how they view rural areas.”**

**FSB member, accommodation services, Yorkshire Dales**

**“We use social media only to market our business. When customers come in, the first thing they do is ask for the Wi-Fi code. The second thing is when their food arrives, they take a picture of it to share online. That’s a huge advert for us, the type of publicity you can’t buy, but it also keeps us on our toes – knowing that every meal may be our advertisement encourages our staff to do the very best that they can. We are therefore very reliant on good internet connectivity.”**

**FSB member, food services sector, Scottish Highlands**

The lack of adequate digital connectivity in some rural areas not only limits innovation and growth, but it also affects the viability of rural small businesses. Despite the reports of 5G rollout rapidly increasing in 2022, there have only been small improvements in 4G coverage<sup>48</sup> and in some rural areas, small businesses are still lacking minimum broadband and mobile connection speed and reliability.

---

48 Ofcom, 2021, [Connected Nations 2021](#)

## Recommendations

- **The UK Government should update the Universal Service Obligation minimum requirements for both upload and download speeds to ensure businesses have the right to decent broadband speed to meet their digital needs, and it should set a fairer safeguard cap at £35/month.** The Universal Service Obligation (currently a minimum of 10 megabits per second download speed and 1mbps upload) should be regularly updated to reflect actual business need. This should match the current minimum in the US, which is currently 25 megabits per second for downloading files, and 3 megabits per second for uploading. Our report also recommended that for the Universal Service Obligation, a fairer affordable safeguard cap should be set at £35 a month, to protect USO customers (this is currently £46.10 per month).
- **The Department for Science, Innovation and Technology (DSIT) should ringfence a proportion of the remaining Project Gigabit budget to support projects that will help connect hard to reach and very hard to reach areas with superfast broadband.** UK Government previously announced it would allocate a budget of £5 billion for the roll out of Gigabit capable broadband. So far only £1.2 billion of funding has been allocated. We urge the Government to catch-up and commit to investment levels closer to the scale of the issue, to connect hard to reach places in the UK at a reasonable level of broadband.
- **Ofcom should look to make current Voluntary Codes of Practice for broadband providers compulsory and extend the existing compensation schemes so that they also apply to business contracts.**
- **DSIT must ensure the Shared Rural Network does not fall behind its 2025 target of 95 per cent 4G coverage across the UK.** Mobile connectivity is essential for everyday operations of many businesses. With the 2022 Ofcom Connected Nations Autumn Update recognising that there has not been a significant increase in coverage since their last update, it is important that DSIT ensures that sufficient progress is made to meet the 2025 coverage target, with particular attention paid to hard-to-reach areas and so called ‘not-spots’.
- **Broadband providers should make it easier and cheaper for small businesses to leave broadband contracts before the minimum contract term has expired.** Currently you can leave your broadband contract without paying an exit fee (which can be very expensive) if a) your broadband is slower than advertised b) if your prices increase mid-contract, once you’ve been notified of a price change, you’ll have 30 days to cancel your existing contract without paying a penalty c)

your provider hasn't acted to solve issues raised. We recommend the following specific changes:

If the prices increase mid-contract, the provider has to write and explain the change and say what cheaper options exist (e.g. if a rival has cheaper broadband they have to outline this).

- Scrap the 30 day window to cancel – i.e. when the costs are increased mid-contract you can leave at any time without paying an exit fee.
- Place a cap on the exit fee – this could change depending on how far through the contract a customer.
- Put a duty on broadband providers to offer cheaper broadband when it has been consistency slower than advertised or highly intermittent.

# TRANSPORT

Smaller rural businesses and market towns can have a wide geographic catchment area in terms of customers, suppliers and employees accessing their business. Limited and poor transport options have a significant impact on rural small firms. Without access to these markets, rural businesses will frequently struggle to grow and expand. Research from the National Innovation Centre for Rural Enterprises (NICRE) found that Rural businesses were almost twice as likely as urban businesses (36% vs. 19%) to rate their transport infrastructure as ‘poor’ or ‘very poor’.<sup>49</sup>

## Road Network Infrastructure

Due to insufficient public transport services, it is clear that rural small businesses place substantial importance on the use of motor vehicles – FSB research demonstrates that the road network remains vitally important to most small businesses regardless of their location, however, with many businesses in rural parts of the UK primarily relying on their car for their business activities, with either no or little alternatives, it is critical to address and recognise road transport challenges.

**“We have six vans on the road right now, out making deliveries of our product to local farm shops. Every week, there are issues with burst tires and other defects caused by potholes and poor road conditions. The roads around here are terrible – they are unsafe and cost us a lot of money trying to keep our vans going.”**

FSB member, food production and manufacturing, Northern Ireland

Small businesses in rural areas face inherently higher transport costs, as a result of having to use a car and travel greater distances in rural geographies. However, poor roads and damages caused by potholes only contribute more expense to already high transport costs, putting rural businesses at a disadvantage.

**“I find that in rural areas, often there is no prior warning of roadworks taking place, and when they do, they are poorly signed. There might be a road closure and a diversion pointing right, but no further diversion signs after that. It is easy to get lost and you have to factor in a lot of extra time, or else you risk being late for meetings, which could cost you potential clients.”**

FSB member, environmental consultancy, Northern Ireland

---

<sup>49</sup> NICRE, 2022, [Infrastructure and networks: rural enterprises and the Levelling Up agenda](#)

**“It is a network of roads that don’t lead anywhere. There are road signs that are not compliant with the law, there are road signs missing all together, white lines that have rubbed out years ago... It creates an impression of failure, and you only get one chance for a first impression.”**

**FSB member, defence and security industry, Dorset**

To level the playing field for small businesses regardless of their location, future road infrastructure investment should concentrate on improvements to the secondary trunk road network rather than further investment in the motorway network. This can relieve pressure on the motorways, reduce congestion and remove traffic from local communities. Additionally, this will also bring environmental benefits and help reduce carbon emissions.

In 2021, the Welsh Government announced a freeze on new road building projects, whilst a review of highway schemes takes place – in an effort to reduce carbon emissions. This decision will have been of particular interest to rural communities, where the existing road infrastructure and connectivity is poor and at the time of writing the review is due to report imminently.

## **Fuel prices**

In November 2022, the Office for Budget Responsibility predicted a 23 per cent increase in the fuel duty rate in late-March 2023, which expected to raise the price of petrol and diesel by around 12 pence a litre.<sup>50</sup> In light of these predictions, FSB campaigned against this fuel duty hike<sup>51</sup>, highlighting the impact that unfreezing fuel duty would have on small businesses, especially in rural areas.

FSB’s, SBI Q4 found that 87 per cent of rural small businesses reported an increase in the cost of running their business, compared to Q4 2021. With 61 per cent of rural businesses citing fuel costs as one of the main drivers of overall cost increases, fuel costs appear a more significant problem for rural small firms than urban ones (where 51% cite fuel costs).

When asked how their business would respond if the price of petrol and diesel rose by 12 pence per litre in March 2023, 26 per cent of rural based small businesses said they would keep prices the same because customers cannot afford further increases. Additionally, more rural businesses said they will downsize, close business or radically change business model should fuel duty increase as predicted (18% rural vs. 12% urban), and almost twice as many rural firms (11% vs. 6% urban) will be forced to reduce the number of employees through redundancies.

---

50 OBR, 2022, [Economic and Fiscal Outlook](#)

51 FSB, 2022, [Small firms brace for incoming fuel duty hike](#)

FSB's campaign successfully demonstrated that the 12p/litre increase in fuel duty would hurt many small businesses and individuals who need to travel for work, with a disproportionate impact on small firms based in rural areas where there is a greater reliance on cars, as well as greater distances to travel to access goods, customers, and services. FSB welcome the Chancellor's decision to commit to a 5p cut for another 12 months. Combined with falling fuel costs as prices continue declining from their 2022 peaks, the freeze will be a welcome relief for many small businesses.

### **Public transport**

Previous FSB research found that rural businesses are less likely than urban businesses to have started using public transport (7% vs. 13% respectively) or to have increased cycling or walking (13% rural vs. 18% urban) as steps to change their business transport habits.<sup>52</sup> Moreover, when asked about why their business hasn't taken any steps with regards to their business transport habits, rural businesses are more likely to state public transport is inefficient or unavailable due to their location (44% vs. 33% urban) as the reason, highlighting the precarious link between insufficient local infrastructure and the capacity to adopt more environmentally friendly business transport habits.

Many businesses in rural communities have reported that public transport can be insufficient for their needs. Issues concerning frequency and reliability of services were at the forefront of discussion, with negative impacts on their business and revenues, such as limited access to employees and customers, stated as key concerns associated with poor transport infrastructure. Whilst the UK Government has put forward ambitious investment plans, including the Transport Decarbonisation Plan and the Bus Back Better strategy, there is still a dire need for a targeted rural transport strategy. Until there is an effective network of public transport in rural areas, the use of personal motor vehicles will remain the primary and preferred mode of transport.

Improving rural public transport will require a bold approach and smart investment from the UK Government and transport providers, as well as collaboration across local authorities. In addition to increasing services in rural parts of the UK, timetables of local bus services and rail services should be better aligned and accessible both by car and alternative modes of transport (including bikes and e-bikes).

Transport innovation should not be limited to the UK's conurbations. Digital ticketing as well as on-demand services can make public transport more attractive to businesses and consumers. For example, rural areas in the

---

<sup>52</sup> FSB, 2021, [Accelerating Progress: Empowering small businesses on the journey to net zero](#)

UK could benefit from a scheduling system that has already been used by the Taktfahrplan in Switzerland for four decades. The Taktfahrplan connected over 150 transport operators and 500 small transport companies throughout Switzerland and encourages multi-modal trips.

Additional to a well-coordinated schedule, on-demand service and smart ticketing will help connect the most remote parts of the country with larger villages connected to the broader network. Texelhopper, which operates on the Dutch island Texel, is an excellent example of an on-demand service. In addition to running a regular bus service with fixed times and routes, the Texelhopper picks up and drops off passengers at 130 stops across the island and is bookable up to 30 minutes before departure. A similar system could work very well for employees and customers in villages and towns that are not connected by a regular bus route.

## Transport Electrification

Although electric vehicles are not a magic bullet to solving transport challenges in rural areas, infrastructure and affordability still pose real rural issues. The ongoing incentive to move toward zero emission vehicles (ZEV) may suggest a solution to help alleviate the burden of fuel costs, however, whilst the UK prepares to end the sale of new petrol and diesel cars and vans in 2030, there is still much work that needs done before rural areas feel sufficiently prepared to embrace ZEVs. FSB's report, *Accelerating Progress*, found that 43 per cent of rural-based businesses have not yet changed their transport habits because of the insufficient local infrastructure to support electric vehicles (e.g. charge points), compared to only 31 per cent of urban based businesses citing this barrier.<sup>53</sup>

In more remote and sparsely populated rural areas where it is unlikely that public transport will ever be a viable option for connectivity, cars, and soon ZEVs specifically, will be the only way to move goods and access people. It is therefore essential that businesses located in these remote locations are adequately integrated in the charging infrastructure plans and targets, in order to be able to continue operating.

**“When I have people coming from urban areas, they are more likely to have electric vehicles and they are used to great accessibility of ZEV charging points. In rural areas, however, charging points are still relatively limited. I find that unless you invest in a charging point yourself, the currently insufficient infrastructure will become a limiting factor impacting your business in the near future.”**

FSB member, accommodation services, Yorkshire Dales

---

<sup>53</sup> FSB, 2021, [Accelerating Progress: Empowering small businesses on the journey to net zero](#)



## Recommendations

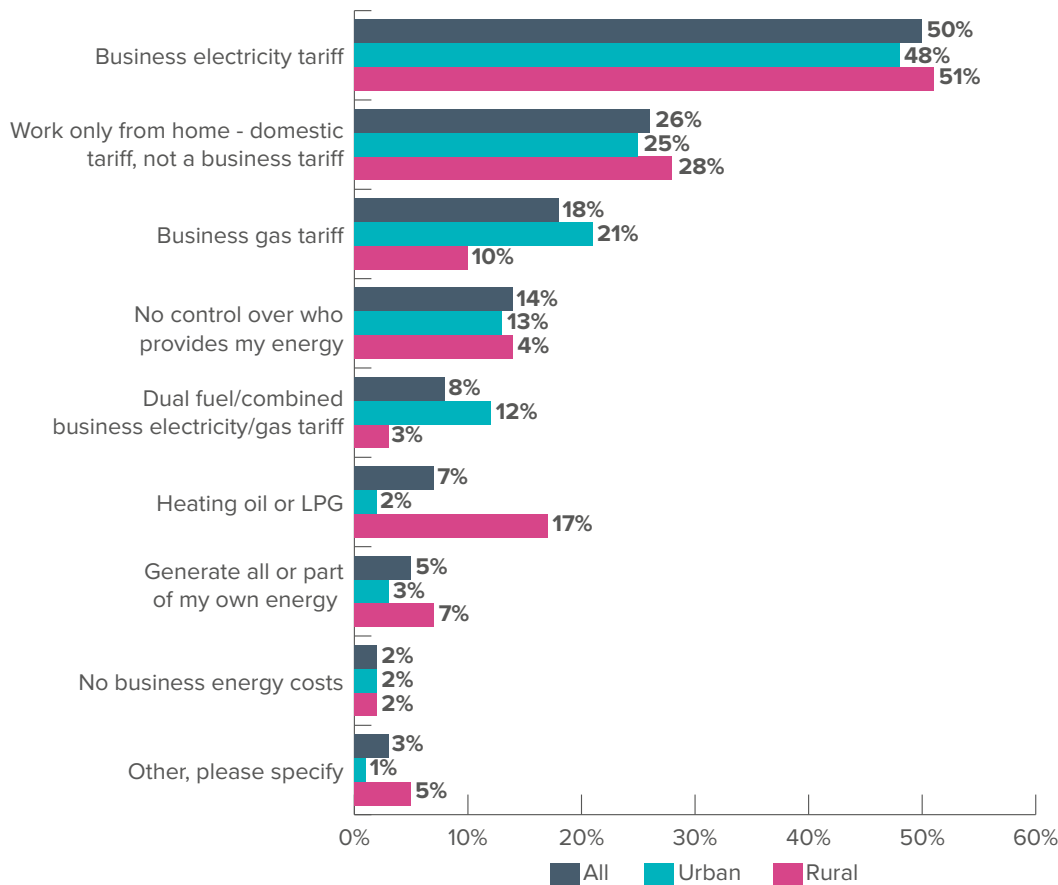
- **Extend the ‘Get Around for £2’ scheme until the end of 2022.** The £2 bus fare cap on a single bus ticket on most services in England outside London is a step in the right direction in recognising that fares are too high. This scheme is a good incentive for rural businesses to use bus services and will encourage local investment. However, even after the three-month extension beyond its original March deadline, the cap should be further extended past June 2023. As part of a broader economic recovery and decarbonisation piece, the agreement between the UK Government and operators to discount fares should continue for the rest of the year.
- **Governments across the UK must publish a coherent set of target-based infrastructure strategies to deliver the necessary charging and rapid charging infrastructure for electric vehicles by 2030 for remote rural parts of the UK to complement the UK Government’s existing strategies.** The number of ZEVs being purchased is now outstripping the number of charging and rapid charging points on motorways and highways across the UK. Encouraging more businesses in rural parts of the UK to switch to ZEVs by 2030 will require a redoubling of infrastructure efforts to ensure that businesses do not suffer from ‘charge anxiety’. In addition, the UK Government should liaise with the executives in Wales, Scotland and Northern Ireland to ensure the system is coherent for motorists who travel across borders.
- **Local authorities should work together on rural transport schemes to ensure that projects cover a wider catchment area.** Local authorities should be able to merge funds to deliver on cross-border transport improvement plans.
- **The UK Government should commit to a long-term fuel duty freeze and make the temporary 5p-per-litre cut into a permanent policy.** Throughout 2022, fuel duty prices have been one of the key drivers of cost inflations for small businesses, according to FSB’s Small Business Index. Whilst welcome, the one-year fuel duty freeze announced by the Chancellor in the 2023 Spring Budget is only a temporary relief for small businesses grappling with the ongoing cost-of-living and cost of doing business crises. The UK Government should commit long-term to freezing fuel duty at its current 5p discount rate, to remove the annual rigmarole of concerns and predictions around fuel duty rates.

# RURAL SMALL BUSINESSES AND ENERGY

Previous FSB research found fewer rural-based small businesses have a business gas tariff (10%) compared to urban businesses (21%). Additionally, rural businesses in remote areas are more likely to be off gas supply altogether and have very limited (if any) access to competitive tariffs. As a result, rural businesses are more likely to depend on alternative fuels, such as heating oil or LPG (Liquefied Petroleum Gas). Previous FSB research shows that only 2 per cent of urban small businesses use heating oil, compared to 17 per cent of small businesses in rural areas.<sup>54</sup> This leaves rural businesses exposed to wholesale price fluctuations for both commodities.

**Figure 5:** Types of energy tariff of all UK small businesses by area

**Source:** FSB, Energy Survey, November 2022



Over two-thirds of rural-based small businesses (68%) reported an increase in their energy costs compared to 2021. 44 per cent of all small businesses said their energy costs increased by double, triple or higher, over half (55%) of small businesses who use heating oil or LPG have experienced

<sup>54</sup> FSB, 2022, [Energy Bill Relief Scheme review](#)

this stark increase. In September 2022, the UK Government committed to introducing a comparable scheme for businesses using LPG or heating oil. However, while small businesses on electricity and gas energy contracts have been benefiting from support provided by EBRS, small firms relying on alternative fuels were left waiting for seven months for any support following the launch of EBRS.

**“In 2022, I decided to close the business at the end of October. In previous seasons, I would open on the weekends in February, however in 2023, I will be opening in mid to late March. I am cutting the window of when I operate my business short to not have to suffer high energy costs in the winter months.”**

FSB member, accommodation services, Yorkshire Dales

FSB’s report, *Accelerating Progress*, found that overall small businesses in rural areas show great initiative to go green, with 24 per cent having installed insulation (vs. 17% of small businesses in urban areas), solar panels (19% rural vs. 10% urban), a heat pump (7% rural vs. 3% urban), or other measures (10% rural vs. 6% urban). For those who haven’t introduced any energy efficient solutions, rural businesses were more likely to cite a lack of capital (28% vs. 21% urban) or the return on investment being uncertain or taking too long (31% rural vs. 21% urban) as the main reasons.<sup>55</sup>

FSB data shows that rural small firms have the ability and willingness to lead the way of businesses reducing their impact on the environment and toward achieving the UK net zero targets. However, despite their interest and commitment to the transition to net zero, in the light of the cost of living and energy crises, many rural businesses are forced to put their plans on hold. A total of 7 per cent of rural small businesses have delayed investing in sustainable forms of energy and/or an electric vehicle for their business.<sup>56</sup> In regard to more general business plans, 24 per cent of rural small businesses have cancelled or scaled down plans for investing in or expanding their business, hurting UK productivity and consumers alike.

---

<sup>55</sup> FSB, 2021, [Accelerating Progress: Empowering small businesses on the journey to net zero](#)

<sup>56</sup> FSB, 2022, [Out in the Cold: Helping small businesses through the energy crisis](#)

## Recommendations

- **The UK Government should ensure that the needs of businesses using alternative fuels are mainstreamed in future energy policy development.** Many rural firms use alternative fuels out of necessity – for example because they are off the gas grid, but this can lead to higher costs and slower delivery of support when policies like the Energy Bill Relief Scheme (EBRS) are rolled out.

Policymakers must consider the needs of these businesses when thinking about protection from future energy price shocks, as well as net zero transition plans, so they can lower their carbon footprint. FSB research shows 7 per cent of small businesses use LPG or heating oil, this increases to 17 per cent for small firms in rural areas – emphasising the crucial importance as well as lack of viable alternatives of alternative fuels for a significant minority of small firms.

- **The UK Government should issue £5,000 vouchers for businesses to spend on qualifying environmental products and services under a Help To Green initiative.** Lengthy or uncertain return on investment, lack of capital, and an inability to access affordable finance remain key barriers that are preventing businesses from investing in energy efficiency. In addition, 8 per cent of small businesses had to cancel or delay sustainable investments due to the impact of the energy crisis.

In context of remaining high energy costs and the reduction in support under the Energy Bill Discount scheme (EBDS), the UK Government should introduce a “Help To Green” scheme to boost SME investment in reducing energy usage. The Review of Net Zero endorsed this policy as a key element of the policy framework required to support the SME transition, calling it “Help to Grow Green”. Business groups ranging from the IoD, CBI, UK Hospitality, Association of Convenience Stores, British Retail Consortium, and Energy UK have endorsed FSB’s proposal. The scheme would include an online hub of practical information on how to reduce energy usage and environmental impact and a voucher/grant scheme, with a value of up to £5,000 a time, which would make a grant contribution to investing in energy efficiency or microgeneration.

In Wales, the Minister for Economy has announced that they are fast tracking plans for an ‘invest to save decarbonisation offer’ with more favourable terms for businesses looking at investing in renewables and energy efficiency measures, with the aim of incentivising earlier action to invest in projects designed to reduce their energy consumption and better manage energy bills. The plan also looks to include support for consultation fees for a green audit for small firms.

- **Energy suppliers should allow vulnerable businesses that negotiated a new energy contract within the peak wholesale price period of 2022 to renegotiate or ‘blend and extend’ their energy contracts to reflect significantly lower wholesale prices now available. The Department for Energy Security and Net Zero should encourage suppliers across the UK to implement this.** This option should be automatically available to businesses where energy suppliers can confirm their small business customers negotiated the new energy contract within the peak wholesale price period between July and December 2022, where the level of wholesale price on the contract is above the EBRS wholesale price cap, and where the end date of the contract demonstrates the length of exposure to higher prices beyond the existing EBRS (from April 2023 onwards). If suppliers are unable to come to an arrangement, an alternative is for the UK Government to provide additional support to small and microbusinesses that negotiated contracts when wholesale prices were at their highest.

# METHODOLOGY

This report is based on FSB members' experiences and views on owning and running a rural-based business.

This report refers to FSB's quarterly Small Business Index survey data collected between January and the 23 December 2022. The results in this report analyse a total combined response from 5,100 businesses. All surveys were carried out nationwide, members were invited to participate in the survey via email and social media channels. The findings are all weighted according to FSB membership weighting (to reflect the demographic balance of FSB members throughout the UK). All percentages derived from the survey are rounded to the nearest whole number, which is why some percentages presented in the figures do not add to 100 per cent.


- FSB, SBI, Q1 2022. The survey was undertaken between the 29th of March and 8th of April 2022. Total base size 1,211 responses.
- FSB, SBI, Q2 2022. The survey was undertaken between the 20th of June and 1st of July 2022. Total base size 1,317 responses.
- FSB, SBI, Q3 2022. The survey was conducted between 20 September and 4 October 2022. Total base size 1,383 responses.
- FSB, SBI, Q4 2022. The survey was conducted between 7 and 23 December 2022. Total base size 1,083 responses.

The report also includes data collected from FSB's Energy and online platforms survey. In field 24 October-7 November. Total base size 1054.

The focus groups took place via Zoom, included members from England, Wales, Scotland and Northern Ireland, and from a variety of sectors. The focus groups took place between September and November 2022.

© Federation of Small Businesses

[fsb.org.uk](http://fsb.org.uk)

 [federationofsmallbusinesses](https://www.facebook.com/federationofsmallbusinesses)

 [@fsb\\_policy](https://twitter.com/fsb_policy)

 [@fsb\\_uk](https://www.instagram.com/fsb_uk)

If you require this document in an alternative format please email: [accessibility@fsb.org.uk](mailto:accessibility@fsb.org.uk)

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior permission of FSB. While every effort has been made to ensure the accuracy of the facts and data contained in this publication, no responsibility can be accepted by FSB for errors or omissions or their consequences. Articles that appear in the report are written in general terms only. They are not intended to be a comprehensive statement of the issues raised and should not be relied upon for any specific purposes. Readers should seek appropriate professional advice regarding the application to their specific circumstances of the issues raised in any article.

This report can be downloaded from FSB's website at [www.fsb.org.uk](http://www.fsb.org.uk)

Contents